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CHAPTER 16 - CAPITAL MARKET INTERMEDIARIES



His advice to young people:

"Stay away from credit cards (bank loans) and invest in yourself and Remember:

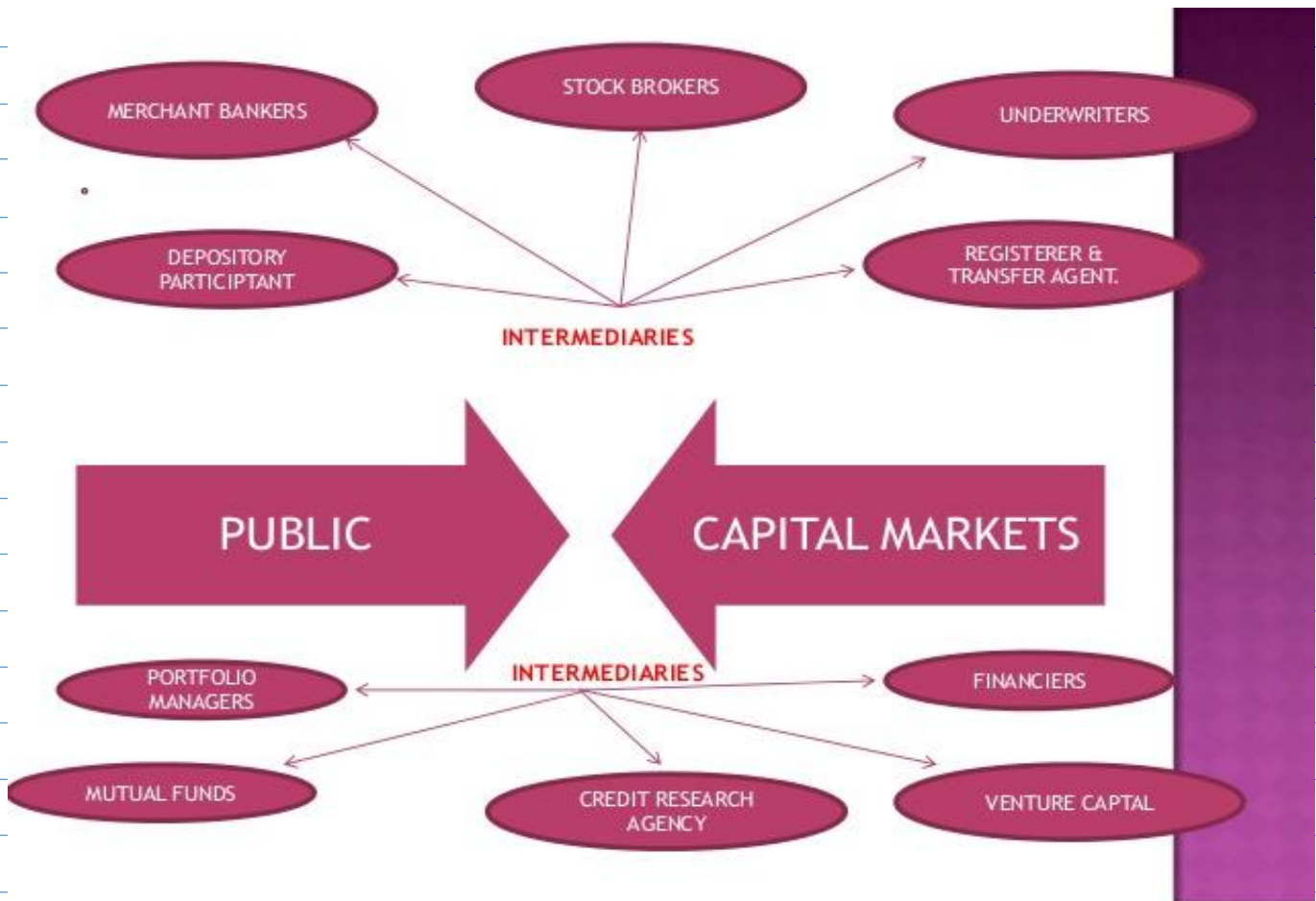
- A. Money doesn't create man but it is the man who created money.
- B. Live your life as simple as you are.
- C. Don't do what others say, just listen them, but do what you feel good.

INDIAN-SHARE-TIPS.COM COURTESY NITESH

INTRODUCTION

Capital Market Intermediaries are the people who help the corporate and the investors to enter into various kinds of transactions in the capital market. They are the experts of various aspects of capital market. For facilitating the transactions, capital market intermediaries charge the professional fees.

KINDS OF CAPITAL MARKET INTERMEDIARIES



Capital Market Intermediaries are classified as follows:

Primary Market

Secondary Market

- 1) Merchant Bankers/Lead Managers
- 2) Registrar and Share Transfer Agents
- 3) Underwriters
- 4) Bankers to an Issue
- 5) Debenture Trustees

1. Stock-Brokers and Sub-Brokers
2. Portfolio Managers
3. Custodian of Securities
4. Foreign Institutional Investors
5. Investment Advisers

MERCHANT BANKERS

Meaning

Merchant Banker means any person who is engaged in the business of *issue management* either by making arrangements regarding *selling, buying or subscribing to securities* or acting as *manager, consultant, advisor* or rendering corporate advisory services in relation to issue management.

Roles and Responsibilities

It is necessary for an issuer to appoint a merchant banker for:

- (a) Managing of *public issue* of securities;
- (b) *Underwriting* connected with the public issue management business;
- (c) Managing/Advising on *international offerings* of debt/equity i.e. GDR, ADR, bonds and other instruments;
- (d) *Private placement* of securities;
- (e) Primary or satellite dealership of *government securities*;
- (f) Corporate advisory services related to securities market including *takeovers, acquisition and disinvestment*;
- (g) *Stock broking*;
- (h) *Advisory services for projects*;
- (i) *Syndication of rupee term loans*;
- (j) *International financial advisory services*

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a *networth* of not less than *five crore rupees*.

REGISTRARS AND SHARE TRANSFER AGENTS (RTA)

Introduction

The expression "Registrar and Share Transfer Agent (RTA)" is the combination of two expressions, namely 'Registrar to an Issue' and 'Share Transfer Agent'.

Registrar to an Issue is related to primary market whereas Share Transfer Agent is related to secondary market. There are two categories of RTAs i.e., Category I, who acts both as the Registrar to an Issue as well as the Share Transfer Agent and Category II, who acts either as the Registrar to an Issue or as the Share Transfer Agent.

Definition of Registrar to an Issue

Registrar to an issue means a person authorized by a body corporate to carry on the following activities on its behalf:

- 1) Collecting applications from investors in respect of an issue;
- 2) Keeping a proper record of applications and moneys received from investors;
- 3) Assisting body corporate in the following:
 - a) Determining the basis of allotment of securities;
 - b) Finalizing the list of persons entitled to allotment of securities; and
 - c) Processing and dispatching allotment letters and refund order.

Definition of Share Transfer Agent

Share Transfer Agent means -

- 1) Any person who, on behalf of anybody corporate, maintains the records of holder of securities issued by such body corporate and deals with all matters connected with the transfer or redemption of its securities;
- 2) A department or division (by whatever name called) of a body corporate performing the activities specified in the above clause, if at any time the total number of the holder of its securities issued exceed 1 lac.

Pre-issue Activities

- Sending instructions to Banks for reporting of collection figures and collection of applications.
- Providing inputs to the Lead Manager and Printers regarding the design of the Bid cum-Application form.

Activities during the Issue

- Collection and Reporting of daily Collection figures.
- Collection of Data and Forms from Banks.
- Liaising with clients and Intermediaries to the Issue.

Post Issue Activities

- Data capturing & validation
- Reconciliation
- Provide Allotment Alternatives in consultation with Client / Merchant Banker and Stock Exchanges
- Facilitating Listing
- Uploading of data to the Depositories for crediting of securities electronically
- Dispatch of Refund orders / Share Certificates / Credit Advise
- Periodic Report submission to Regulatory Authorities
- Reconciliation of Refund payments
- Attending to post issue Investor queries
- Web-based investor enquiry system for allotment / refund details Share Transfer Agent Services

Capital Adequacy Requirements

It provides that it must have a net worth of a minimum of Rupees 50 Lacs for Category I RTA and Rupees 25 Lacs for Category RTA. Here net worth means the sum of paid-up capital and free reserves.

UNDERWRITERS

Definition of Underwriting/ Underwriting Agreement

Underwriting means an agreement with or without conditions to **subscribe to the securities of a body corporate** when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

Underwriter means a person who engages in the business of underwriting of an issue of securities of a body corporate. Generally, **banks, financial institutions, merchant bankers and stockbrokers do the work of underwriting.**

Capital Adequacy Requirements

It provides that it must have a **net worth** of a minimum of **Rupees 20 Lacs**. Here net worth means the sum of paid-up capital and free reserves.

BANKERS TO AN ISSUE



Definition

Banker to an Issue means a scheduled bank (bank specified under the Schedule II to the Reserve Bank of India Act, 1934) carrying on all or any of the following activities, namely:

- 1) Accepting **applications** and **application money**;
- 2) Acceptance of **allotment** and **calls money**;
- 3) **Refund** of application moneys;

4) *Payment of dividend or interest warrants.*

DEBENTURE TRUSTEE

Definition

Debenture Trustee means a trustee of a Trust Deed for securing any issue of debentures of a body corporate. It may be noted that only the following persons can do the work of debenture trustee:

- a) *A scheduled bank carrying on commercial activity;*
- b) *A public financial institution*
- c) *An insurance company; and*
- d) *A body corporate.*

Roles and Responsibilities

- *Call for periodical reports from the body corporate, i.e., issuer of debentures.*
- *Take possession of trust property.*
- *Enforce security in the interest of the debenture holders.*
- *Ensure on a continuous basis that the property charged to the debenture is available and adequate at all times to discharge the interest and principal amount payable.*
- *Exercise due diligence to ensure compliance with the provisions of the Companies Act, the listing agreement or the trust deed.*
- *To take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice.*
- *To ascertain that the debentures have been converted or redeemed in accordance with the provisions and conditions under which they are offered to the debenture holders.*

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a *networth* of not less than *ten crore rupees*.

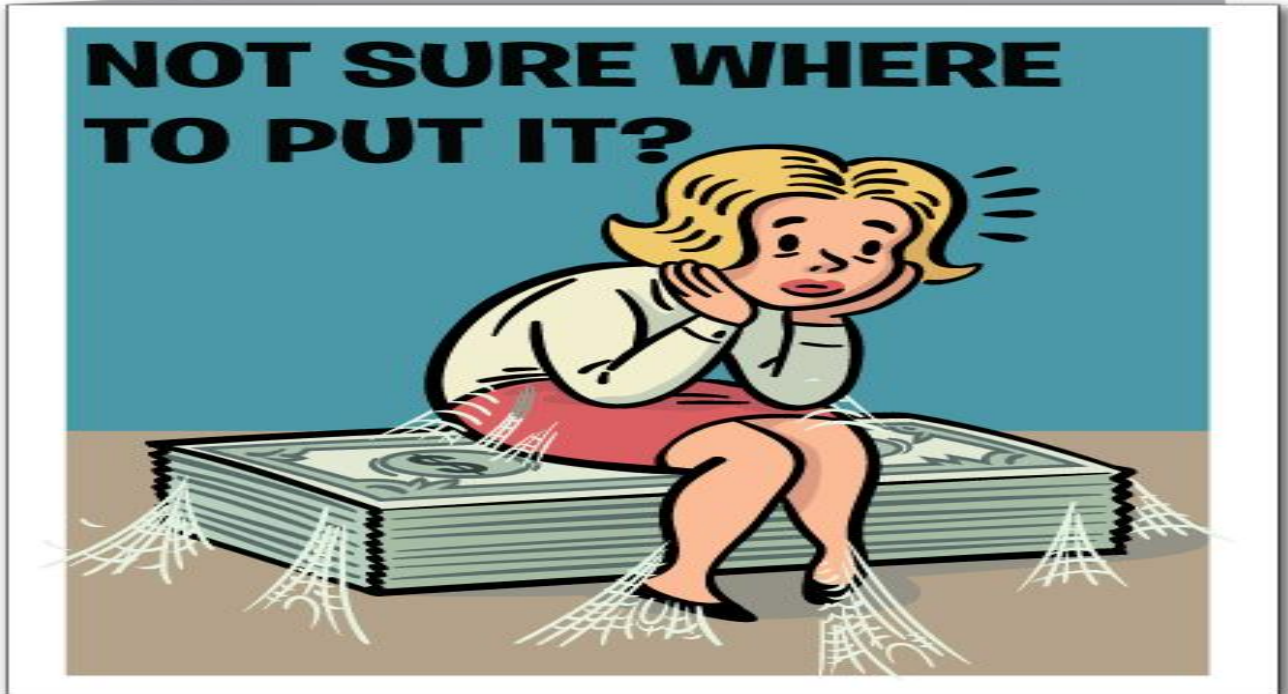
STOCK BROKERS AND SUB-BROKERS



Meaning and Concept of Stock Broker and Sub-broker

Stock Broker is a person registered with Stock Exchange as a member. He helps both the seller and buyer of securities to enter into a transaction. If a stockbroker has order to buy and sell same kind of securities he may complete the transaction between his clients concerned. Sub-Broker is one who works along with Stock Broker and is not directly registered with Stock Exchange as a member. However, he must be recognized by the Stock Exchange. He acts as an agent of the Stock Broker.

PORTFOLIO MANAGER



Meaning and Concept of Portfolio Manager

Portfolio means the total holdings of securities belonging to a person. Thus, Portfolio Manager means a person who manages the total holdings of securities belonging to a person. He studies the market and adjusts the investment mix for his client on a continuing basis to ensure safety of investment and reasonable returns therefrom. The Portfolio Manager charges a fee from the client for rendering portfolio management services and such fees shall be independent of the return.

There are two types of Portfolio Managers:

- 1) **Discretionary Portfolio Manager:** *He manages the funds of his client independently and with full discretion in accordance with the needs of the client.*
- 2) **Non-discretionary Portfolio Manager:** *He manages the funds of his client without discretion and in accordance with the instructions and directions of the client.*

Definition of Portfolio Manager

Portfolio Manager means any person who, pursuant to a contract or arrangement with a client, advises, directs, or undertakes on behalf of the client the management or administration of portfolio of securities or the funds of the clients, as the case may be.

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than two crore rupees.

CUSTODIAN OF SECURITIES

Custodian of Securities means any person who carries on or proposes to carry on the business of providing custodial services. The term 'custodial services' in relation to securities means safekeeping of securities of a client and providing related services.

Following are the important functions of Custodian of Securities;

- maintaining accounts of securities of a client;
- collecting the benefits of rights accruing to the client in respect of securities
- keeping the client informed of the action taken or to be taken by the issuer of securities.

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than fifty crore rupees.

INVESTMENT ADVISER



Meaning

“Investment Adviser” means any person, who *for consideration*, is engaged in the *business of providing investment advice* to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called.

Functions

Investment advisers are those, who guide one about his or her financial dealings and investments. Basically Investment adviser give advice and provide services related to the investment management process. The Investment adviser shall done the risk profiling for clients to assess their risks.

Capital Adequacy Requirements

A *minimum net worth of Rs. 25 lakhs* in case of *body corporate* while *individuals and partnership firms* will require to possess tangible assets worth at least *Rs. 1 lakh*.

SEBI (RESEARCH ANALYST) REGULATIONS, 2014

SEBI (Research Analyst) Regulations, 2014, were notified by SEBI on 1st September, 2014 in exercise of the powers conferred by section 30 of SEBI Act, 1992, SEBI made these regulations.

Roles and Responsibilities

They study Companies and industries, analyse raw data, and make forecasts or recommendations about whether to buy, hold or sell securities. They analyse information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice. There are basically three broad types of analysts, viz. sell-side analysts, buy-side analysts and independent analysts.

Capital Adequacy Requirements

Regulation 8 prescribes the capital adequacy requirement:-

- (1) of research analyst who is **body corporate or limited liability partnership firm** shall have a **net worth** of not less than **twenty five lakh rupees**.
- (2) of research analyst who is **individual or partnership firm** shall have net tangible assets of value not less than **one lakh rupees**.

CREDIT RATING AGENCIES

“Credit rating agency” means a body corporate which is engaged in, or proposes to be engaged in, the **business of rating of securities** offered by way of public or rights issue.

Roles and Responsibilities

- Credit rating is extremely important as it not only plays a role in **investor protection** but also benefits industry as a whole in terms of direct mobilization of savings from individuals.

- Rating also provide a **marketing tool to the company** and its investment bankers in placing company's debt obligations with an investor base that is aware of, and comfortable with, the level of risk.
- Ratings also encourage **discipline amongst corporate borrowers to improve their financial structure** and operating risks to obtain a better rating for their debt obligations and thereby lower the cost of borrowing.

Capital Adequacy requirements

Minimum net worth of **Rs. 5 crores**

DEPOSITORY PARTICIPANT

A DP is an **agent of the depository** through which it interfaces with the investor and provides depository services.

Roles and Responsibilities

Depository Participant (DP) is described as an Agent (law) of the depository. They are the intermediaries between the depository and the investors. They execute pledge requests and off market transfers and on market transfer request of the investors who hold shares in demat form. Further transmission requests of investors shall also be handled. Demat/Remat requests also handled in consultation with RTI/STAs.

Capital Adequacy requirements

Not less than **Rs. one hundred crores.**

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CS Vikas Vohra
(Corporate BABA)

CS Vikas Vohra, Founder - YES Academy

Vikas is a Commerce and Law Graduate and a Company Secretary by profession. He has to his credit, few other Certifications and specialisations in Corporate and Securities Laws. On the teaching side, he has taught more than 10,000 students.

He is also a speaker at various Management Institutes and ICSI on various Corporate matters and Entrepreneurship. In his previous assignments, he worked as an Associate Vice President with LexValueAdd Consulting Private Limited, an Investment Banking firm based out of Mumbai.

He has significant hands on experience in Mergers and Acquisitions, Public Offerings and consequent listing of the Shares and GDR's on the Bourses, fund raising and Deal Structuring. Before that he also worked with Kirloskar Brothers Investments Limited & Bajaj Auto Limited wherein, he was deeply involved in various M&A activities.

Vikas is presently the Founder of YES Academy for CS, Pune He is also a Co-Founder of PapaZapata (Mexican food chain) & GujjuKhakhra (Indian Breads). He enjoys writing poetry and doing meditation in his free time.



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