NEW ISSUE MARKET

SUBJECT:FINANCIAL MARKETS AND SERVICES

STEFY M M
DEPT OF COMMERCE

ACADEMIC YEAR:2020-2021

INTRODUCTION

- New issue market is the market in which newly created organizations or existing ones offer their issue for the first time.
- It is the market for newly created securities or financial claims.
- It is also called primary market.
- Fresh capital can be raised from this market by companies , government and semi government etc…for cash or for consideration other than cash.
- Securities take birth in this market

FUNCTIONS OF NEW ISSUE MARKET

- ORIGINATION
- PROPAGATION
- UNDERWRITING
- DISTRIBUTION

ORIGINATION

- It refers to the work of investigation , analysis and processing of new project proposals.
- Origination starts before an issue is actually floated in the market. It includes a careful study of the technical , economic and financial viability to ensure the soundness of the project and provides advisory services.
- It is a preliminary investigation.

PROPAGATION

- Information about the new issue should be intimated to the investors through appropriate media.
- To give propaganda about new issue ,investors club , press release , advertisement, electronic media like internet, are to be extensively used.

UNDERWRITING

- Underwriting is a contract of guarantee by which the underwriter agrees to take over the shares, which are not taken by the public.
- For this service , he will get a commission called underwriting commission.
- The person or parties who are engaged in such activities are called underwriters.
- Three forms

1.Guaranteeing the issue 2. outright purchase 3.syndicate underwriting.

DISTRIBUTION

- Distribution is the final sale of securities to prospective investors.

METHODS OF FLOATING NEW ISSUES

- PUBLICISSUES
- OFFER OF SALE
- PRIVATE PLACEMENT
- BOUGHT OUT DEALS
- RIGHTS ISSUES
- BONUS SHARES
- BOOK BUILDING
- EMPLOYEES STOCK OPTION SCHEME

OTHER METHODS

- OFFER TO EMPLOYEES
- OFFER TO CUSTOMERS
- OFFER TO CREDITORS

PUBLIC ISSUES/OFFER THROUGH PROSPECTUS/INTIAL PUBLIC OFFERING

- Under this methods, the issuing company directly offers the general public/institutions a fixed number no . of shares at a stated price through a document called prospectus
- Prospectus is an invitation to the public to subscribe shares of a company . It may take in the form of a notice, circular, or advertisement inviting public attention to offer for a specified number of shares or debentures at a specified price, which may be

  subsequently allotted to them.

OFFER OF SALE

- It consists in outright sale of securities through the intermediary of issue houses or share brokers.
- It consists of two stages: the first stage is a direct sale by the issuing company to the issue house and brokers at an agreed price.
- In the second stage, the intermediaries resell the above securities to the ultimate investors.
- The issuing houses purchase the securities at a negotiated price and resell at a higher price. The difference in the purchase and sale price is called turn or spread.

PRIVATE PLACEMENT

- Under this method , the issue houses or brokers may out rightly purchase the securities for their clients .The shares are sold their own clients or given to kith and kin without giving any public notice.
- The placement of shares is also done by selling securities privately to friends, relatives or financial institutions with or without the help of intermediaries. A prospectus or letter of offer is not compulsory in private placement. An investment agreement is only needed.

BOUGHT OUT DEALS

- It is more or less similar method of raising capital through private placement.
- BOD is process of investment by which a sponsor or syndicate of investors make direct investment in the company.
- The company issues whole lot of the shares to a sponsor or syndicate at a negotiated price.
- The sponsors issue these shares after a certain period for a premium.

RIGHTS ISSUE

- When a listed company proposes to issue securities to its existing shareholders, whose names appear in the register of members on record date, in the proportion to their existing holding, through an offer document, such a issues are called right issue.

BONUS SHARES

- A company likes to create reserves out of its profits. When the accumulated reserves are more than the it requirements, then the company distributes the whole or portion of the existing shareholders. It is known as bonus.
- Bonus issue is not a source of financing because it does not bring additional cash reserves to the company.
- Bonus issue is simply a conversion of reserve into share capital.
- Bonus shares are gift shares issued to the existing shareholders holding fully paid shares.