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Interdependence between Primary and Secondary Market

Bijesh Kumar Gupta^a

^aSymbiosis Law School, Nagpur, India

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Securities could be used for financial asset liquidation. A person who seeks to invest money against securities given by a borrower is known as an investor. Two parts of the securities market are interdependent on one another. By issuing securities, the primary market seeks to raise capital, and the secondary market provides a trading platform and flexibility for such securities. Financial assets are created with the assistance of primary markets, which then sell those assets. The two pillars of financial security are regarded as the primary market and the secondary market. Both markets require a lot of actions to function effectively. The primary issue, though, is whether the market can function effectively on its own. The primary market is the first step before securities are issued. Whether the secondary market can produce positive results in the absence of the primary market is another issue. For businesses, the primary and secondary markets are both crucial. Successful trading in both marketplaces could guarantee the sustainability of businesses.

Keywords: *primary market, secondary market, interdependency, securities.*

INTRODUCTION

Securities could be used for financial asset liquidation. A person who seeks to invest money against securities given by a borrower is known as an investor. Two parts of the securities market are interdependent on one another. By issuing securities, the primary market seeks to raise capital, and the secondary market provides a trading platform and flexibility for such

securities. Financial assets are created with the help of primary markets, which are then sold in secondary markets. The two pillars of financial security are regarded as the primary market and the secondary market. Both markets require a lot of actions to function effectively. The primary issue, though, is whether the market can function effectively on its own. The primary market is the first step before securities are issued. Whether the secondary market can produce positive results in the absence of the primary market is another issue. For businesses, the primary and secondary markets are both crucial. Successful business in both marketplaces could assure the sustainability of companies.

PRIMARY MARKET

Securities are created in the primary market. Firms first offer new stocks and bonds to the public (float them) on this market. One illustration of a primary market is an initial public offering or IPO. Investors have the chance to purchase securities from the bank that handled the first underwriting for a certain stock through these deals. When a private firm first sells stock to the public, it conducts an initial public offering (IPO).

IMPORTANCE ASPECTS OF THE PRIMARY MARKET

- Offering fresh issues is one of the fundamental purposes of the primary market. This shows that none of the stock exchanges has ever traded in securities that were issued in the primary market.
- In the primary market, underwriters have a particularly significant impact. They are the assuring parties who promise to purchase any shares that remain after the initial public offering. These underwriters have a responsibility to sell initially unsold shares to investors within a predetermined time frame.¹

¹ Will Kenton, 'What Is the Secondary Market? How It Works and Pricing' (Investopedia, 30 March 2022) <<https://www.investopedia.com/terms/s/secondarymarket.asp#:~:text=What%20is%20a%20Secondary%20Market,when%20they%20are%20first%20issued>> accessed 07 December 2022

The primary market enables the company to raise funds by allowing the flow of investors from fresh sources. By releasing a prospectus, the firm invites the public and provides information about the company and its underwriters.

MAJOR FUNCTION OF THE PRIMARY MARKET

New Issue offer - A new issue offer that has never been traded on a stock exchange is made possible by the primary market. As a result, it is known as a new issue market. A new issue offer, however, is not a simple undertaking. It entails a thorough assessment of a project's viability. Financial arrangements must, for instance, incorporate the following ratios: liquidity, debt-to-equity, promoter equity, and foreign exchange demand.

Distribution of New Issue - Another crucial role for the primary market exists. The distribution procedure started with the release of a new prospectus. Additionally, the general public is encouraged to acquire the new issue, and comprehensive details about the business, the issue, and the underwriters are provided.

Underwriting Services - When a corporation launches a fresh issue offer, underwriting is crucial because, if the company is unable to sell the required number of shares to the public, the underwriter must buy all remaining shares. A large number of financial institutions act as underwriters and receive commissions like IDBI, IFCI, UTI, and SBI Capital Market.

Investors rely on underwriters to decide whether accepting the risk is worthwhile given the potential reward. The entire IPO issue may occasionally be purchased by underwriters, who subsequently sell it to the investors.

SECONDARY MARKET

Investors can acquire and sell securities they already possess on the secondary market. Although stocks are also sold on the main market when they are originally issued, it is what most people refer to as the "stock market." The National Stock Exchange (NSE) and the Bombay Stock Exchange BSE are examples of national exchanges that function as secondary markets.

IMPORTANCE OF SECONDARY MARKET

Secondary markets are significant because they give investors access to liquidity. Quick purchases and sales of securities frequently lower the amount of value lost on a trade. These marketplaces also make it possible for smaller investors to trade securities. Initial public offerings (IPOs) are initially inaccessible to many investors, thus secondary markets offer resources for smaller investors. Other examples that highlight the significance of secondary marketplaces are provided below:

- They reveal booms and recessions, which help to show the state of a nation's economy.
- They offer sufficient resources for an organization's fair assessment.

By using supply and demand, they push security prices closer to their actual market value.

FUNCTION OF SECONDARY MARKET

Maintaining Fair Price of Shares - After the initial public offering, there is a market for already-issued securities called the secondary market (IPO). The supply and demand of shares are the basis for how capital markets operate. In secondary markets, the fair price of shares is maintained based on the equilibrium of supply and demand. Secondary markets assist in maintaining the fair values of securities because no single agent may affect the share price.

Offering Liquidity and Marketability - If used shares cannot be bought and sold for cash on hand whenever needed, they are useless. The stock markets are typically used by shareholders as a location where there is sufficient liquidity and marketability of shares. This indicates that in the trade of shares, secondary markets act as a third party.

Without a secondary market, buyers and sellers would have to rely on an unreliable one-to-one self-exchange up to this point. As a result, the secondary market serves as a vehicle for the shareholders' liquidity and marketability.²

² Trupti Jalan, 'Difference between Primary market and Secondary market' (*Scripbox*, 10 November 2022) <<https://scripbox.com/pf/difference-between-primary-market-and-secondary-market/>> accessed 07 December 2022

Facilitating Capital Allocation - Capital allocation is made easier by secondary markets sending prices to main markets. Secondary markets assist in allocating shares by indicating the pricing of shares that have not yet been published on the secondary market.

Adjusting the Portfolios - Investors can alter their security holdings by using secondary markets. In other words, secondary markets give investors the option of choosing shares to buy as well as sell to assemble a strong portfolio of shares that provides the best returns. In secondary markets, shareholders and investors can make changes to their investment portfolios that are not possible elsewhere.

DIFFERENCE BETWEEN PRIMARY AND SECONDARY MARKET

The major distinction between a primary market and a secondary market is how participants trade securities. The key participants in a primary market are investors and issuing businesses. Trades on a secondary market typically only involve investors. These further differences between the two marketplaces are as follows:

Pricing: While secondary market prices frequently depend on supply and demand, primary market prices are predetermined. When investors believe a stock has worth, its price frequently rises. A stock's value and price may decline if a company doesn't generate sufficient earnings or ends its partnership with an investor.

Creation: A business generates and sells a security to an investor for the first time in a primary market. An IPO frequently plays a role in this. An investor purchases and sells securities that they did not develop themselves on a secondary market. Additionally, investors exchange these assets among a large number of other investors, not as brand-new organisations.

Amount from Securities: The amount that the corporation receives from the primary market for its securities becomes its income. The revenue for investors in the secondary market, however, is the same.

Exchange of Securities: Investors can purchase shares directly from the company in the primary market. In contrast to the secondary market, where investors trade securities (such as shares and bonds)

Frequency of Selling of Securities: Security can only be sold once in the primary market, but it can be bought and sold an unlimited number of times in the secondary market.

Another Name: In contrast to the secondary market, which is also referred to as the post-issue market, the primary market is also referred to as the new-issue market.

TYPES OF INVESTORS

Large corporations, investors, or rich consumers who can purchase a large number of securities at once are typically involved in primary markets. Financing is popular in this market for businesses. Many smaller investors and businesses conduct their transactions in secondary markets because they have more freedom to purchase and sell without being put under additional financial pressure by primary corporations. There are no financing alternatives available in this market.³

DEPENDENCY OF THE PRIMARY MARKET UPON THE SECONDARY MARKET

1988 saw the initial establishment of the Indian Securities and Exchange Board. It was a non-statutory body that regulated the securities market. The SEBI Act of 1992 was passed 1992 to establish it as a statutory entity. The primary goal of SEBI's formation was to oversee the Indian securities market. The two main markets where securities are exchanged are the primary and secondary markets. The way of a secondary market affects primary issues. When the secondary market is active, the primary market is likewise active and working in the issuers' favour. The primary market makes it possible to raise money through a public offering.

The procedure is also referred to as an IPO (IPO). However, a new issue might be made available exclusively to a small group of qualifying institutions and not to the general public. However,

³ *Ibid*

to increase liquidity in the secondary market, new issues must be issued in the primary market. A firm called Gland Pharma will launch an initial public offering (IPO) for equity on November 9th. According to estimates provided by Economic Times, the company received 2.06 times the amount of offers on November 11th. In contrast to the IPO's 3.02 crore equity shares, 6.2 equity shares were purchased. A subscription of 23.6 per cent was from retail investors. This was the outcome of the company's successful historical growth and profitability. On the websites of stock exchanges and SEBI, the specifics of the IPO are posted. In 2020, there were 28 initial public offerings. These primary market activities inspire confidence for secondary market investment and trading.⁴

Securities traded on the main market are given liquidity on the secondary market. While the secondary market facilitates the buying and selling of securities between investors, the primary market enables investors to obtain securities directly from the issuer. Investors are drawn to the stock market by two main factors: marketability and capital appreciation. secondary market offers data on the company's performance. If the secondary market is doing well, issuers will automatically favour raising cash in the primary market. Despite playing different roles, they complement one another. Without the assistance of another, one cannot properly carry out its functions. A company's success in the secondary market is essential. This is because investors will be drawn to a company's expansion through a primary issue if it performs well in the secondary market. Additionally, if a secondary market is seeing growth, investors will feel more confident making investments in the primary market. The secondary market is more adaptable than the primary market. Only the primary market would provide liquidity for assets stored there. So, if a secondary market expands, the primary market will serve its purpose of producing money.

⁴ Soumi Saha, 'Interdependence Between The Primary Market And Secondary Market' (Legal Services India) <<https://www.legalserviceindia.com/legal/article-4203-interdependence-between-the-primary-%20market-and-secondary-market.html>> accessed 07 December 2022

CONCLUSION

Therefore, it is clear from the description above that the main market and secondary market are dependent on one another. A primary market might be used to raise capital, and a secondary market could be used to give that capital liquidity. If the market is not flexible, securities cannot be released. The secondary market provides this kind of adaptability. The stock exchanges guarantee that trade in these two marketplaces is conducted easily and honestly. According to the Securities and Exchange Board of India Act, 1992, SEBI, the securities market's regulator, can grant authorization for both markets.

The aforementioned study also suggests that the health of the secondary market has a significant impact on how well the primary market functions. Investors are likely to become interested in the primary market if the secondary market is on the rise. This is because the primary market is worried about raising money through qualified institutional placements or by going public. If the securities offered in the primary market⁵ were exchanged in the secondary market, primary market securities would have more liquidity. Investors would consider the index in the secondary market when looking for a primary market investment.

⁵ 'Gland Pharma IPO to open on Nov 9; price band fixed at Rs 1,490-1,500 per share' (The Economic Times, 4 November 2020) < <https://economictimes.indiatimes.com/markets/ipo/fpos/gland-pharma-ipo-to-open-on-nov-9-price-band-fixed-at-rs-1490-1500-per-share/articleshow/79036509.cms?from=mdr> > accessed 08 December 2022