

TRANSFERABLE SECURITIES

Meaning of Transferable Securities

Transferable securities are those financial instruments which can be **freely transferred** by one person to another without the consent of the issuer and without any major legal formalities. These securities represent **ownership or creditor rights** and are capable of being bought and sold in the **capital market**.

In simple words, a transferable security is one which the holder can sell or transfer to another person easily, thereby converting investment into cash. This feature makes securities liquid and marketable.

Definition

Transferable securities may be defined as **financial instruments that can be legally transferred from one person to another, either by delivery or by endorsement and delivery, and which are negotiable in nature.**

Nature of Transferable Securities

- 1. Movable Property**
Transferable securities are considered movable property and can be transferred like other movable assets.
 - 2. Marketability**
These securities can be easily bought and sold in the stock market, making them liquid investments.
 - 3. Transfer of Ownership**
Ownership of the security passes from the transferor to the transferee through a legally accepted method of transfer.
 - 4. Negotiability**
Many transferable securities, such as shares and debentures, are negotiable instruments or possess negotiable characteristics.
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Types of Transferable Securities

Transferable securities can broadly be classified into the following categories:

1. Equity Shares

Equity shares represent ownership in a company. They are freely transferable and give shareholders voting rights and a share in profits in the form of dividends.

2. Preference Shares

Preference shares carry preferential rights regarding payment of dividend and repayment of capital. They are also transferable but generally do not carry voting rights except in special circumstances.

3. Debentures

Debentures are long-term debt instruments issued by companies acknowledging their indebtedness. They carry a fixed rate of interest and are transferable like shares.

4. Government Securities

These include treasury bills, government bonds, and other securities issued by the government. They are considered safe investments and are transferable in nature.

5. Bonds

Bonds are debt instruments issued by governments, public sector undertakings, or corporations and are transferable through the capital market.

Modes of Transfer of Securities

- 1. Transfer by Delivery**
In the case of bearer securities, transfer takes place simply by delivery.
- 2. Transfer by Endorsement and Delivery**
Order securities require endorsement by the transferor and delivery to the transferee.
- 3. Transfer through Depository System**
In modern times, securities are transferred electronically through depositories such as NSDL and CDSL in dematerialized form.

Advantages of Transferable Securities

- 1. Liquidity**
Investors can easily convert securities into cash.
- 2. Encouragement to Investment**
Transferability attracts investors as it provides flexibility and exit options.
- 3. Capital Formation**
Helps in mobilizing savings for productive investment.

4. **Risk Distribution**

Investors can diversify and transfer securities to manage risk.

5. **Development of Capital Market**

Transferable securities promote active trading and growth of financial markets.

Limitations of Transferable Securities

1. **Market Risk**

Prices of transferable securities fluctuate due to market conditions.

2. **Speculation**

Easy transferability sometimes leads to excessive speculation.

3. **Legal Restrictions**

Certain securities may have restrictions on transfer, especially in private companies.

Legal Provisions Regarding Transferable Securities

According to the **Companies Act, 2013**, shares and debentures of a public company are **freely transferable**, subject to reasonable restrictions. However, private companies may impose restrictions through their Articles of Association.

Transferable securities play a vital role in the modern financial system. Their ability to be easily transferred enhances liquidity, encourages investment, and supports capital market development. By enabling investors to convert their investments into cash whenever required, transferable securities contribute significantly to economic growth and financial stability.