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FINANCIAL MARKETS AND INSTITUTIONS

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Unit – I

Financial markets - meaning - definition - role - functions - constituents - financial instruments - capital market instruments - Indian money and capital markets - global financial markets - **Money market:** meaning - characteristics - importance - general functions - segments - financial institutions - characteristics of developed money market - global money markets - **Call money market:** meaning - features - benefits - Indian call money market - call money rates - **Commercial paper market:** meaning - features - Satellite Dealers (SDs)

Financial Markets

Financial markets refer broadly to any marketplace where the trading of securities occurs, including the stock market, bond market, forex market, and derivatives market, among others. Financial markets are vital to the smooth operation of capitalist economies.

Financial markets are platforms or networks where individuals, companies, and institutions can buy and sell financial assets such as stocks, bonds, currencies, and derivatives. These markets provide a mechanism for investors and traders to allocate capital, manage risks, and generate returns on their investments.

Financial markets can be divided into two main categories: primary markets and secondary markets. Primary markets are where new securities are issued for the first time, while secondary markets are where existing securities are traded among investors.

Financial markets can also be further divided into different types based on the type of assets traded, such as stock markets for equities, bond markets for debt securities, foreign exchange markets for currencies, and commodity markets for physical goods like oil, gold, and agricultural products.

The operations of financial markets are critical to the overall functioning of the global economy, as they facilitate the efficient allocation of capital and enable businesses to raise funds for investments, expansion, and innovation.

Role of financial markets

A financial market is a platform or network where buyers and sellers participate in the trade of financial assets, such as stocks, bonds, currencies, commodities, and derivatives. It is a mechanism that facilitates the exchange of financial instruments, providing liquidity, price discovery, and capital formation. Financial markets include both physical locations, such as stock exchanges, and electronic networks, such as over-the-counter (OTC) markets, where buyers and sellers can execute transactions remotely. They are essential components of a modern economy, enabling businesses, governments, and individuals to raise capital, manage risk, and invest in a diverse range of financial instruments.

Financial markets play a crucial role in the modern economy. They provide a platform for individuals, businesses, and governments to buy and sell financial assets such as stocks, bonds, currencies, commodities, and derivatives. These markets help facilitate the transfer of funds from savers to borrowers, thereby enabling investments and growth.

The role of financial markets can be broadly classified into two categories:

Allocation of capital: Financial markets facilitate the flow of capital from savers to borrowers. Savers, such as individuals or institutions, invest their money in financial assets, which are then used by borrowers, such as businesses or governments, to fund their projects or operations. This allocation of capital helps in the efficient distribution of resources in the economy.

Price discovery: Financial markets help in determining the fair price of financial assets. The forces of supply and demand in the financial markets lead to the determination of the price of an asset. This price discovery mechanism helps in ensuring that the financial assets are priced correctly and reflect the true value of the underlying asset.

In addition to these roles, financial markets also provide liquidity, which means that investors can easily buy and sell financial assets at any time. This enhances the efficiency of the markets and ensures that investors can easily convert their investments into cash.

Overall, financial markets are an essential component of the modern economy, and they play a critical role in the allocation of capital, price discovery, and providing liquidity.

Types of Financial Markets

Stock Markets

Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market.

Stocks may be traded on listed exchanges, such as the New York Stock Exchange (NYSE) or Nasdaq, or else over-the-counter (OTC). Most trading in stocks is done via regulated exchanges, and these play an important role in the economy as both a gauge of the overall health of the economy as well as providing capital gains and dividend income to investors, including those with retirement accounts such as IRAs and 401(k) plans.

Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties who facilitate trades between buyers and sellers but who do not take an actual position in a stock.

Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so they make up an important segment of the financial markets. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque.

Bond Markets

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

Money Markets

Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers. Individuals may also invest in the money markets by buying short-term certificates of deposit (CDs), municipal notes, or Treasury bills, among other examples.

Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks.

Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on.

Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $6.6 trillion in daily transactions, which is more than the futures and equity markets combined.

As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

Commodities Markets

Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money.

The bulk of trading in these commodities, however, takes place on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both in OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

Cryptocurrency Markets

The past several years have seen the introduction and rise of cryptocurrencies such as Bitcoin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, thousands of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or for fiat monies such as dollars or euros.

Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

Stock Markets and IPOs

When a company establishes itself, it will need access to capital from investors. As the company grows it often finds itself in need of access to much larger amounts of capital than it can get from ongoing operations or a traditional bank loan. Firms can raise this size of capital by selling shares to the public through an initial public offering (IPO). This changes the status of the company from a "private" firm whose shares are held by a few shareholders to a publicly-traded company whose shares will be subsequently held by numerous members of the general public.

The IPO also offers early investors in the company an opportunity to cash out part of their stake, often reaping very handsome rewards in the process. Initially, the price of the IPO is usually set by the underwriters through their pre-marketing process.
Once the company's shares are listed on a stock exchange and trading in it commences, the price of these shares will fluctuate as investors and traders assess and reassess their intrinsic value and the supply and demand for those shares at any moment in time.

There are three principal financial markets namely money markets, capital markets and forex markets.

All three underpin most financial markets' roles.

1. Money markets provide short term loan finance for businesses and households, including inter-bank lending; commercial banks providing liquidity to each other
2. Capital markets are where securities like shares and bonds are issued to raise medium to long-term finance for businesses and governments
3. Foreign exchange markets are where currencies get exchanged and traded to allow the smooth transaction of international commerce

These three markets are interlinked, and their efficiency helps to support the global economic ecosystem is a fascinating subject.

- Financial markets create liquidity allowing businesses to grow and entrepreneurs to raise money for their ventures
- They reduce risk by having information readily available to investors and traders
- Financial markets smooth economies by creating investor confidence
- Investor confidence helps to stabilize economies.

FUNCTIONS OF FINANCIAL MARKETS

- Financial markets play a vital role in the economy by providing a platform for investors to buy and sell financial assets such as stocks, bonds, and currencies. These markets help to allocate capital to productive investments, facilitate risk management, and enable investors to diversify their portfolios.

- Capital Allocation:

  One of the primary functions of financial markets is to facilitate the allocation of capital to productive investments. Capital allocation is the process of distributing resources among different projects or investments to optimize returns. Financial markets provide a mechanism for investors to allocate their savings to companies, governments, and other entities that need funds to finance their operations, expand their businesses, or undertake new projects. This process is critical for economic growth and development.

- Risk Management:

  Another important function of financial markets is to enable investors to manage risk. Financial markets provide a range of financial instruments such as derivatives, futures, options, and insurance products, that help investors to hedge against adverse events such as market volatility, currency fluctuations, or unforeseen events like natural disasters. By diversifying their portfolios and hedging against risk, investors can mitigate the impact of market fluctuations and protect their wealth.

- Price Discovery:

  Price discovery is the process of determining the market value of financial assets. Financial markets facilitate price discovery by bringing together buyers and sellers, who negotiate prices based on supply and demand. This process of price discovery is crucial for efficient capital allocation as it ensures that the prices of financial assets accurately reflect their underlying value. Financial markets also provide investors with access to real-time market data, news, and analysis, which help them to make informed investment decisions.

- Liquidity:

  Financial markets provide liquidity, which is the ability to buy or sell an asset quickly and at a fair price. Liquidity is crucial for investors as it allows them to enter and exit the market easily, without incurring significant transaction costs. Financial markets also provide investors with a range of trading platforms such as exchanges, over-the-counter markets, and electronic trading platforms, which offer different levels of liquidity depending on the size and complexity of the asset being traded.

- Capital Formation:

  Financial markets help to facilitate the formation of capital by providing companies, governments, and other entities with access to funding. By issuing stocks,

bonds, and other financial instruments, companies can raise capital to finance their operations and expand their businesses. Governments can also issue bonds to finance public projects such as infrastructure development or social welfare programs. By providing access to capital, financial markets enable businesses and governments to undertake new projects and investments that drive economic growth and development.

Financial markets are critical for the functioning of the global economy. They play a vital role in capital allocation, risk management, price discovery, liquidity provision, and capital formation. By providing a platform for investors to buy and sell financial assets, financial markets facilitate economic growth and development and enable individuals and institutions to build wealth over time.

Financial Instruments

International Accounting Standards defines financial instruments as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments act as channels to invest the money. There are various financial instruments available on the market currently. It acts as a tool to raise funds. For investment purpose, there are many ways to save money. An investor has to choose the best investment option to fetch the best return on the invested money.

Financial instruments provide an efficient flow of money and transfer of capital throughout the world. These tools can be real or virtual documents representing agreement involving any monetary value. It has a monetary value, and it constitutes a legally enforceable agreement between two or more parties regarding a right to payment of money.

Types of Financial Instruments

Financial Instruments are classified into two types namely.

1. Cash Instruments - The value of the cash instruments are directly influenced and determined by the markets. These are the kind of securities which are easily transferred.

2. Derivative Instruments - The value and characteristics of derivative instruments are based on the underlying components such as assets, interest rates or indices. These can be over-the-counter derivatives or exchange-traded derivatives.

Types of Financial Instruments in India

1. Equities

It is a type of security that represents the ownership of a company. Equities are traded in stock markets. It can also be purchased through Initial Public Offerings (IPO), whenever a company issue shares to the public for the first time. In India, share trading actively happens in stock exchanges; prominent ones are BSE (Bombay Stock Exchange) and NSE (National Stock Exchange).

It is one of the best options to invest in equities over an extended period as it will fetch good returns. It is also subject to market-related risk, and one needs to do thorough research before investing in equities.

Equity shares constitute permanent capital for the firm and it cannot be redeemed during the lifetime of the company and as per the Companies Act of 1956, a company cannot purchase its own shares during its existence. At the time of liquidation, the equity shareholders can demand the refund of their capital amount and the same will be paid after meeting all the other prior claim including preference shareholders.

Mutual Funds in India, Mutual Funds are top-rated because the initial investment amount is very less and the risk is diversified. Mutual funds allow a group of individuals to invest their money together. The investment avenue is famous because of cost-efficiency, risk-diversification, professional management and sound regulation. The minimum amount to be invested can be as small as INR 500, and the frequency of investment is usually monthly or quarterly.

Bonds

Bonds are fixed income instruments which are issued to raise working capital. Both private entities, such as companies, financial institutions, and the central and state government institutions issue this to raise funds. The bonds issued by the government carries the lower rate of risk but guarantees returns. The bonds issued by private institutions have high risks.

Deposits

Investing the money in banks or post-office is one of the standard method of savings followed in India. The risk factor involved is zero, and the return on investment is guaranteed.

Cash and Cash Equivalents

These are relatively safe and highly liquid investment options. All the securities that can be immediately converted into cash within three months are known as cash and cash equivalents. Treasury bills, gold, money market funds are cash equivalents.

Financial markets act as a link between sellers and buyers as it helps in the transfer of assets at the most appropriate investment opportunities. It assists in determining the

capital worth of securities by allowing market forces to function on their own and determine the pricing of a tradable asset. The motivation for candidates seeking the funds is dependent on the required rate of return. Financial markets reintroduce money into the economy by allowing it to be used in the purchase and sale of securities. Thus, the financial market helps in the smooth mobilization of the investors' savings.

1. **Price Determination**:
    a. The financial market performs various functions for price discovery of different financial instruments traded among the
    b. buyers and the sellers on the platform.
    c. The price depends upon the demand and supply factors (market forces) which thereby assist in deciding the prices of various financial securities as well.
2. **Liquidity in financial markets**:
    a. Financial markets provide a platform for security to be bought and sold easily, hence (cash) liquidity for tradable assets increases.
    b. Investors can sell the asset at any moment, at their fair price prevailing in the market if they feel it is necessary to recoup their investment. Thus, financial markets provide liquidity.
3. **Risk sharing**:
    a. The financial market performs the function of risk sharing as the person who is making the investments is different from the person who is selling their assets/fund.
    b. Here, the risk is transferred from the person who is selling the investments to those who are buying the assets.
    c. Further, it can be liquidated from the buyer to the next buyer of the financial security. Hence, risk sharing is swiftly completed between parties.

4. **Easy Access**:
    a. Industries require the investors to raise funds, and the investors require the industries to invest their money and earn profitable returns.
    b. Financial markets provide a venue for potential buyers and sellers to meet, interact, agree, and deal.
    c. This feature of the financial market not only helps in saving resources like time and money but also makes trading much easier.
5. **Reduction in transaction costs and provision of the information**:
    a. It takes a lot of effort and time to operate in a typical market where people trade. The financial market provides complete information regarding the price of securities, availability of relevant derivatives, and cost of various financial securities.
    b. Investors and companies do not have to spend much on resources for getting any kind of information as it is readily available in financial markets.
    c. Usually, any trader requires various types of information for doing the transaction of buying and selling the securities, which is obtained with the disposal of time and money.
    d. Here, the financial market helps provide every type of information to the traders without the requirement of spending any money by them, hence reducing the cost of the transactions.
6. **Capital formation**:
    a. Financial markets provide the channel for the new savings or cash flow, thus aiding in the country's capital formation.

Financial Markets are extremely vital for inducing liquidity in the economy. Without financial markets and financial instruments to invest in, funds would stay locked up in banks accounts and lockers.

Constituents of financial market

Constituents of financial service market mainly consist of money market and capital market. Thus, it provides the free flow of capital and liquidity in the marketplace. Accordingly, such constituents of financial service market are classified on the basis of nature of transactions-

a) Money market

It refers to the short term financial market that facilitates trading of near money assets for short period. Further, the classification of this market-

i) **Organisational structure**–

1. **Bill market:** Firstly, in this market for purchase and sale of different trade bills

2. Acceptance houses: Secondly, under this market, trade bills accepts trade bills for purchase and sale.

3. Discount houses: Thirdly, these are the financial institutions which facilitates discounting of commercial bills and trade bills.

4. Dealers and brokers: Finally, it deals with trade bills to facilitate acceptance and discount of bills.

ii) I**nstitutional structure**–

1)**Central bank:** The role of central bank are-

-firstly, it regulates of money market.

-secondly, the central bank provides refinancing facilities to other institutions engaged in money market.

-finally, RBI purchase and sale of treasury bills etc.

2**. Commercial banks**: Further, it deals with commercial papers, certificate of deposits, treasury bills etc. in the money market.

3. **Non-banking financial institutions**: Additionally, it facilitates purchase and sale of money market instruments.

4. **Dealers and brokers**: Further, it performs activities to bring together the buyers and sellers of money market.

b) Capital market

It refers to the market that facilitates trading of financial assets for long period . Securities and Exchange Board of India regulates the market. The classification of this market are-

1. **Primary market or new issue market:** Firstly, it is the capital market for purchase and sale of fresh securities .

2. **Secondary market or stock exchange:** Secondly, it is the capital market for trading second hand securities.

3. **Gilt edge market**: Finally, this market facilitates trading of Government and Semi-Government securities.

Instruments of capital market

Capital Market Instruments		
	Shares	Equity shares
		Preference shares
	Debt	Bonds
		Debentures
	Derivatives	Futures and forward
		Options
		Swap

Savings of the investors are generally raised through a range of complex financial products generally called capital market instruments such as shares, Debentures, bonds or any other marketable securities of a like nature issued by any company etc.

Following are the various types of capital market instruments available in the **Indian Capital Market:**

Shares

The ownership capital of a company is divided into a number of indivisible units of a fixed amount. These units are known as shares As per Section 43 of the Companies Act 2013, the share capital of a company limited by shares shall be of two kinds, namely Equity share capital and Preference share capital.

Equity Shares

- The purpose of equity instruments issued by corporations is to raise funds for the firms.
- It is equity ownership that allows the holders of this stock to enjoy voting rights on corporate matters.
- However, in case the company suffers heavy losses and ends up bankrupt, the holders of the common stock are the last ones to get their money back after creditors, bondholders, and holders of preferred stock.

Preference shares

- Preference shares are also a type of shares issued by a company that provides a predetermined dividend to the holder unlike dividend to equity share holder where shareholder gets dividend as per the profit earned.
- Although dividend on the preferred stock are larger but they do not get voting power on the company matters.
- In case of liquidation of company, preference shareholders get to redeem their shares before the holders of the common stock.

Sweat equity shares

- Sweat equity shares are equity shares issued by a company to its employees or directors at a discount, or as a consideration for providing know-how or a similar value to the company.
- Sweat equity is a form of compensation by the business to their owners and employees. It is recognition of a partner's contribution to a project in the form of effort while financial equity is the contribution in the form of capital.

Example If Swati enterprises issues equity shares for raising capital than it would be selling its ownership rights to the extent the percentage of capital raised. But they don't have to worry about payments to them as they now will be participating in decision making process. But dividend will be paid as per the profit earned. If Swati Enterprises issues preference shares, it will be selling ownership rights but without any decision-making power to the holders. But they will be paid a regular and fixed amount of dividend.

Debt instruments

A debt instrument is used by either companies or governments to generate funds for capital-intensive projects that can be obtained either through the primary or secondary market. The relationship in this form of instrument ownership is that of a borrower – creditor and thus, does not necessarily imply ownership in the business of the borrower. The contract is for a specific duration and interest is paid at specified periods. Types of Debt Instruments are of different types like Bonds, Debentures and Government Securities (G - Secs) etc.

Debentures

A debenture is a long-term debt instrument used by governments and large companies to obtain funds. It is a certificate of agreement of loans which is given under the company's stamp and carries an undertaking that the debenture holder will get a fixed return (fixed on the basis of interest rates) and the principal amount whenever the debenture matures. In contrast to equity capital, which is a variable income security, the debentures are fixed income (i.e. in respect of interest) security with no voting rights. Debentures are generally freely transferrable by the debenture holder.

Bonds

Bonds are debt instrument, which are issued by companies and government. Major issuers of bonds are governments (Treasury bonds in US, gilts in the UK, Bunds in Germany) and firms, which issue corporate bonds. Some corporate bonds are secured against assets of the company that issued them, whereas other bonds are unsecured.
By purchasing a bond, an investor lends money for a fixed period of time at a predetermined interest rate. During this period of time, investor receives a regular payment of interest semi-annually or annually. Issuing a bond increases the debt burden of the bond issuer because contractual interest payments must be paid to the borrowers.

Bonds can be of following types:

- Government Bonds
- Municipal Bonds
- Institutions Bonds
- Corporate Bonds

The yield on bonds is expressed commonly in two forms:

1. ***Interest yield (or running yield)*** - The return on a bond taking account only of the coupon payments.

2. ***Yield to maturity (or redemption yield)***- The return on a bond taking account of the coupon cash flows and the capital gain or loss at redemption.

Debt markets include:

1. ***Primary markets*** for bonds, i.e. the markets in which newly issued instruments are bought,
2. ***Secondary markets***, in which existing or second hand instruments are traded.

Green Bond

- The capital for green bond is raised to fund ‘green’ projects like renewable energy, emission reductions etc.
- First Green Bond was issued by **World Bank in 2007.**
- The first ever green bond was issued by multilateral institutions (European Investment Bank and World Bank) in 2007.
- The first green bond in India was issued by Yes Bank in
- In 2015, EXIM bank launched India’s first dollar denominated green bond of $500 million.
- Indian Renewable Energy Development Agency Ltd has issued bonds to finance renewable energy without the tag of green bonds.
- **India** has become the **seventh largest green bond market** in the world.

- In January 2016, SEBI also released **first Green Bond guidelines** relating to listings, norms for raising money etc.
- According to SEBI, a bond shall be considered green bond if the funds raised through it will be used for renewable and sustainable energy including wind, solar, bio-energy, other sources of energy which use clean technology.
- Banks have also been permitted to issue **green masala bonds**.
- **Rural Electrification Corporation's** first green bond has opened up for trading at the London Stock Exchange.
- It is a Climate Bonds Initiative certified green bond.
- The proceeds of the bond shall be used to fund environment friendly projects in India such as solar, wind and biomass assets, as well as sustainable water and waste management projects.
- Through listing at the LSE, the PSU hopes to reach out to a new investor base.

Blue Bonds

- The upcoming year will witness the first 'blue bond' issuance in India.
- As per **Smart cities initiative,** municipal bond market will be refueled for water supply projects (a category of Blue Blonds) in cities like Pune and Hyderabad.
- It is a type of green bond which specifically invests in climate resilient water management and water infrastructure.

Masala Bonds

- Masala bonds are rupee-denominated bonds issued by Indian entities in the overseas market to raise funds.
- As of now, it is being traded only at the London Stock exchange.

- Masala bonds have been named so by the International Finance Corporation (IFC), an investment arm of the World Bank which issued these bonds to raise money for infrastructure projects in India.
- They protect investors from exchange rate fluctuations as opposed to external commercial borrowing (ECB) that have to be raised and repaid in dollar.
- The Union Minister of Road Transport & Highways and Shipping launched the NHAI Masala Bond (NHAI) issue at the London Stock Exchange.

Sovereign Gold Bond Scheme

- Sovereign Gold Bonds are government securities denominated in physical gold.
- Gold bonds are tradable on the stock exchange and can be held in both physical or demat form.
- It is issued by the RBI on behalf of the Government of India
- These bonds carry sovereign guarantee both on the capital invested and the interest.

Bonds vs Debentures

- Bonds are more secured compared to debentures. A guaranteed interest rate is paid on the bonds that do not change in value irrespective of the profit earned by the company.
- Bonds are more secure than debentures. The company provides collateral for the loan. Moreover, in case of liquidation, bondholders will be paid off before debenture holders.
- In case of bankruptcy, Debenture holders have no collateral that a holder can claim from the company. To compensate for this, companies pay higher interest rates to debenture holders, compared to Bond holders.

Government Securities

Government securities, popularly known as G-Secs, are issued by Reserve Bank of India (RBI) on behalf of the central or state governments to finance fiscal deficit. These securities are absolutely risk-free and guaranteed by the government.

Derivative instruments

A derivative instrument is whose value is derived from the value of one or more underlying assets which can be commodities, precious metals, currency, bonds, stocks, stock indices, etc. Forwards, Futures, Options and Swaps are four most common examples of derivative instruments. The purpose of these securities is to give producers and manufacturers the possibility to hedge risks. By using derivatives both parties agree on a sale at a specified price at a later date.

Derivatives market can be divided into two as follows:

1. Exchange-traded derivatives
2. Over-the-counter derivatives.

Forwards and futures

These are financial contracts that obligate the contracts' buyers to purchase an asset at a pre-agreed price on a specified future date. Both forwards and futures are essentially the same in their nature. However, forwards are more flexible contracts because the parties can customize the underlying commodity as well as the quantity of the commodity and the date of the transaction. On the other hand, futures are standardized contracts that are traded on the exchanges. Every futures contract has the following features:

- Buyer

- Seller
- Price
- Expiry

Options

- Options contracts are instruments that give the holder of the instrument the right to buy or sell the underlying asset at a predetermined price.
- An option can be a **'call' option** or a **'put' option**.
- A call option gives the buyer, the right to buy the asset at a given price. This 'given price' is called **'strike price'**.
- Similarly, a 'put' option gives the buyer a right to sell the asset at the 'strike price' to the buyer.
- Here the buyer of the contract has the right to sell and the seller has the **obligation to buy**.
- So, in any options contract, the right to exercise the option is vested with the **buyer of the contract**. The seller of the contract has only the obligation and no right.
- As the seller of the contract bears the obligation, he is paid a price called as **'premium'.** Therefore, the price that is paid for buying an option contract is called as **premium**.
- The buyer of a call option will not exercise his option (to buy) if, on expiry, the price of the asset in the **spot market** is less than the strike price of the call.

For eg: A bought a call at a strike price of Rs 500. On expiry the price of the asset is Rs 450. A will not exercise his call. Because he can buy the same asset from the market at Rs 450, rather than paying Rs 500 to the seller of the option. The buyer of a put option will

not exercise his option (to sell) if, on expiry, the price of the asset in the spot market is more than the strike price of the call.

For eg: B bought a put at a strike price of Rs 600. On expiry the price of the asset is Rs 619. A will not exercise his put option. Because he can sell the same asset in the market at Rs 619, rather than giving it to the seller of the put option for Rs 600.

Swaps

Swap refers to an exchange of one financial instrument for another between the parties concerned. This exchange takes place at a predetermined time, as specified in the contract. Swaps are not exchange oriented and are traded over the counter, usually the dealing are oriented through banks. Currency swaps and interest rates swaps are the two most common kinds of swaps traded in the market

Regulation of Capital Market

The securities market is regulated by various agencies such as the Department of Economic Affairs (DEA), The Department of company affairs (DCA), the Reserve Bank of India and the SEBI. The activities of these agencies are coordinated by a high level committee on capital and financial markets. The capital market for equity and debt securities is regulated by the Securities and Exchange Board of India. The SEBI has full autonomy and authority to regulate and develop the capital market. The government has framed rules under the Securities Contracts Act (SCRA), the SEBI Act and the Depositories Act. The power in respect of the contracts for sales and purchase of government securities, money market securities and ready forward contracts in debt securities are exercised concurrently by the RBI.

The four main legislations governing the capital market are as follows:

1. **The SEBI Act, 1992** which establishes the SEBI with four-fold objectives of protection of the interests of investors in securities, development of the securities market, regulation of the securities market and matter connected therewith and incidental thereto.

2.The Companies Act, 1956 which deals with issue, allotment and transfer of transfer of securities, disclosures to be made in public issues, underwriting, rights and bonus issues and payment of interest and dividends.

3. **The Securities Contracts Regulation Act, 1956** which provides for regulations of securities trading and the management of stock exchanges.
4. **The Depositories Act, 1996** which provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities.

Primary markets

When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market. This market is also called the new issues market. In this market, instruments of security market are traded (procured) directly between the capital raiser and the instrument purchaser. It facilitates the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. Funds raised may be used for setting up new projects, expansion, diversification, modernization of existing projects, mergers and takeovers etc. A company can raise capital through the

primary market in the form of equity shares, preference shares, debentures, bonds and deposits. The new issue takes the form of an Initial Public Offering (IPO) or a Further Public Offer (FPO). An IPO is the process through which a company for the first time offers equity to investors and becomes a publicly-traded company. An FPO is a process by which already listed companies offer fresh equity in the company. Companies use FPOs to raise additional funds from the general public.

Methods of Floatation

The newly issued instrument in the Market can be floated through one of the various methods:

Offer through Prospectus:

Under this method for the purpose of information to the general public company issues a prospectus. Prospectus contains information about the company such as the purpose for which funds are being raised, past financial performance of the company, background and future prospects of company. This information helps the general public to decide whether to invest or not in this company.

Offer for Sale:

Under this method securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers.

Private Placement:

Private placement is the allotment of securities by a company to institutional investors and some selected individuals. It helps to raise capital more quickly than a public issue.

Rights Issue:

This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. The shareholders are

offered the 'right' to buy new shares in proportion to the number of shares they already possess.

e-IPOs:

A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an E- Initial Public Offer (IPO).

Secondary markets

Securities are listed in the secondary market to change hands i.e. the buyer in the primary market can sell her/his stake in the secondary market at the current price. It solves the liquidity problem of the investor and also provide him opportunity to invest in other fresh issues.

The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive investments through the process of disinvestment and reinvestment.

Stock exchanges in India

The stock exchanges are the important player of the capital market. They are the citadel of capital and fortress of finance. They are the platform of trading in securities and as such they assists and control the buying and selling of securities. Thus, stocks exchanges constitute of a market where securities issued by the central and state, governments, public bodies and joint stock companies are traded.

Stock Market Indices

- The stock market index is the most important indexes of all as it a set of stocks that are representative of the market.
- The stock market index is a barometer of market behavior.
- It reflects market direction and indicates day to day fluctuations in the stock prices.
- The index on a day is calculated as the percentage of the aggregate market value of the set of scripts incorporated in the index on that day to the average market value of the same scripts during the base period.

The stock market index is a convenient and effective product due to the following reasons:

1. It acts as a barometer for market behavior.
2. It is used to benchmark portfolio performance.
3. It helps to allocate scarce resources to the best performed companies reflected through best performed scripts.
4. It is used as a forecasting tool to predict the future movement of stock indices and also the business cycles.
5. It is used in derivative instruments like index futures and index options.
6. It can be used for passive fund management as in the case of index funds.

There are mainly four stock exchanges in India as follow:

1. **Bombay Stock Exchange (BSE)**
2. **National Stock Exchange (NSE)**
3. **Over The Counter Exchange of India (OTCEI)**
4. **Regional Stock Exchanges**

Bombay Stock Exchange (BSE):

- BSE emerged as premier stock exchange after the 1960s.
- It was established in 1875.
- The BSE dominated the Indian capital market accounting for more than 60 percent of the all India turnover.
- Until 1992, the BSE operated like a closed club of select members. On March 1995 the BSE had open outcry system of trading, the BSE turned to electronic trading whereby brokers trade using computers and technology.
- This system is known as the **BSE online trading system.**

Money Market

The money market refers to trading in very short-term debt investments. At the wholesale level, it involves large-volume trades between institutions and traders. At the retail level, it includes money market mutual funds bought by individual investors and money market accounts opened by bank customers.

In all of these cases, the money market is characterized by a high degree of safety and relatively low rates of return.

Types of Money Market Instruments

The money market is a segment of the financial market where short-term borrowing and lending of funds take place. Money market instruments are financial instruments that facilitate these transactions. They are generally considered to be low-risk and highly liquid, making them attractive to investors who want to preserve capital while earning a moderate return.

Here are some of the common types of money market instruments:

Treasury Bills (T-bills): T-bills are short-term debt securities issued by the government to finance its short-term cash needs. They are issued with maturities of 1 month, 3 months, 6 months, and 1 year. T-bills are highly liquid, considered low-risk, and are backed by the full faith and credit of the US government.

Commercial Paper (CP): CP is a short-term unsecured promissory note issued by corporations to raise funds. CP typically matures in less than 270 days and is issued by companies with strong credit ratings. CP can be issued at a discount and is a low-cost source of funding for companies.

Certificates of Deposit (CDs): CDs are time deposits issued by banks and other financial institutions. They have a fixed maturity date and pay a fixed rate of interest. CDs are generally considered to be low-risk and highly liquid, and are insured by the FDIC up to $250,000 per depositor per insured bank.

Repurchase Agreements (Repos): Repos are short-term loans collateralized by government securities or other highly rated securities. The borrower sells securities to the lender and agrees to buy them back at a higher price at a specified future date. Repos are commonly used by banks and other financial institutions to manage their short-term cash needs.

Treasury Notes (T-notes): T-notes are longer-term debt securities issued by the government with maturities of 2, 3, 5, 7, or 10 years. They pay a fixed rate of interest and are backed by the full faith and credit of the US government. T-notes are considered to be low-risk and highly liquid.

Bankers' Acceptances (BAs): BAs are short-term drafts drawn on a bank by an importer or exporter of goods. They are used to facilitate international trade transactions and are considered to be low-risk because they are backed by the issuing bank.

Municipal Notes: Municipal notes are short-term debt securities issued by state and local governments to finance their short-term cash needs. They are considered to be low-risk and are exempt from federal income tax.

Money market instruments are an important component of the financial market, providing investors with a low-risk and highly liquid way to invest their funds in the short term. The various types of money market instruments provide a range of options for investors with different risk tolerances and investment objectives.

Advantages and Disadvantages of Money Markets

There are several pros and cons of money market investments. Most money market securities are considered extremely low-risk, due to the protection of FDIC insurance, backing by a government or bank, or the high creditworthiness of the borrowers. They are also very liquid, meaning that they can readily be exchanged for cash at short notice.

The tradeoff of having low risk is that these investments also have low returns. Not only do money markets underperform other asset classes, they often don't even keep pace with inflation. In addition, any fees associated with an account can easily eat into those slim returns.

Moreover, these advantages do not extend to all money market securities. Some of them are not FDIC insured, and there is a (small) chance that even the most

trustworthy borrowers may default. Some money market accounts have minimum balance requirements or restrictions on withdrawals.

Pros and Cons of Money Market Accounts

Pros

- Extremely low risk.
- May be insured by FDIC.
- Highly liquid.
- Higher returns than most bank accounts.

Cons

- Low returns that may not keep pace with inflation.
- Not all money market securities are insured.
- May have high minimum investments or withdrawal restrictions.

Functions of the Money Market

The money market contributes to the economic stability and development of a country by providing short-term liquidity to governments, commercial banks, and other large organizations. Investors with excess money that they do not need can invest it in the money market and earn interest.

Here are the main functions of the money market:

1. Financing Trade

The money market provides financing to local and international traders who are in urgent need of short-term funds. It provides a facility to discount bills of exchange, and this provides immediate financing to pay for goods and services.

International traders benefit from the acceptance houses and discount markets. The money market also makes funds available for other units of the economy, such as agriculture and small-scale industries.

2. Central Bank Policies

The central bank is responsible for guiding the monetary policy of a country and taking measures to ensure a healthy financial system. Through the money market, the central bank can perform its policy-making function efficiently.

For example, the short-term interest rates in the money market represent the prevailing conditions in the banking industry and can guide the central bank in developing an appropriate interest rate policy. Also, the integrated money markets help the central bank to influence the sub-markets and implement its monetary policy objectives.

3. Growth of Industries

The money market provides an easy avenue where businesses can obtain short-term loans to finance their working capital needs. Due to the large volume of transactions, businesses may experience cash shortages related to buying raw materials, paying employees, or meeting other short-term expenses.

Through commercial paper and finance bills, they can easily borrow money on a short-term basis. Although money markets do not provide long-term loans, it influences the capital market and can also help businesses obtain long-term financing. The capital market benchmarks its interest rates based on the prevailing interest rate in the money market.

4. Commercial Banks Self-Sufficiency

The money market provides commercial banks with a ready market where they can invest their excess reserves and earn interest while maintaining liquidity. Short-term

investments, such as bills of exchange, can easily be converted to cash to support customer withdrawals.

Also, when faced with liquidity problems, they can borrow from the money market on a short-term basis as an alternative to borrowing from the central bank. The advantage of this is that the money market may charge lower interest rates on short-term loans than the central bank typically does.

Types of Instruments Traded in the Money Market

Several financial instruments are created for short-term lending and borrowing in the money market. They include:

1. Treasury Bills

Treasury bills are considered the safest instruments since they are issued with a full guarantee by the United States government. They are issued by the U.S. Treasury regularly to refinance Treasury bills reaching maturity and to finance the federal government's deficits. They come with a maturity of one, three, six, or twelve months.

Treasury bills are sold at a discount to their face value, and the difference between the discounted purchase price and face value represents the interest rate. They are purchased by banks, broker-dealers, individual investors, pension funds, insurance companies, and other large institutions.

2. Certificate of Deposit (CD)

A certificate of deposit (CD) is issued directly by a commercial bank, but it can be purchased through brokerage firms. It comes with a maturity date ranging from three months to five years and can be issued in any denomination.

Most CDs offer a fixed maturity date and interest rate, and they attract a penalty for withdrawing prior to the time of maturity. Just like a bank's checking account, a certificate of deposit is insured by the Federal Deposit Insurance Corporation (FDIC).

3. Commercial Paper

Commercial paper is an unsecured loan issued by large institutions or corporations to finance short-term cash flow needs, such as inventory and accounts payables. It is issued at a discount, with the difference between the price and face value of the commercial paper being the profit to the investor.

Only institutions with a high credit rating can issue commercial paper, and it is therefore considered a safe investment. Commercial paper is issued in denominations of $100,000 and above. Individual investors can invest in the commercial paper market indirectly through money market funds. Commercial paper comes with a maturity date between one month and nine months.

4. Banker's Acceptance

A banker's acceptance is a form of short-term debt that is issued by a firm but guaranteed by a bank. It is created by a drawer, providing the bearer the rights to the money indicated on its face at a specified date. It is often used in international trade because of the benefits to both the drawer and the bearer.

The holder of the acceptance may decide to sell it on a secondary market, and investors can profit from the short-term investment. The maturity date usually lies between one month and six months from the issuing date.

5. Repurchase Agreements

A repurchase agreement (repo) is a short-term form of borrowing that involves selling a security with an agreement to repurchase it at a higher price at a later date. It is commonly used by dealers in government securities who sell Treasury bills to a lender and agree to repurchase them at an agreed price at a later date.

Banks operating in India

List of Banks in India		
Allahabad Bank	American Express	Andhra Bank
Axis Bank	Bandhan Bank	Bank of Baroda
Bank of India	Bank of Maharashtra	Canara Bank
Catholic Syrian Bank Ltd.	Central Bank of India	Citibank
City Union Bank	Corporation Bank	DCB Bank
Dena Bank	Deutsche Bank	Dhanlaxmi Bank
DBS Bank	Federal Bank	HDFC Bank
HSBC Bank	ICICI Bank	IDBI Bank
IDFC Bank	Indian Bank	Indian Overseas Bank
IndusInd Bank	J&K Bank	Karnataka Bank
Karur Vysya Bank	Kotak Mahindra Bank	Lakshmi Vilas Bank
Nainital Bank	Oriental Bank of Commerce	Punjab & Sind Bank

Punjab National Bank	RBL Bank	South Indian Bank
Standard Chartered Bank	State Bank of India	Syndicate Bank
Tamilnad Mercantile Bank	UCO Bank	Union Bank of India
United Bank of India	Vijaya Bank	YES Bank

Financial Institutions operating in India

List of Financial Institutions in India		
Bajaj Finserv	IDFC First	Citicorp Finance (India) Limited
Credila	DHFL	India Infoline Finance Limited
Indiabulls	LIC Housing Finance Limited	Manappuram Finance
Muthoot Finance	PNB Housing	Tata Capital
Reliance Home Finance	Shriram Housing Finance	Sundaram Finance

Small Finance Banks operating in India

Small Finance Banks

AU Small Finance Bank	Capital Small Finance Bank	ESAF Small Finance Bank
Equitas Small Finance Bank	Fincare Small Finance Bank	Jana Small Finance Bank
North East Small Finance Bank	Suryoday Small Finance Bank	Ujjivan Small Finance Bank
Utkarsh Small Finance Bank		

The developed money market is a well organised market which has the following main features:

1. A Central Bank:

A developed money market has central banks at the top which is the most powerful authority in monetary and banking matter. I controls, regulates and guides the entire money market. It provides liquidity to the money market, as it is the lender of the last resort to the various constituents of the money market.

2. Organised Banking System:

An organised and integrated banking system is the second feature of a developed money market. In fact, it is the pivot around which the whole money market revolves. It is the commercial banks which supply short-term loans, and discount bills of exchange. They form an important link between the borrowers, brokers, discount houses and acceptance houses and the central bank in the money market.

3. Specialised Sub-Markets:

A developed money market consists of a number of specialised sub-markets dealing in various types of credit instruments. There is the call loan market, the bill market, the Treasury bill market, the collateral loan market and the acceptance market,

and the foreign exchange market. The larger the number of sub-markets, the more developed is the money market. But the mere number of sub-markets is not enough. What is required is that the various sub-markets should have a number of dealers in each market and the sub-markets should be properly integrated with each other.

4. Existence of Large Near-Money Assets:

A developed money market has a large number of near-money assets of various types such a bills of exchange, promissory notes, treasury bills, securities, bonds, etc. The larger the number of near-money assets, the more developed is the money market.

5. Integrated Interest-Rate Structure:

Another important characteristic of a developed money market is that it has an integrated interest-rate structure. The interest rates prevailing in the various sub-markets are integrated to each other. A change in the bank rate leads to proportional changes in the interest rate prevailing in the sub-markets.

6. Adequate Financial Resources:

A developed money market has easy access to financial sources from both within and outside the country. In fact, such a market attracts adequate funds from both sources, as is the case with the London Money Market.

7. Remittance Facilities:

A developed money market provides cash and cheap emittance facilities for transferring funds from one market to the other. The London Money Market provides such remittance facilities throughout the world.

8. Miscellaneous Factors:

Besides the above noted features, a developed money market is highly influenced by such factors as restrictions on international transactions, crisis, boom, depression, war, political instability, etc.

Call Money Market

The call money market is an important aspect when there is a surplus of funds in the Indian equity market (mainly from banks) that are sold on a daily basis. The capital market is a market for relatively short-lived capital instruments that can be used as money substitutes. First, the most important feature of a money market is that it is flexible and can be converted into fast cash, even at a relatively cheap price. It also helps to balance lenders' ability to quickly save money by meeting the needs of their customers.

The call money market, as an important element of the financial markets, has a few distinctive features: Call currency is a chargeable asset for sleek financial services.

Because it is essentially a "cell phone" industry, it is logistically simple when both mortgage companies and borrowers manage it.

The best thing is that it offers extra capital and contributes to the growth of a financial statement as a debt restructuring tool.

A constant call money rate helps to smooth out fluctuations in a group's liquid assets from a global perspective, contributing to the financial application's viability. In exchange, a stable macroeconomy serves as a reliable financial services authority or standard-setter. On the local scale, short-term borrowing by institutions enhances the effectiveness of personal finance in two directions. In one sense, call money rate permits banks to maintain a higher repo rate than would otherwise be possible. Call money rate also allows certain financial institutions to raise their amount of diverse money through an additional approach on a long-term premise.

As a result, a dynamic and competitive call money rate enhances corporations' public spending expenditures and increases their total productivity and competitiveness.

Call Money Market Features

The following are some of the most important characteristics of a money market:

A money market is basically a form of financing. Monetary market sales include short-term capital loans and also the payment of cash for a specific period of time that is available (repaid in full) in just one year.

The Call Money Market Features are as follows:

- It is a relatively new industry.
- There is no set global position.
- Commercial banks, finance companies, insurance, and other large organizations active in the financial markets.
- This market offers overnight funds to 14 days funds.
- The important feature of this market is that the borrower has to return the money when called by the lender.

Money at Call and Short Notice

Money at call and short notice is a part of the call money market. Cash borrowed for one day can be referred to as "call money." This refers to nighttime cash, as opposed to the currency that is loaned for more days and is known as "short notice money." To simple words, money at call and short notice refers to the time when lending company received no collateral for the amount loaned on a specific timeline or on call

Regulated financial institutions (except RRBs), cooperative banks, and last but not least, principal distributors (PDs) are all the participants of call money market in the call and notice money market, acting as both borrowers and lenders.

Call Money Rate

The call money rate is said to be a rate at which funds for very short term are traded or lent in the money market. It is a kind of financial loan at a particular rate which has to be returned to the lender by the borrower when demanded by him.

Benefits of the Call Money Market

Some of the advantages of call money market are as follows:

- Because lending expenses are more volatile in this sector, they can be returned.
- It is conceivable to have financial intermediaries and transfer funds.
- It provides a lucrative space for the leftover money.
- It helps the institutions such as commercial banks to fulfill their RBI reserve requirements whenever there is a shortage of money.
- It aids the management in collecting fairly small sums of money.
- Because the members possess a great reputation and the calls are safe.
- It's indeed beneficial to the actions of central banks.

Disadvantages of Money Market

The Disadvantages of Call Money Market are as follows:

- It is only found in major industrial and commercial areas.
- The call money markets are just not combined.
- There's also the issue of money market rates being variable.
- The lender can ask for his amount anytime.

Call Money Market in India

Call money market deals with day-to-day requirements of funds. The purpose of call loans is to deal in the bullion market and stock exchanges.

Money lent for one day is called call money.

- Money lent for more than one day and less than 15 days is called Notice Money.
- Money lent for more than 15 days is called term money.

Why do Banks Need Call Money?

- For managing temporary funding mismatches
- To comply with the cash reserve ratio (CSR) and the statutory liquidity ratio (SLR)
- For meeting excess demand caused by a net outflow of funds from disinvestment or imports

Call Money Market Features

1. High Liquidity: One of the most important characteristics of the call money market is the high liquidity it provides. They provide fixed income to the investor and have a short-term maturity. Because of this feature, call money market instruments are regarded as close substitutes for money.

2. Secure Investment: These financial instruments are among the most secure investment avenues available in the market. Since issuers and borrowers of call money market instruments have high credit ratings and the returns are fixed beforehand, the risk of losing invested capital is minuscule.

3. Competitive Interest Rates: The interest rate charged on a call loan between financial institutions is known as the call loan rate. Call money is used by brokers as a short-term source of funding to keep margin accounts open for customers who want to leverage their investments. The interest rate charged on loans used to purchase securities varies based on the call money rate set by the RBI.

4. Easy Transfers: The funds can be transferred between lenders and brokerage firms quickly. As a result, call money is the second most accessible asset in a balance

sheet, trailing only cash. If the lender calls the funds, the broker can issue a margin call, which typically results in the automatic sale of securities in a client's account (to convert the securities to cash) to repay the lender.

Participants of Call Money Market in India

Banks, Primary Dealers (PDs), Development Finance Institutions, Insurance companies, and select Mutual Funds are currently participants in the call money market. PDs and banks can act as both borrowers and lenders in the market. Non-bank institutions that have been granted specific permission to operate in the call money market, on the other hand, can only act as lenders.

How does Call Money Market work?

Loans are offered by lenders in the form of auctions in a Call Money Market (CMM), and borrowers place bids on them. These bids are made on interest rate biddings. As a result, the funds go to the bidder who offers the highest interest rate on a specific loan. Dealing of the money in a CMM is done through a Negotiated Dealing System (NDS) which is a regulated electronic trading platform. The rate of call money is strikingly volatile and varying due to several factors like fluctuating corporate demand, the volume of Bank deposits and cyclical fluctuation, among others.

The call money rate or interest rate is affected by liquidity demand and supply. A lack of liquidity causes the call money rate to rise, and vice versa. It is a monetary multiplier measurement.

What is Commercial Paper (CP)?

There are different instruments to mobilise funds if a company or a financial entity wishes. Some of these instruments are long term instruments like bonds which are

issued for more than one year (repayment period more than one year). Similarly, there are short term instruments like certificate of deposits and commercial papers which are issued to mobilise funds for short period of time like less than one year.

Commercial Paper (CP) is a short-term debt instrument issued by companies/financial entities to get funds up to a maturity period of one year. They are unsecured money market instruments issued in the form of a promissory note and held in a dematerialized form. Basically, CP is a money market instrument.

A CP is issued in a minimum denomination of Rs. 5 lakh and multiples thereof. CPs have a minimum maturity of seven days and a maximum of up to one year from the date of issue.

Who can issue CPs?

As per the RBI regulations, CPs can be issued by a number of institutions especially companies. Following are the type of entities who can issue Commercial Paper as per the RBI regulations.

Companies, including Non-Banking Finance Companies (NBFCs) and All India Financial Institutions (AIFIs);

Any other body corporate with a minimum net worth of ₹100 crore or higher, provided that the body corporate is statutorily permitted to incur debt or issue debt instruments in India; and any other entity specifically permitted by the Reserve Bank.

All residents and non-residents permitted to invest in CPs under FEMA, 1999, are eligible to invest in CPs.

Satellite dealers are businesses that specialize in selling and installing satellite systems for various applications. These systems typically include equipment such as antennas, receivers, modems, and other components necessary for transmitting and receiving signals from satellites in orbit around the Earth.

Satellite dealers cater to a wide range of customers, including individuals, businesses, and governments. They offer a variety of products and services, including:

Satellite TV: Satellite dealers provide satellite TV services to customers who live in remote areas where cable or traditional terrestrial broadcast services are unavailable. These systems typically require a satellite dish, a receiver, and a subscription to a satellite TV service.

Satellite internet: Satellite dealers also offer satellite internet services to customers who live in rural areas where traditional broadband services are unavailable. These systems typically require a satellite dish, a modem, and a subscription to a satellite internet service.

Satellite phones: Satellite dealers also sell satellite phones that can be used in areas where traditional cellular service is unavailable, such as remote wilderness areas or during natural disasters.

Satellite radio: Satellite dealers also offer satellite radio services that provide access to a wide range of programming, including music, news, and sports.

Satellite dealers typically work closely with manufacturers of satellite equipment to ensure that they have access to the latest products and technologies. They may also provide installation and maintenance services to customers to ensure that their systems are functioning properly.

In addition to selling and installing satellite systems, satellite dealers may also provide technical support and troubleshooting services to customers. They may also

offer training and education to help customers better understand how to use their satellite systems.

The demand for satellite systems is expected to continue to grow as more people seek reliable access to communication and entertainment services in remote areas. This trend is expected to drive the growth of the satellite dealer industry in the coming years.

Money market and capital market

Money market and capital market are two different financial markets with distinct characteristics and functions.

Money Market:

The money market is a short-term debt market where financial instruments are traded with a maturity period of up to one year. It is a market for low-risk, highly liquid, and low-return financial instruments. The primary function of the money market is to facilitate short-term borrowing and lending between financial institutions, such as banks, governments, and corporations. The money market instruments include Treasury bills, commercial papers, certificates of deposit, repurchase agreements, and short-term bonds.

Capital Market:

The capital market is a long-term securities market where long-term financial instruments are issued and traded, such as stocks, bonds, and other securities. The capital market is used for long-term investments, such as funding capital projects, expansion plans, and other long-term financing needs. The capital market is also a platform for companies to raise capital by issuing stocks or bonds. The capital market is

further divided into primary and secondary markets. The primary market is where newly issued securities are sold for the first time, and the secondary market is where previously issued securities are traded among investors.

Money market and capital market are two important segments of the financial market. Here are some points of distinction between them:

Definition: The money market is a segment of the financial market where short-term financial instruments are traded, while the capital market is a segment of the financial market where long-term financial instruments are traded.

Duration of Instruments: In the money market, financial instruments have a maturity period of up to one year, while in the capital market, financial instruments have a maturity period of more than one year.

Instruments traded: Money market instruments include treasury bills, certificates of deposit, commercial paper, and banker's acceptance, while capital market instruments include stocks, bonds, mutual funds, and derivatives.

Risk: Money market instruments are generally considered to be less risky than capital market instruments because they have a shorter maturity period and are issued by financially sound institutions.

Return: The return on money market instruments is generally lower than that of capital market instruments due to their low risk profile.

Liquidity: The money market is generally more liquid than the capital market because the instruments traded in the money market have shorter maturity periods.

Participants: Participants in the money market include financial institutions, governments, and corporations, while participants in the capital market include investors, issuers, brokers, and dealers.

The money market is a segment of the financial market where short-term financial instruments are traded, while the capital market is a segment of the financial market where long-term financial instruments are traded. Money market instruments are generally considered to be less risky than capital market instruments, have a lower return, and are more liquid. Participants in the money market include financial institutions, governments, and corporations, while participants in the capital market include investors, issuers, brokers, and dealers.

In summary, the key difference between money market and capital market is the maturity period of the financial instruments traded, the purpose for which they are traded, and the types of securities traded. The money market deals with short-term debt instruments, while the capital market deals with long-term equity and debt securities.

Global money markets

Global money markets refer to the various financial markets around the world where short-term borrowing and lending of funds occur. These markets are where banks and other financial institutions borrow and lend money to each other on a short-term basis, usually for a period of less than one year. The primary purpose of these

markets is to facilitate the flow of funds between lenders and borrowers, enabling them to meet their short-term financing needs.

The global money markets include several types of markets, such as the interbank market, commercial paper market, repurchase agreement (repo) market, and the foreign exchange market. These markets are interconnected, and changes in one market can impact others, leading to global economic effects.

The interbank market is where banks lend and borrow from each other. The commercial paper market is where companies issue short-term debt to raise funds. The repo market involves the sale and repurchase of securities with an agreement to repurchase at a later date, often used by banks to manage their short-term cash needs. The foreign exchange market is where currencies are traded, allowing banks and other participants to buy and sell foreign currencies to manage their foreign exchange exposure.

Changes in global money markets can have significant impacts on the global economy, as they can affect the availability and cost of credit, exchange rates, and interest rates, among other things. Therefore, governments and central banks closely monitor these markets to ensure stability and mitigate risks.

Global financial markets refer to the interconnected network of markets where financial instruments, such as stocks, bonds, commodities, and currencies, are traded. These markets facilitate the flow of capital between investors, borrowers, and issuers around the world.

There are several major global financial markets, including:

Stock markets: where stocks or shares of publicly-traded companies are bought and sold.

Bond markets: where fixed-income securities, such as government and corporate bonds, are traded.

Commodity markets: where raw materials, such as oil, gold, and wheat, are bought and sold.

Foreign exchange markets: where currencies are bought and sold.

Global financial markets are influenced by a wide range of factors, including economic indicators, political events, and changes in monetary policy. They play a critical role in the global economy, providing the means for companies to raise capital and investors to generate returns.

UNIT – II

Commercial paper market: meaning - importance - developed bill market - shortcomings of Indian bill market - Bill Market Scheme, 1952 - Bill market Scheme, 1970 - IDBI Bill Rediscounting Scheme - Reasons for the failure of bill market scheme - revitalizing bill market - **Certificate of Deposit (CD) market:** meaning - features - time deposit Vs certificate of deposit - role of DFHI - Treasury Bill Market: meaning - Treasury Bills - general features - Indian TBs - Benefits - **Gilt-edged securities market:** meaning - features - Repos, government bonds - importance of gilt-edged market.

COMMERCIAL PAPER MARKET

Meaning of Commercial Paper

Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance and inventories and temporary liabilities. The maturities in this paper do not last longer than 270 days. These papers are like a promissory note allotted at a huge cost and exchangeable between the All-India Financial Institutions (FIs) and Primary Dealers (PDs).

Most of the commercial paper investors are from the banking sector, individuals, corporate and incorporated companies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), etc. However, FII can only invest according to the limit outlined by the Securities and Exchange Board of India (SEBI)

In India, commercial paper is a short-term unsecured promissory note issued by the Primary Dealers (PDs) and the All-India Financial Institutions (FIs) for a short period of 90 days to 364 days.

Commercial Paper in India

On 27th March 1989, commercial paper in India was introduced by RBI in the Indian money market. It was initially recommended by Vaghul working Group on the basis of the following points.

The registration of commercial papers should only be granted to companies having Rs. 5 cores and above net worth with excellent dividend payment record.

The market should follow the CAS discipline. The RBI should manage the paper amount, entry of the market, and total quantum which can be upgraded in a year.

No limitation on the commercial paper market apart from the least size of the note. However, the size of one issue and each lot should not be less than Rs. 1 crore and Rs. 5 lakhs respectively.

It should be eliminated from the provision of insecure advances in the state of banks.

The company using commercial paper should have minimum 5 cores as net worth, a debt ratio maximum of 105, a debt servicing ratio closer to 2, current ratio minimum 1033, and should be recorded on the stock exchange.

The paper can be made in terms of interest or at a discount rate to face value.

It should not be compelled to stamp duty while issuing and transferring.

Features of Commercial Paper

Few distinct features are:

It is a short-term money market tool, including a promissory note and a set maturity.

It acts as an evidence certificate of unsecured debt.

It is subscribed at a discount rate and can be issued in an interest-bearing application.

The issuer guarantees the buyer to pay a fixed amount in future in terms of liquid cash and no assets.

A company can directly issue the paper to investors, or it can be done through banks/dealer banks.

Types of Commercial Paper

According to the Uniform Commercial Code (UCC), commercial papers are divided into four different types.

Draft – It is written guidance by an individual to another and to pay a stipulated sum to a third party.

Check – It is a unique draft where the drawee is a bank.

Note – Here, an individual is promised to pay another individual or bank a particular amount.

Certificates of Deposit – In this type, a bank confirms the receipt of deposit.

According to security, there are two types of commercial papers

Unsecured Commercial Papers – These are traditional papers and allotted without any security.

Secured Commercial Papers – It is also known as Asset-Backed Commercial Papers (ABCP) and assured by other financial assets.

Advantages of Commercial Paper

Contributes Funds – It contributes extra funds as the cost of the paper to the issuing company is cheaper than the loans of the commercial bank.

Flexible – It has a high liquidity value and flexible maturity range giving it extra flexibility.

Reliable – It is highly reliable and does not have any limiting condition.

Save Money – On commercial paper, companies can save extra cash and earn a good return.

Lasting Source of Funds– Maturity range can be customised according to the firm's requirement, and matured papers can be paid by selling the new commercial paper.

Commercial Paper Formula

The formula for estimation discounted price of a commercial paper.

Price = Face Value/ [1 + yield x (no. of days to maturity/365)]

Yield = (Face value – Price)/ (price x no of days to maturity) X 365 X 100

The developed money market is a well organised market which has the following main features:

1. A Central Bank:

A developed money market has central banks at the top which is the most powerful authority in monetary and banking matter. It controls, regulates and guides the entire money market. It provides liquidity to the money market, as it is the lender of the last resort to the various constituents of the money market.

1. Organised Banking System:

An organised and integrated banking system is the second feature of a developed money market. In fact, it is the pivot around which the whole money market revolves. It is the commercial banks which supply short-term loans, and discount bills of exchange. They form an important link between the borrowers, brokers, discount houses and acceptance houses and the central bank in the money market.

3. Specialised Sub-Markets:

A developed money market consists of a number of specialised sub-markets dealing in various types of credit instruments. There is the call loan market, the bill market, the Treasury bill market, the collateral loan market and the acceptance market, and the foreign exchange market. The larger the number of sub-markets, the more developed is the money market. But the mere number of sub-markets is not enough. What is required is that the various sub-markets should have a number of dealers in each market and the sub-markets should be properly integrated with each other.

4. Existence of Large Near-Money Assets:

A developed money market has a large number of near-money assets of various types such a bills of exchange, promissory notes, treasury bills, securities, bonds, etc. The larger the number of near-money assets, the more developed is the money market.

5. Integrated Interest-Rate Structure:

Another important characteristic of a developed money market is that it has an integrated interest-rate structure. The interest rates prevailing in the various sub-markets are integrated to each other. A change in the bank rate leads to proportional changes in the interest rate prevailing in the sub-markets.

6. Adequate Financial Resources:

A developed money market has easy access to financial sources from both within and outside the country. In fact, such a market attracts adequate funds from both sources, as is the case with the London Money Market.

7. Remittance Facilities:

A developed money market provides cash and cheap emittance facilities for transferring funds from one market to the other. The London Money Market provides such remittance facilities throughout the world.

8. Miscellaneous Factors:

Besides the above noted features, a developed money market is highly influenced by such factors as restrictions on international transactions, crisis, boom, depression, war, political instability, etc.

Main Shortcomings of Indian Money Market

Indian money market is regarded as underdeveloped money market. The main shortcomings of Indian money market are as follows:

1. Absence of Coordination:

There is no coordination between organised and unorganized sectors of the money market. At times there is even wasteful competition between them.

Such a situation is extremely harmful for the economic progress of the country.

2. Absence of Developed Bill Market:

An important shortcoming of Indian Money Market is the absence of a well developed money market. Though both inland and foreign bills are traded in Indian Money Market yet its scope is very limited. In spite of the efforts of Reserve Bank in 1952 and in 1970, only a limited bill market exists in India. Thus, an organised bill market in the real sense of the term has not yet been fully developed in India. The main obstacles in the development of bill market appear to be the following:

(i) The lack of uniformity in drawing bills in different parts of the country,

(ii) The large use of cash credit as the main form of borrowing from commercial banks, (iii) Presence of Inter-call money market and

(iv) The pressure of cash transactions. Thus, Bill Market is relatively underdeveloped.

3. Shortage of Funds in Money Market:

The Indian money market is characterized by shortage of funds. The funds available in the market are inadequate to meet the requirements of trade and industry. The main reasons responsible for shortage of funds are poverty, low level of income and low savings. Inadequate banking facilities are also one of the main causes of shortage of funds.

4. Seasonal Stringency of Funds:

Another defect of Indian Money Market is the stringency of credit in particular seasons of the year. During the harvest time (April to November) there is substantial

rise in demand for credit. The supply of credit at such a time does not increase in the same proportion in which demand increases.

Consequently, rate of interest shoots up during the busy season. On the other hand, during the slack season, due to fall in demand for credit, the interest rate declines. These wide variations in the supply and demand for money are due to inelastic supply of money.

5. Lack of Uniformity in Interest Rates:

In Indian Money Market, there is no uniformity in rates of interest. The lending rates of commercial banks differ from those of the Rural Regional Banks and cooperative banks. There is also wide variation in the rates of interest charged by the banks of organised sector and of indigenous banks. The bill finance rate also differs from hundi rate.

6. Underdeveloped Banking Habits:

Inspite of rapid branches expansion of banks and spread of banking to unbanked and rural centres, the banking habits in India are still underdeveloped, (i) There are several reasons for it.Whereas in U.S.A. for every 1400 persons there is a branch of a commercial bank, in India there is a branch for every 13,000 people, (ii) The use of cheques is restricted, (iii) The majority of transactions are settled in cash, (iv) The hoarding habit is widespread.

7. Dominance of Indigenous Bankers:

The indigenous banker still dominates the banking scene in India. Even after banking expansion in the rural areas, the money lenders still continue to be the only source to the agriculturists. They exploit their customers by adopting malpractices and charging exorbitant rate of interest The Reserve Bank exercises no control over them.

Old Bill Market Scheme in India

The bill market scheme was introduced by the Reserve Bank of India in January 1952. Under this scheme, the Reserve Bank undertook to advance loans to commercial banks against their demand promissory notes supported by the security of bills of their constituents or customers.

Before 1952, the practice was that the banks could secure additional cash from the Reserve Bank only by selling government securities to it. But, now, according to the bill market scheme, a bank can grant loans to its customers against their promissory notes and can further use the same promissory notes to borrow from the Reserve Bank.

All that the bank is required is to convert these promissory notes into promissory notes maturing within 90 days.

Thus the bill market scheme aimed at widening the loan window of the Reserve Bank for the banks by allowing them to borrow even against their ordinary commercial credit after its conversion into eligible bills.

Initially, the bill market scheme was introduced on an experimental basis. It was restricted (a) to the scheduled banks with deposits of Rs. 10 crore and above: (b) for the loans with the minimum limit of Rs. 10 lakh; and (c) against the individual bills, the minimum value of each should be one lakh rupees.

The scheme was broadened from time to time (a) by making more banks eligible to borrow under the scheme; (b) by reducing the minimum eligibility value for bills: (c) by reducing the minimum limit of advances; and (d) by extending the scheme to export bills with the minimum of 180 days.

Soon the bill market scheme became popular. The loans granted under the scheme increased from Rs. 29 crore in 1951-52 to Rs. 228 crore in 1955-56 and to Rs. 1354 crore in 1968-69.

The bill market scheme introduced in 1952 was in fact a pseudo bill market scheme. Its objective was not to develop a genuine bill market, but to provide extended financial accommodation to banks by the Reserve Bank.

The scheme was not based upon the genuine trade bills, but on the conversion of loans and advances of the banks into bills. The genuine bill finance imposes a discipline of making payments when due and involves the credit transactions supported with genuine trade transactions.

The bill market scheme, on the contrary, evolved the cash credit system of bank lending which the borrowers of the bank found much more convenient and elastic ; the discipline of the bill finance was absent in such a system.

The Dehajia Committee report brought out the abuses of cash system and suggested the use of bill financing for the supervision of the funds lent by the commercial banks.

THE NEW BILL MARKET SCHEME 1970

It was criticized that it did not develop the good bill market in India. The scheme appears to be **a device for extending credit for banks during busy season**. It is not based on genuine trade bills but on the conversion of loans and advances by scheduled banks into usance bills.

Bill Market in India: Types, Advantages and Defects of Bill Market Scheme

Bill Market refers to the market for short-term bills generally of three months maturity. A bill is a promise to pay a specified amount by the borrower (drawer) to the creditor (drawee).

Bills are of three types- (a) bills of exchange or commercial bills used to finance trade; (b) finance bills or promissory notes; and (c) treasury bills used to meet temporary financial needs to the government.

These bills may be bought and sold in the discount market which consists of commercial banks, discount houses and other institutions.

The bill market plays an important role in the banking and monetary system of the country because of the following reasons:

(a) It helps to meet the short-term financial requirements of individuals, companies and the government.

(b) The commercial banks which have surplus funds can invest them profitably in these bills,

(c) The commercial bank can dispose of these bills easily or can get them rediscounted by the Reserve Bank of India whenever they require cash.

Keeping in view the usefulness of the bills as instruments of credit to both business and banks, their self-liquidating nature and easier regulation of banks' bill finance by the central bank, the Reserve Bank of India has been making efforts to develop a bill market in the country.

Types of Bill Market Scheme:

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Before 1952, the practice was that the banks could secure additional cash from the Reserve Bank only by selling government securities to it.

But, now, according to the bill market scheme, a bank can grant loans to its customers against their promissory notes and can further use the same promissory notes to borrow from the Reserve Bank. All that the bank is required is to convert these promissory notes into usance promissory notes maturing within 90 days. Thus the bill market scheme aimed at widening the loan window of the Reserve Bank for the banks by allowing them to borrow even against their ordinary commercial credit after its conversion into eligible bills.

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The genuine bill finance imposes a discipline of making payments when due and involves the credit transactions supported with genuine trade transactions. The bill market scheme, on the contrary, evolved the cash credit system of bank lending which the borrowers of the bank found much more convenient elastic and to their liking ; the discipline of the bill finance was absent in such a system.

The Dehajia Committee report brought out the abuses of cash system and suggested the use of bill financing for the supervision of the funds lent by the commercial banks.

II. New Bill Market Scheme:

Dissatisfied with the old bill market scheme, in February 1970, the Reserve Bank of India constituted a Study Group under the chairmanship of Sh Narasimhan to go into the question of enlarging the use of bills of exchange as an instrument of credit and the creation of genuine bill market in India.

On the recommendations of the report of the study group, the Reserve Bank introduced the New Bill Market Scheme in November 1970 under Section 17 (2) of the Reserve Bank of India Act.

The main features of the New Bill Market Scheme are:

(i) All licensed scheduled commercial banks including the public sector banks will be eligible to offer bills of exchange to the Reserve Bank for rediscounting.

(ii) The bills covered under the scheme must be genuine trade bills relating to the sale or dispatch of goods.

(iii) The Reserve Bank rediscounts these bills. That is why the scheme is also called 'Bills Rediscounting Scheme'. The rediscounting facility should be available at the Reserve Bank's offices at Bombay, Calcutta, Madras and New Delhi. To avoid rediscounting of large number of small bills, such bills should be given in bunches.

(iv) The bill should be drawn on and accepted by the purchaser's bank. If the purchaser's bank is not a licensed scheduled bank, the bill should in addition bear the signatures of a licensed scheduled bank.

(v) The bills should have maximum usance of 90 days.

(vi) The bills should bear at least two good signatures.

(vii) The scheme does not cover the bills of exchange relating to the sale of goods to the government departments and quasi-government bodies as well as to statutory corporations to the sale of such commodities which are indicated by the Reserve Bank from time to time.

(viii) According to the modification of the scheme in 1971, the bills of exchange relating to the sale of goods to government departments and quasi government bodies as well as to statutory corporations have also been covered by the scheme.

(ix) With effect from April 1972, the bills of exchange drawn and accepted by the Industrial Credit and Investment Corporation of India (ICICI) were also made eligible for discount under the scheme.

Advantages of Developed Bill Market:

A developed bill market is useful to the borrowers, creditors and to financial and monetary system as a whole. The bill market scheme will go a long way to develop the bill market in the country.

The following are various advantages of developed bill markets:

(i) Bill finance is better than cash credit. Bills are self-liquidating and the date of repayment of a bank's loans through discounting or rediscounting is certain.

(ii) Bills provide greater liquidity to their holders because they can be shifted to others in the market in case of need for cash.

(iii) A developed bill market is also useful to the banks is case of emergency. In the absence of such a market, the banks in need of cash have to depend either on call money market or on the Reserve Bank's loan window.

(iv) The commercial bill rate is much higher than the treasury bill rate. Thus, the commercial banks and other financial institutions with short-term surplus funds find in bills an attractive source of both liquidity as well as profit.

(v) A development bill market is also useful for the borrowers. The bills are time-bound, can be sold in the market and carry the additional security in the form of acceptor's signature. Therefore, for the borrowers, the cost of bill finance is lower than that of cash credit.

(vi) A developed bill market makes the monetary system of the country more elastic. Whenever the economy requires more cash, the banks can get the bills rediscounted from the Reserve Bank and thus can increase the money supply.

(vii) Development of the bill market will also make the monetary control measures, as adopted by the Reserve Bank, more effective. As pointed out by the Narasimhan Study Group, "the evolution of the bill market will also make the Bank Rate variation by the Reserve Bank a more effective weapon of monetary control as the impact of any such changes could be transmitted through this sensitive market to the rest of the banking system."

Defects of Bill Market Scheme:

The bill market scheme is a right step in the right direction. Over the years, the functioning of the scheme has been quite encouraging. The outstanding level of bills rediscounted under the scheme increased considerably from Rs. 10 crore at the end of June 1971 to Rs. 110 crore at the end of March 1980.

But, the scheme has been subjected to criticism due to its various defects:

(i) The scheme has been generally used by the banks and their borrowers to offset the credit control measures of the Reserve bank. Whenever the Reserve Bank tried to control the bank credit without restricting the bill rediscounting facility, the banks increasingly utilised this facility. This made the Reserve Bank's tight money policy ineffective. As a result, the Reserve Bank was forced first to put restrictions on the bill rediscounting facility, and then to allow the facility wholly on its discretion.

(ii) The bill market scheme has not been successful in developing a genuine bill market. The main reason is that the borrowers as well as the banks still have preference for cash credit and dislike for bill finance.

(iii) The scheme is restricted to banks and some selected financial institutions. It has not been able to cover the indigenous bankers and other constituents of unorganized sector of the Indian money market.

(iv) The scheme has remained mainly concentrated in the fields of industry, trade and commerce. It has not been extended to agricultural sector.

Revitalizing the bill market

The bill market, also known as the commercial paper market, is a key source of short-term funding for corporations, banks, and other financial institutions. Revitalizing the bill market requires a concerted effort by regulators, issuers, and investors.

Here are some steps that could be taken to revitalize the bill market:

Simplify regulations: Complex regulations make it difficult for smaller issuers to participate in the bill market. Simplifying regulations would encourage more issuers to enter the market, increasing competition and liquidity.

Encourage transparency: Investors need to have confidence in the underlying assets of the bills they are purchasing. Increased transparency around the creditworthiness of the issuers would make it easier for investors to evaluate the risk of investing in specific bills.

Increase awareness: Many investors are unaware of the benefits of investing in the bill market. Education campaigns could help increase awareness and understanding of the market, encouraging more investors to participate.

Promote standardization: Standardizing the structure and terms of bills would make it easier for investors to compare and evaluate different bills. This would also increase liquidity by creating a more uniform market.

Support secondary trading: Increasing secondary trading in the bill market would increase liquidity and reduce the risk for investors. This could be achieved through the development of electronic trading platforms, similar to those used in other markets.

Overall, revitalizing the bill market requires a collaborative effort from all stakeholders involved. Simplifying regulations, increasing transparency, promoting standardization, and supporting secondary trading would make the bill market a more attractive option for both issuers and investors.

Certificate of Deposit (CD)

A certificate of deposit (CD) is a savings product that earns interest on a lump sum for a fixed period of time. CDs differ from savings accounts because the money must remain untouched for the entirety of their term or risk penalty fees or lost interest. CDs usually have higher interest rates than savings accounts as an incentive for lost liquidity.

Almost all consumer financial institutions offer CDs, although it's up to each bank which terms it wants to offer, how much higher the rate will be compared to the bank's savings and money market products, and what penalties it applies for early withdrawal.

Shopping around is crucial to finding the best CD rates because different financial institutions offer a surprisingly wide range. For example, brick-and-mortar bank might pay a pittance on even long-term CDs, while an online bank or local credit

union might pay three to five times the national average. Meanwhile, some of the best rates come from special promotions, occasionally with unusual duration such as 13 or 21 months, rather than the more common terms based on three, six, or 18 months or full-year increments.

Certificates of Deposit (CDs)

Opening a CD is very similar to opening any standard bank deposit account. The difference is what you're agreeing to when you sign on the dotted line (even if that signature is now digital). After you've shopped around and identified which CD(s) you'll open, completing the process will lock you into four things.

1. **The interest rate:** Locked rates are a positive thing because they provide a clear and predictable return on your deposit over a specific time period. The bank cannot later change the rate and therefore reduce your earnings. On the flip side, a fixed return may hurt you if rates later rise substantially and you've lost your opportunity to take advantage of higher-paying CDs.
2. **The term:** This is the length of time that you agree to leave your funds deposited to avoid any penalty (e.g., six-month CD, one-year CD, 18-month CD, etc.) The term ends on the maturity date, when your CD has fully matured and you can withdraw your funds penalty free.
3. **The principal:** With the exception of some specialty CDs, this is the amount that you agree to deposit when you open the CD.
4. **The institution:** The bank or credit union where you open your CD will determine aspects of the agreement, such as early withdrawal penalties (EWPs) and whether your CD will be automatically reinvested if you don't provide other instructions at the time of maturity.

Once your CD is established and funded, the bank or credit union will administer it like most other deposit accounts, with either monthly or quarterly statement periods, paper or electronic statements, and usually monthly or quarterly interest payments deposited to your CD balance, where the interest will compound.

Below are the salient features of Certificates of Deposit:

- A selective list of commercial banks and financial institutions have been authorised by the Reserve bank of India (RBI) to issue Certificates of Deposits. Rural regional banks and co-operative banks cannot issue CDs.
- Individuals, companies, corporations, etc. are eligible depositors for Certificates of Deposits. Non Resident Indians (NRI) can also be issued CDs on a non-repatriable basis.
- The minimum amount that has to be deposited in a Certificate of Deposit is Rs. 1 lakh.
- The tenure for Certificates of Deposit issued by commercial banks varies between 7 days and 1 year. The maturity term for CDs issued by financial institutions varies from 1 year to 3 years.
- Dematerialised or electronically generated certificates can be transferred by delivery or endorsement, while those in demat forms can be transferred as per the guidelines set for demat securities.
- Authorised banks and financial institutions cannot grant loans to depositors against Certificates of Deposits as these money market instruments are not accompanied by a lock-in period. The invested amount cannot be retrieved before the completion of the pre-decided maturity tenure.

Bank Fixed Deposits

Bank fixed deposits are one of the most popular investment options available in India. A fixed deposit account essentially offers a fixed interest rate on your principal investment. This fixed-income security is offered by almost every scheduled bank in India. Numerous investors in India have availed the benefits of Bank FD.

Comparative Analysis of Certificates of Deposits (CDs) and Fixed Deposits (FDs):

- **Minimum Investment Amount**

This is one of the most important differentiating factors between CDs and FDs. the minimum investment amount for an FD starts from ₹1,000 in some banks, whereas the minimum investment amount for a CD is ₹1 lakh. Because of the restriction on the investment amount, CDs are more popular amongst organizations than individuals who are looking to park their surplus for the short term and earn interest on the same.

- **Return on Investment**

The interest rate offered by banks on FDs varies as per the maturity period of the security and ranges from 3.5% to 8%. This means that if you've locked your money in a fixed deposit account for 3 years at 6% interest rate, you will receive the same interest rate for the entire maturity period, irrespective of the changes in the interest rates in the overall market. The interest rate on CDs issued by organizations offers higher interest rates than that offered by commercial banks. So, if one wants to take a little risk for earning high returns, s/he can choose to invest in CDs.

- **Investment Horizon**

FDs are a popular saving vehicle for the long term, with the highest maturity period of 10 years. However, CDs are good for short term investment as those issued by the banks have the highest maturity period of 1 year. For CDs issued by financial institutions, the maturity period ranges from 1 year to 3 years.

- **Collateral for Loan**

One more reason why investment in Fixed Deposits is popular in India is that investors can avail loan against their deposits in FD accounts. One can avail loan up to 90% of his/her FD savings. On the other hand, this benefit is not available in case of CDs. Since CDs are transferable, they essentially have no lock-in period, because of which banks do not consider it as substantial collateral for availing the loan.

Role of Discount and Finance House of India (DFHI)

Pursuant to the Vaghul Working Group recommendation for setting up an institution to provide enhanced liquidity to the money market instruments, the RBI set up the Discount and Finance House of India (DFHI) jointly with public sector banks and the all-India financial institutions.

DFHI was incorporated in March 1988 and it commenced operation in April 1988. The main objective of this money market institution is to facilitate smoothening of the short-term liquidity imbalances by developing an active secondary market for the money market instruments. Its authorized capital is Rs. 250 crores.

DFHI participates in transactions in all the market segments, it borrows and lends in the call, notice and term money market, purchases and sells treasury bills sold at

auctions, commercial bills, CDs and CPs. DFHI quotes its daily bid (buying) and offer (selling) rates for money market instruments to develop an active secondary market for all these.

Treasury bills are not bought back by the RBI before maturity. Similarly, except at the fortnightly auctions these cannot be purchased from the RBI. DFHI fills this gap by buying and selling these bills in the secondary market. The presence of DFHI in the secondary market has facilitated corporate entities and other bodies to invest their short-term surpluses and to en cash them when necessary.

The RBI extends reliance limit to the DFHI against the collateral of treasury bills and against the holdings of bills of exchange with a view to imparting liquidity to various money market instruments.

The enhancement of such limits from time to time enabled the DFHI to provide higher and higher levels of liquidity in the period of stringency witnessed in the money market. In the aftermath of the irregularities in transactions in money and securities markets which emerged in 1992, there was a reduction in overall trading volumes in almost all segments of the money market.

The DFHI's business turnover in certain segments viz. treasury bills and commercial bills continues to remain subdued even during 1993-94. The easy conditions prevailing in the call money market discouraged secondary market transactions in the treasury bills. Both the 91 days and 364 days treasury bills are becoming preferred instruments in the money market.

Following the steps taken by the RBI in the last year to ensure that recourse to bill finance takes place only in respect of genuine bills of exchange arising from movement of goods and within the credit limits of borrowers, the volume of bills available for discount/rediscount has reduced.

Treasury Bills

Treasury bills are money market instruments issued by the Government of India as a promissory note with guaranteed repayment at a later date. Funds collected through such tools are typically used to meet short term requirements of the government, hence, to reduce the overall fiscal deficit of a country.

They are primarily short-term borrowing tools, having a maximum tenure of 364 days, available at zero coupons (interest) rate. They are issued at a discount to the published nominal value of government security (G-sec).

Government treasury bills can be procured by individuals at a discount to the face value of the security and are redeemed at their nominal value, thereby allowing investors to pocket the difference. For example, a 91-day treasury bill with a face value of Rs. 120 can be bought at a discounted price of Rs. 118.40. Upon maturity, individuals are eligible to receive the entire nominal value of Rs. 120, which allows them to realise a profit of Rs. 1.60. Now, take a look at other important treasury bill details.

Types of Treasury Bills

The distinction between different treasury bill types is made based on their tenure, as enumerated below:

- 14-day treasury bill
- 91-day treasury bill
- 182-day treasury bill
- 364-day treasury bill

While the holding period remains constant for all types of treasury bills issued (as per the categories mentioned above), face values and discount rates of such bonds change periodically, depending upon the funding requirements and monetary policy of the RBI, along with total bids placed.

Features of Treasury Bills

- Minimum investment

As per the regulations put forward by the RBI, a minimum of Rs. 25,000 has to be invested by individuals willing to procure a short term treasury bill. Furthermore, any higher investment has to be made in multiples of Rs. 25,000.

- Zero-coupon securities

G-Sec treasury bills don't yield any interest on total deposits. Instead, investors stand to realize capital gains from such investments, as such securities are sold at a discounted rate in the market. Upon redemption, the entire par value of this bond is paid to investors, thereby allowing them to realize substantial profits on total investment.

- Trading

The method of investment forms an integral part of essential treasury bill details. The RBI, on behalf of the central government, auctions such securities every week (on

Wednesday) in the market, depending upon the total bids placed on major stock exchanges. Investors can choose to procure such government assets through depository participant commercial banks, or other registered primary dealers (PDs), wherein the security transfer follows a T+1 settlement process.

Alternatively, many open-ended mutual fund schemes also include treasury bills in their corpus for individuals willing to invest through such funds.

Yield Rate on Treasury Bills

The percentage of yield generated from a treasury bill can be calculated through the following formula –

Y = (100-P)/P x 365/D x 100

Where Y = Return per cent

P = Discounted price at which a security is purchased, and

D = Tenure of a bill

Let us consider a treasury bills example for better understanding. If the RBI issues a 91-day treasury bill at a discounted value of Rs. 98 while the face value of the bill is Rs. 100, the yield on such G-Secs can be determined as follows –

Yield = (100 – 98)/98 x 365/91 x 100

= 8.19%

Advantages of Government Treasury Bills

- Risk-free

Treasury bills are one of the most popular short-term government schemes issued by the RBI and are backed by the central government. Such tools act as a liability to the Indian government as they need to be repaid within the stipulated date.

Hence, individuals enjoy comprehensive security on the total funds invested as they are backed by the highest authority in the country, and have to be paid even during an economic crisis.

- Liquidity

A government treasury bill is issued as a short-term fundraising tool for the government and has the highest maturity period of 364 days. Individuals looking to generate short term gains through secure investments can choose to park their funds in such securities. Also, such G-secs can be resold in the secondary market, thereby allowing individuals to convert their holding into cash during emergencies.

- Non-competitive bidding

Treasury bills are auctioned by the RBI every week through non-competitive bidding, thereby allowing retail and small-scale investors to partake in such bids without having to quote the yield rate or price. It increases the exposure of amateur investors to the government securities market, thereby creating higher cash flows to the capital market.

Limitations of Treasury Bill

The primary disadvantage of government treasury securities is that they are known to generate relatively lower returns when compared to standard stock market investment tools. Treasury bills are zero-coupon securities, issued at a discount to investors. Hence, total returns generated by such instruments remain constant through the tenure of bond, irrespective of economic conditions and business cycle fluctuations.

It comes in contrast to the stock market, wherein market variations heavily influence returns generated by both equity and debt tools. Consequently, in the event of an upswing in the stock market, the yield rate of associated tools is significantly higher than the capital gains generated through G-Sec investments.

Taxation

Short term capital gain (STCG) realised on these bills is subject to STCG tax at rates applicable as per the income tax slab of an investor. Nonetheless, one major advantage of such G-Sec schemes is that retail investors are not required to pay any tax deducted at source (TDS) upon redemption of these bonds, thereby reducing the hassles of claiming back the same through income tax returns if he/she does not fall under the taxable income bracket.

Gilt-Edged Securities

Gilt-edged securities are high-grade bonds issued by certain national governments and private organizations. In the past, these instruments referred to the certificates issued by the Bank of England (BOE) on behalf of the Majesty's Treasury,

so named because the paper they were printed on customarily featured gilded (golden) edges.

By nature, a gilt-edged denotes a high-quality item whose value remains fairly constant over time. As an investment vehicle, this equates to high-grade securities with relatively low yields compared to riskier, below-investment-grade securities. For that reason, gilt-edged securities were once solely issued by blue-chip companies and national governments with proven track records of turning profits. Aside from conventional gilts, the British government issues index-linked gilts that offer semi-annual coupon payments adjusted for inflation.

Government bonds in the U.K., India, and several other commonwealth countries are still known as gilts.

Limitations of Gilt-Edged Securities

Although gilt-edged securities are offered by reliable government bodies and large corporations, they present certain drawbacks. Primarily, the bonds tend to fluctuate with interest rates, where rate hikes will cause the price of a gilt to decline, and vice versa. During periods when global economic conditions are improving, interest rates tend to rise, in which case gilt funds are likely to fall in value. For this reason, investors looking to generate substantial returns during periods of economic growth may source better value in index funds.

The greatest advantage of gilt-edge securities is the fact that these instruments are typically tied to interest rates. Consequently, they are ideal investments for retirees seeking reliable returns with minimal risk.

Purpose of gilt-edged securities:

Gilt-edged securities are high-grade investment bonds offered by governments and enormous corporations as a way of borrowing funds. The institutions that issue these securities have consistent earnings that can cover dividends or interest payments. In many ways, these are the next safest bonds to Government securities. A conventional gilt issued by the UK government pays the holder a fixed cash payment semi-annually until maturity, at which point the principal is returned in full. The coupon payment reflects the market interest rate at the time of issuance and indicates the cash payment that the holder will receive each year. The duration of these assets can go up to 30 years. After the 2008 recession, large quantities of gilts were created and repurchased by the Bank of England, in its campaign to help jump-start relief efforts.

Repurchase Agreement

A repurchase agreement (repo) is a form of short-term borrowing for dealers in government securities. In the case of a repo, a dealer sells government securities to investors, usually on an overnight basis, and buys them back the following day at a slightly higher price. That small difference in price is the implicit overnight interest rate. Repos are typically used to raise short-term capital. They are also a common tool of central bank open market operations.

For the party selling the security and agreeing to repurchase it in the future, it is a repo; for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a reverse repurchase agreement.

The Significance of the Repo Rate

When government central banks repurchase securities from private banks, they do so at a discounted rate, known as the repo rate. Like prime rates, repo rates are set

by central banks. The repo rate system allows governments to control the money supply within economies by increasing or decreasing available funds.

A decrease in repo rates encourages banks to sell securities back to the government in return for cash. This increases the money supply available to the general economy. Conversely, by increasing repo rates, central banks can effectively decrease the money supply by discouraging banks from reselling these securities.

In order to determine the true costs and benefits of a repurchase agreement, a buyer or seller interested in participating in the transaction must consider three different calculations:

1. Cash paid in the initial security sale
2. Cash to be paid in the repurchase of the security
3. Implied interest rate

The cash paid in the initial security sale and the cash paid in the repurchase will be dependent upon the value and type of security involved in the repo. In the case of a bond, for instance, both of these values will need to take into consideration the clean price and the value of the accrued interest for the bond.

A crucial calculation in any repo agreement is the implied rate of interest. If the interest rate is not favorable, a repo agreement may not be the most efficient way of gaining access to short-term cash. A formula which can be used to calculate the real rate of interest is below:

Interest rate = [(future value/present value) – 1] x year/number of days between consecutive legs

Once the real interest rate has been calculated, a comparison of the rate against those pertaining to other types of funding will reveal whether or not the repurchase agreement is a good deal. Generally, as a secured form of lending, repurchase agreements offer better terms than money market cash lending agreements. From the perspective of a reverse repo participant, the agreement can generate extra income on excess cash reserves as well.

Risks of Repo

Repurchase agreements are generally seen as credit-risk mitigated instruments. The largest risk in a repo is that the seller may fail to hold up its end of the agreement by not repurchasing the securities which it sold at the maturity date. In these situations, the buyer of the security may then liquidate the security in order to attempt to recover the cash that it paid out initially.

Why this constitutes an inherent risk, though, is that the value of the security may have declined since the initial sale, and it thus may leave the buyer with no option but to either hold the security which it never intended to maintain over the long term or to sell it for a loss. On the other hand, there is a risk for the borrower in this transaction as well; if the value of the security rises above the agreed-upon terms, the creditor may not sell the security back.

There are mechanisms built into the repurchase agreement space to help mitigate this risk. For instance, many repos are over-collateralized. In many cases, if

the collateral falls in value, a margin call can take effect to ask the borrower to amend the securities offered. In situations in which it appears likely that the value of the security may rise and the creditor may not sell it back to the borrower, under-collateralization can be utilized to mitigate risk.

Generally, credit risk for repurchase agreements is dependent upon many factors, including the terms of the transaction, the liquidity of the security, the specifics of the counterparties involved, and much more.

The Financial Crisis and the Repo Market

Following the 2008 financial crisis, investors focused on a particular type of repo known as repo 105. There was speculation that these repos had played a part in Lehman Brothers' attempts at hiding its declining financial health leading up to the crisis. In the years immediately following the crisis, the repo market in the U.S. and abroad contracted significantly. However, in more recent years it has recovered and continued to grow.

The crisis revealed problems with the repo market in general. Since that time, the Fed has stepped in to analyze and mitigate systemic risk. The Fed identified at least three areas of concern:

1. The tri-party repo market's reliance on the intraday credit which the clearing banks provide

2. A lack of effective plans to help liquidate the collateral when a dealer defaults
3. A shortage of viable risk management practices

Starting in late 2008, the Fed and other regulators established new rules to address these and other concerns. Among the effects of these regulations was an increased pressure on banks to maintain their safest assets, such as Treasuries. They are incentivized to not lend them out through repo agreements.

According to Bloomberg, the impact of the regulations has been significant: up through late 2008, the estimated value of global securities loaned in this fashion stood close to $4 trillion. Since that time, though, the figure has hovered closer to $2 trillion. Further, the Fed has increasingly entered into repurchase (or reverse repurchase) agreements as a means of offsetting temporary swings in bank reserves.

Nonetheless, in spite of regulatory changes over the last decade, there remain systemic risks to the repo space. The Fed continues to worry about a default by a major repo dealer that might inspire a fire sale among money funds which could then negatively impact the broader market. The future of the repo space may involve continued regulations to limit the actions of these transactors, or it may even eventually involve a shift toward a central clearinghouse system. For the time being, though, repurchase agreements remain an important means of facilitating short-term borrowing.

UNIT – III

Capital Market: meaning –characteristics – evolution and growth – new financial instruments – major issues – **Capital market instruments** – meaning – types – preference shares – equity shares – non-voting equity shares – company fixed deposits – warrants – debentures and bonds – global debt instruments – **New Issues Market (NIM)** – meaning – NIM and secondary market – methods of marketing securities – intermediaries in NIM – Debt market – meaning – advantages – risks on debt – role of bond market – price determination – yield of bond.

UNIT III

CAPITAL MARKET

Meaning of Capital market:

Capital markets are financial markets for the buying and selling of long-term debt or long term securities having a maturity-period (age) of one year or more. These markets channel/direct the wealth of savers to those who can put it to long-term productive/useful use, such as companies or governments making long-term investments/capital spending. Financial regulators/watchdogs such as the Securities and Exchange Board of India (SEBI), oversee/direct the capital markets in their jurisdictions/areas to protect investors against fraud/dishonesty among other duties.

Definition of Capital market:

Capital market is a market for long-term funds-both equity and debt-and funds raised within and outside the country. The capital market aids economic growth by mobilizing the savings and directing the same towards productive use. This is facilitated through the following measures or ways:

Features/Characteristics of Capital Market:

1. Link between savers and investors: The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called “Surplus units” and the investors/borrowers are known as “deficit units”. The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus units lend their surplus funds to deficit units.

2. Deals in Long Term fund: Capital market provides funds for long and medium term. It does not deal with channelizing saving for less than one year.

3. Utilizes Intermediaries: Capital market makes use of different intermediaries such as brokers, underwriters, depositories etc. These intermediaries act as working organs of capital market and are very important elements of capital market.

4. Capital formation: The capital market prides incentives to savers in the form of interest or dividend to transfer their surplus fund into the deficit units who will invest it in different businesses. The transfer of funds by the surplus units to the deficit units leads to capital formation.

5. Government Rules and Regulations: The capital market operates freely but under the guidance of government policies. These markets function within the framework of government rules and regulations, e.g., stock exchange works under the regulations of SEBI which is a government body.

An ideal capital market is one:

1. Where finance is available at reasonable cost.
2. Which facilitates economic growth.
3. Where market operations are free, fair, competitive and transparent.
4. Must provide sufficient information to investors. 5. Must allocate capital productively.

Importance or Functions of Capital Market:

The capital markets play an important role in mobilizing saving and channel them into productive investments for the development of commerce and industry. As such, the capital market helps in capital formation and economic growth of the country. We discuss below the importance of capital market. 1. Link between savers

and investors: The capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds. The savers who do not spend all their income are called “Surplus units” and the investors/borrowers are known as “deficit units”. The capital market is the transmission mechanism between surplus units and deficit units. It is a conduit through which surplus units lend their surplus funds to deficit units. 2. Basis for industrialization: Capital market generates long term funds, which are essential for the establishment of industries. Thus, capital market acts as a basis for industrialization. 3. Accelerating the pace of growth: Easy and smooth availability of funds for medium and long period encourages the entrepreneurs to take profitable ventures/businesses in the field of trade, industry, commerce and even agriculture. It results in the all round economic growth and accelerates the pace of economic development. 4. Generating liquidity: Liquidity means convertibility into cash. Shares of the public companies are transferable i.e., in case of financial requirements these shares can be sold in the stock market and the cash can be obtained. This is how capital market generates liquidity. 5. Increase the national income: Funds flow into the capital market from individuals and financial intermediaries which are absorbed by commerce, industry and government. It thus facilitates the movement of stream of capital to be used more productively and profitability to increase the national income. 6. Capital formation: The capital market prides incentives to savers in the form of interest or dividend to transfer their surplus fund into the deficit units who will invest it in different businesses. The transfer of funds by the surplus units to the deficit units leads to capital formation. 7. Productive investment: The capital market provides a mechanism for those who have savings transfer their savings to those who need funds for productive investments. It diverts resources from wasteful and unproductive channels such as gold, jewelry, conspicuous consumption, etc. to productive investments. 8. Stabilization of the value of securities: A well developed capital market comprising expert banking and non-banking intermediaries brings

stability in the value of stocks and securities. It does so by providing capital to the needy at reasonable interest rates and helps in minimizing speculative activities. 9. Encourages economic growth: The capital market encourages economic growth. The various institutions which operate in the capital market give quantities and qualitative direction to the flow of funds and bring rational allocation of resources. They do so by converting financial assets into productive physical assets. This leads to the development of commerce and industry through the private and public sector, thereby encouraging/inducing economic growth.

EVOLUTION & GROWTH OF CAPITAL MARKET

The capital market refers to the financial market where companies and governments raise long-term funds through the issuance and sale of securities. It is an essential component of the economy, as it allows for the efficient allocation of capital and facilitates economic growth. The evolution and growth of the capital market can be traced back to ancient times, and the development of modern capital markets has been influenced by several factors.

One of the earliest forms of capital markets can be traced back to ancient Rome, where government bonds were issued to finance public works projects. In the Middle Ages, the Italian city-states established early forms of banking and financial markets, which facilitated the growth of commerce and trade. The first modern stock market was established in Amsterdam in the early 17th century, where the Dutch East India Company was the first publicly traded company. The stock market allowed for the efficient raising of capital, and helped to finance the growth of the Dutch empire.

The growth of the modern capital market was influenced by several factors, including the Industrial Revolution, the rise of modern corporations, and advances in technology. In the 19th century, the Industrial Revolution led to the growth of modern corporations, which needed large amounts of capital to finance their operations. This led to the development of the bond market, where companies could issue bonds to raise long-term funds.

The 20th century saw the growth of stock markets and the rise of new financial instruments, such as options and futures. The development of electronic trading systems and the globalization of financial markets led to increased liquidity and efficiency in capital markets. The growth of mutual funds and exchange-traded funds (ETFs) provided investors with new ways to invest in the stock market, and allowed for the diversification of portfolios.

Today, the global capital market is a vast and complex system, with trillions of dollars in assets under management. It includes stock markets, bond markets, commodity markets, currency markets, and derivative markets. The growth of the capital market has provided companies and governments with access to large amounts of capital, which has helped to finance economic growth and development. However, it has also led to new challenges, such as the increasing complexity of financial instruments and the potential for systemic risk in the event of a financial crisis.

The evolution and growth of the capital market have been influenced by several factors, including historical developments, advances in technology, and the needs of modern corporations and governments. While the capital market has played a vital role

in facilitating economic growth and development, it also presents new challenges and risks that need to be carefully managed to ensure its continued stability and efficiency.

NEW FINANCIAL INSTRUMENTS

1.1. Floating Rate Bonds The interest rate on these bonds is linked to a benchmark/anchor rate and is not fixed. It is a concept which has been introduced primarily to take care of the falling market or to provide a cushion in times of falling interest rates in the economy. It helps the issuer to hedge the loss arising due to interest rate fluctuations. In India, the State Bank of India (SBI) was the first to introduce bonds with floating rates for retail investors. The SBI floating rate bonds were linked to the bank's term deposit rate which served as an anchor rate. The Treasury bill rate can also be the anchor rate. The interest rate is linked to the anchor rate as it reflects the economic indicators. The NSE Mibor is used now-a-days as the anchor rate for floating rate bonds. To make this bond attractive to investors, the interest rate always has a fixed mark-up price over and above the anchor rate. In case of IDBI bond issues, the fixed mark-up was 2 per cent and the anchor rate was the 364-days treasury bill rate. Floating rate bonds ensure that neither the borrower nor the lender suffer due to volatile interest rates. If the interest rate rises, the lender (investor) benefits, as he earns a higher interest and if the interest rate falls, it is advantageous to the borrower, as he can raise funds at a low cost. FRB is an innovative instrument in a falling interest rate regime but it requires an active secondary debt market.

1.2. Zero Interest Bonds Zero interest bonds require an active secondary debt market for attracting investors. As the name suggests, there is no periodic interest payment and they are sold at a huge discount to the face value. These bonds benefit both the issuers and the investors by limiting funding cost when interest rates are volatile for the issuer

and by reducing the reinvestment risk for the investor. Zero coupon bonds are sometimes convertible into equity on maturity which entails no outflow for the issuer, or into a regular interest bearing bond after a particular period of time. Companies such as Mahindra and Mahindra, HB Leasing and Finance have been pioneers in introducing these bonds in the Indian market. These bonds are the best options for individuals and institutional investors who look for safe and good returns and are ready to hold them till the bond matures. Moreover, these bonds do not carry any interest, which is otherwise taxable.

1.3. Deep Discount Bonds (DDBs) A deep discount bond is a zero coupon bond whose maturity is very high, say 15 years onwards and is offered at a discount to the face value. The Industrial Development Bank of India (IDBI) was the first financial institution to offer DDBs in 1992. The issuers have successfully marketed these bonds by luring the investor to become a 'lakhpati' in 25 years. Moreover, these instruments are embedded with 'call' and 'put' options, providing an early redemption facility both to the issuer and the investor at a predetermined price and date. The issuer becomes free from intermittent cash flow problems and the funds can be deployed in infrastructure projects which involve long gestation periods. Many variations of DDBs and zero interest bonds have come into the market. Some of them are as follows. Zero Interest Secured Premium Convertible Bond The investor can convert his bond into an equity share at 30 per cent discount on average price at the end of one year. If the conversion price is lower than the face value, the issuer will redeem the difference. A similar option of conversion into two equity shares is available on the maturity of the bond. The bond may also have a warrant attached. Zero Interest Fully Convertible Debenture The investors in these debentures are not paid any interest. However, there is a notified period after which, fully paid, fully convertible debentures (FCDs) will be automatically and compulsorily converted into shares. In the event of a company going for rights issue

prior to the allotment of equity, resulting from the conversion of equity shares into FCDs, FCD holders shall be offered securities as may be determined by the company.

1.2. Capital Market Instruments:

Capital market, also known as the securities market is a market where the funds from the investors are made available to the companies and government for the development of the projects.

Similarly, if a company wants money to expand its business, then it can issue shares in the stock market and investors who want to invest in that company can buy these shares.

The Capital Market includes the bond market as well as the securities market.

It serves as a pathway for entities that have a surplus fund that is being transferred to the ones who need capital for their business purpose.

These funds are being utilized by the companies in multiple ways into productive areas.

What are the Functions of the Capital Market?

It is the best medium of finance for companies and offers different modes of investment avenues to all investors which encourage building capital.

The main functions of the capital market are:

- The capital market acts as the link between the investors and savers.
- It helps in facilitating the movement of capital to more productive areas to boost the national income.
- It boosts economic growth.
- It helps in the mobilization of savings for financing long term investment.
- It facilitates the trading of securities.
- It reduces transaction and information cost.

- It helps in quick valuations of financial instruments.
- Through derivative trading, it offers hedging against market risks.
- It helps in facilitating transaction settlement.
- It improves the effectiveness of capital allocation.
- It provides continuous availability of funds to the companies and government.

What are the instruments traded in the Capital Market?

Below are the 5 types of instruments that are traded in the capital market:

1. *Equities:*

Equity securities refer to the part of ownership that is held by shareholders in a company.

In simple words, it refers to an investment in the company's equity stock for becoming a shareholder of the organization.

The main difference between equity holders and debt holders is that the former does not get regular payment, but they can profit from capital gains by selling the stocks.

Also, the equity holders get ownership rights and they become one of the owners of the company.

When the company faces bankruptcy, then the equity holders can only share the residual interest that remains after debt holders have been paid.

Companies also regularly give dividends to their shareholders as a part of earned profits coming from their core business operations.

Equity shares, also known as common shares or ordinary shares, represent ownership in a company and give shareholders the right to vote at company meetings and receive dividends. There are different types of equity shares, including:

Voting shares: These shares carry the right to vote at company meetings and participate in the decision-making process of the company.

Non-voting shares: These shares do not carry the right to vote, but they have the same financial rights as voting shares, including the right to receive dividends.

Preferred shares: These shares have priority over common shares when it comes to receiving dividends and in the event of liquidation. Preferred shares may also have other advantages, such as being convertible into common shares.

Cumulative preference shares: These shares have a right to receive dividends even if the company does not make a profit in a given year. Any unpaid dividends are carried forward and must be paid in future years before common shareholders can receive any dividends.

Redeemable shares: These shares can be bought back by the company at a predetermined price after a certain period of time.

Equity warrants: These are options that give the holder the right to buy a certain number of common shares at a predetermined price within a specified time frame.

It is important to note that the exact types of equity shares may vary depending on the jurisdiction and the rules and regulations of the company and the stock exchange where the shares are listed.

2. **Preference shares**

Preference shares are a type of company ownership that offer preferential treatment to shareholders in terms of dividends and/or voting rights. Here are some common types of preference shares:

Cumulative preference shares: These shares guarantee that any unpaid dividends accumulate and must be paid out before any common shareholder dividends can be paid.

Non-cumulative preference shares: These shares do not guarantee the accumulation of unpaid dividends.

Convertible preference shares: These shares can be converted into common shares at a predetermined price, giving the shareholder the option to convert their preference shares into common shares at a later date.

Redeemable preference shares: These shares can be bought back by the company at a predetermined price and date.

Participating preference shares: These shares allow the shareholder to receive additional dividends beyond their fixed preference dividend if the company's profits exceed a certain level.

Non-participating preference shares: These shares do not provide the shareholder with additional dividends beyond their fixed preference dividend, regardless of the company's profits.

Adjustable-rate preference shares: These shares have a dividend rate that adjusts according to a benchmark interest rate.

Perpetual preference shares: These shares have no maturity date, meaning they can remain outstanding indefinitely.

It's important to note that preference shares can have a combination of these features, or additional features not listed here, depending on the specific terms and conditions set by the company issuing the shares.

3. *Debt Securities:*

Debt Securities can be classified into bonds and debentures:

1. Bonds:

Bonds are fixed-income instruments that are primarily issued by the centre and state governments, municipalities, and even companies for financing infrastructural development or other types of projects.

It can be referred to as a loaning capital market instrument, where the issuer of the bond is known as the borrower.

Bonds generally carry a fixed lock-in period. Thus, the bond issuers have to repay the principal amount on the maturity date to the bondholders.

2. Debentures:

Debentures are unsecured investment options unlike bonds and they are not backed by any collateral.

The lending is based on mutual trust and, herein, investors act as potential creditors of an issuing institution or company.

4. **Derivatives:**

Derivative instruments are capital market financial instruments whose values are determined from the underlying assets, such as currency, bonds, stocks, and stock indexes.

The four most common types of derivative instruments are forwards, futures, options and interest rate swaps:

- **Forward:** A forward is a contract between two parties in which the exchange occurs at the end of the contract at a particular price.
- **Future:** A future is a derivative transaction that involves the exchange of derivatives on a determined future date at a predetermined price.
- **Options:** An option is an agreement between two parties in which the buyer has the right to purchase or sell a particular number of derivatives at a particular price for a particular period of time.
- **Interest Rate Swap**: An interest rate swap is an agreement between two parties which involves the swapping of interest rates where both parties agree to pay each other interest rates on their loans in different currencies, options, and swaps.

5. *Exchange-Traded Funds:*

Exchange-traded funds are a pool of the financial resources of many investors which are used to buy different capital market instruments such as shares, debt securities such as bonds and derivatives.

Most ETFs are registered with the Securities and Exchange Board of India (SEBI) which makes it an appealing option for investors with a limited expert having limited knowledge of the stock market.

ETFs having features of both shares as well as mutual funds are generally traded in the stock market in the form of shares produced through blocks.

ETF funds are listed on stock exchanges and can be bought and sold as per requirement during the equity trading time.

6. *Foreign Exchange Instruments:*

Foreign exchange instruments are financial instruments represented on the foreign market. It mainly consists of currency agreements and derivatives.

Based on currency agreements, they can be broken into three categories i.e spot, outright forwards and currency swap.

New Issue

A new issue refers to a stock or bond offering that is made for the first time. Most new issues come from privately held companies that become public, presenting investors with new opportunities.

The typical route for a new issue via a stock offering is known as an initial public offering (IPO), where a company's stock is offered to the public through various exchanges, such as the New York Stock Exchange (NYSE) or Nasdaq for the first time. New issues of bonds work the same way. Both forms of new issues are intended to raise capital for the issuing company.
A new issue may be contrasted with a seasoned issue.

New Issue Market

The new issue market refers to the process by which companies or other entities issue securities, such as stocks or bonds, to the public for the first time. This process is also known as an initial public offering (IPO) in the case of stocks, or a public debt offering in the case of bonds.

In general, the new issue market is a critical part of the financial system, as it provides companies with access to capital that they can use to fund their operations or expand their business. At the same time, it also allows investors to participate in the growth of these companies, potentially earning significant returns on their investments.

The process of issuing securities in the new issue market typically involves a number of steps. First, the company must prepare a prospectus that provides detailed information about its business, financial performance, and the risks associated with investing in its securities. This prospectus must be filed with the relevant regulatory authorities, such as the Securities and Exchange Commission (SEC) in the United States, and must be made available to potential investors.

Once the prospectus has been approved, the company typically works with investment banks and other financial institutions to underwrite the offering. This means that these institutions agree to purchase the securities from the company at a predetermined price, and then sell them to investors at a higher price. This allows the company to raise the capital it needs, while also ensuring that there is sufficient demand for the securities.

Once the securities have been issued, they are traded in the secondary market, which is where investors buy and sell them after the initial offering. The price of these securities can fluctuate based on a wide range of factors, such as changes in the company's financial performance, macroeconomic conditions, or geopolitical events.

Overall, the new issue market plays a critical role in the functioning of the financial system, providing companies with access to capital and allowing investors to participate in the growth of these companies. However, investing in new issues can be risky, as there is often limited information available about the company and its prospects, and the price of these securities can be volatile. Therefore, it is important for

investors to conduct thorough due diligence before investing in new issues, and to consult with a financial advisor if they are uncertain about the risks involved.

The new issue market and the secondary market

The new issue market and the secondary market are two distinct types of financial markets.

The new issue market, also known as the primary market, is where new securities are issued to the public for the first time. This market is where companies, governments, and other organizations can raise funds by issuing new stocks, bonds, or other financial instruments. In the new issue market, the securities are sold to investors directly by the issuer or through intermediaries such as investment banks.

On the other hand, the secondary market is where securities that have already been issued in the primary market are traded. This market includes stock exchanges like the New York Stock Exchange (NYSE) and NASDAQ, as well as over-the-counter (OTC) markets. In the secondary market, investors buy and sell securities among themselves, rather than from the issuer. The prices of securities in the secondary market are determined by supply and demand, and can be influenced by a variety of factors such as company performance, economic conditions, and geopolitical events.

Overall, while the new issue market is where securities are initially issued and sold to investors, the secondary market is where investors can buy and sell securities among themselves, and where the prices of these securities are determined.

Points of distinction between new issue market and secondary market

The new issue market and the secondary market are two different types of markets for trading financial instruments. Here are the points of distinction between the two:

Purpose: The new issue market, also known as the primary market, is where companies issue new securities to raise capital. The secondary market, on the other hand, is where existing securities are traded among investors.

Participants: The participants in the new issue market are the issuing companies, investment banks, underwriters, and institutional investors. In the secondary market, the participants are individual investors, traders, and institutional investors.

Liquidity: The new issue market is less liquid than the secondary market because the securities issued in this market are not traded frequently. In contrast, the secondary market is highly liquid because securities are traded on a daily basis.

Pricing: In the new issue market, the price of the securities is determined by the issuing company based on various factors such as market demand, economic conditions, and the company's financial performance. In the secondary market, the price is determined by market forces of supply and demand.

Risk: Investing in the new issue market is considered more risky as the securities are new and untested, and there is no historical data to analyze their performance. In contrast, the secondary market is considered less risky because

securities have a track record of performance and there is historical data available to analyze.

Regulation: The new issue market is heavily regulated by the government and securities regulators to protect investors from fraud and market manipulation. The secondary market is also regulated, but to a lesser extent, as it is considered more efficient and transparent.

In summary, the new issue market and the secondary market differ in their purpose, participants, liquidity, pricing, risk, and regulation. Investors need to consider these differences when deciding where to invest their money.

Method of Floatation of Securities in Primary Market:

The securities may be issued in primary market by the following methods:

1. Public Issue through Prospectus: Under this method company issues a prospectus to inform and attract general public. In prospectus company provides details about the purpose for which funds are being raised, past financial performance of the company, background and future prospects of company. The information in the prospectus helps the public to know about the risk and earning potential of the company and accordingly they decide whether to invest or not in that company Through IPO company can approach large number of persons and can approach public at large. Sometimes companies involve intermediaries such as bankers, brokers and underwriters to raise capital from general public.

2. Offer for Sale: Under this method new securities are offered to general public but not directly by the company but by an intermediary who buys whole lot of securities from the company. Generally the intermediaries are the firms of brokers. So sale of securities takes place in two steps: first when the company issues securities to the intermediary at

face value and second when intermediaries issue securities to general public at higher price to earn profit. Under this method company is saved from the formalities and complexities of issuing securities directly to public.

3. Private Placement: Under this method the securities are sold by the company to an intermediary at a fixed price and in second step intermediaries sell these securities not to general public but to selected clients at higher price. The issuing company issues prospectus to give details about its objectives, future prospects so that reputed clients prefer to buy the security from intermediary. Under this method the intermediaries issue securities to selected clients such as UTI, LIC, General Insurance, etc.

The private placement method is a cost saving method as company is saved from the expenses of underwriter fees, manager fees, agents' commission, listing of company's name in stock exchange etc. Small and new companies prefer private placement as they cannot afford to raise from public issue.

4. Right Issue (For Existing Companies): This is the issue of new shares to existing shareholders. It is called right issue because it is the pre-emptive right of shareholders that company must offer them the new issue before subscribing to outsiders. Each shareholder has the right to subscribe to the new shares in the proportion of shares he already holds. A right issue is mandatory for companies under Companies' Act 1956.

The stock exchange does not allow the existing companies to go for new issue without giving pre-emptive rights to existing shareholders because if new issue is directly issued to new subscribers then the existing equity shareholders may lose their share in capital and control of company i.e., it would water their equity. To stop this the preemptive or right issue is compulsory for existing company.

5. e-IPOs, (electronic Initial Public Offer): It is the new method of issuing securities through on line system of stock exchange. In this company has to appoint registered brokers for the purpose of accepting applications and placing orders. The company issuing security has to apply for listing of its securities on any exchange other than the exchange it has offered its securities earlier. The manager coordinates the activities through various intermediaries connected with the issue.

Methods of marketing securities

Capital markets are financial markets where companies and governments raise long-term financing through the issuance and sale of securities such as stocks and bonds. Marketing securities in capital markets involves promoting and selling these securities to potential investors. There are several methods used to market securities in capital markets, which are discussed below:

Public Offering: A public offering is the most common method of marketing securities in capital markets. A company or government issues securities to the public and underwriters, who then sell the securities to investors. The securities may be sold through an initial public offering (IPO) or a secondary offering. In an IPO, the company issues securities to the public for the first time, whereas in a secondary offering, the company issues additional securities to the public.

Private Placement: A private placement is a method of marketing securities to a select group of investors. Private placements are typically offered to institutional investors or high net worth individuals, and are not available to the general public. Private placements are often used by companies or governments that want to raise capital without the costs and regulatory requirements of a public offering.

Direct Listings: Direct listings are a relatively new method of marketing securities in capital markets. In a direct listing, a company lists its securities directly on a stock exchange, without the involvement of underwriters or intermediaries. Direct listings are often used by technology companies that have a strong brand and a large following of potential investors.

Roadshows: A roadshow is a marketing tour where a company or government presents its securities to potential investors. Roadshows are typically organized by underwriters, who arrange meetings with institutional investors and analysts. Roadshows are an effective way to generate interest in a public offering and can help to determine the level of demand for a company's securities.

Online Marketing: With the rise of the internet, online marketing has become an increasingly important method of marketing securities in capital markets. Companies and governments can use social media, email, and other online channels to promote their securities to potential investors. Online marketing is often used in conjunction with other marketing methods, such as roadshows or public offerings.

Marketing securities in capital markets involves a range of methods, including public offerings, private placements, direct listings, roadshows, and online marketing. Companies and governments use these methods to raise capital and promote their securities to potential investors. The choice of marketing method depends on a range of factors, such as the size of the offering, the type of securities being issued, and the target audience of the securities.

Primary market Intermediaries:

Capital Market intermediaries are the important link between the regulators, issuer, and investor. SEBI has issued regulations in respect of each intermediary to ensure proper services to be rendered by them to the investors and the capital market. In this post, we will learn about some primary market intermediaries.

The following market intermediaries are involved in the primary market:

1. Merchant Bankers/Lead Managers
2. Registrars and Share Transfer Agents
3. Underwriters
4. Bankers to the Issue
5. Debenture Trustees etc.

Merchant Bankers

- Merchant Bankers play an important role in the issue management process. Merchant Bankers are mandated by SEBI to manage public issues (as lead managers) and open offers in take-overs.
- Apart from these, they have other diverse services and functions. These include organizing and extending finance for investment in projects, assistance in financial management, acceptance house business, raising Euro-dollar loans and issue of foreign currency bonds.
- Lead Managers (Category 1 merchant bankers) has to ensure correctness of the information furnished in the offer document.
- They have to ensure compliance with the SEBI Rules and regulations and also guidelines for Disclosure and Investor Protection. To this effect, they have are to submit to SEBI a Due Diligence Certificate confirming that disclosures made in

the draft prospectus or letter of offer are true, fair and adequate to enable the prospective investors to make a well-informed investment decision.

Regulation:

Merchant Bankers are one of the major intermediaries between the issuer and the investors, hence their activities are regulated by

1. SEBI (Merchant Bankers) Regulations, 1992
2. Guidelines of SEBI and Ministry of Finance
1. Companies Act 1956.
2. Securities Contracts (Regulation) Act, 1956. and so on.

Criteria for Merchant Banker:

Regulation 3 of SEBI (Merchant Bankers) Regulations, 1992 lays down that the application by a person desiring to become merchant banker shall be made to SEBI in the prescribed form seeking a grant of a certificate of registration along with a non-refundable application fee as specified.

- The applicant shall be a body corporate other than NBFC
- The applicant has the necessary infrastructure like adequate office space, equipment's and manpower to effectively discharge his activities.
- the applicant has in his employment a minimum of two persons who have the experience to conduct the business of the merchant banker.
- The applicant shall be a net worth of not less than 5 Crore rupees.
- The applicant, his director, partners, or principal officer is not involved in any litigation connected to securities market
- the applicant, his director, partner, or principal officer has not any time been convicted for any offence involving moral turpitude or has been found guilty of any offence.

- the applicant has the professional qualification from an institution recognized by the Government of Finance, Law or Business Management.
- the applicant is fit and proper person
- grant of certificate to the applicant is in the interest of investors

1. Companies Act 1956.
2. Securities Contracts (Regulation) Act, 1956. and so on.

Registrars and transfer agents

- R & T agents form an important link between the investor and issuer in the Securities Market.
- R & T agent is appointed by the issuer to act on its behalf to service the investors in respect of all corporate actions like sending out notices and other communications to the investors as well as dispatch of dividends and other non-cash benefits.
- R & T agents perform an equally important role in the depository system as well.
- R & T agents are registered with SEBI in the terms of SEBI (Registrars to the Issue and Share Transfer Agents) Rules and Regulations, 1993.

Underwriters

- Underwriting services are provided by some large specialists financial institutions such as banks, insurance or investment houses, whereby they guarantee payment in case of damage or financial loss and accept the financial risk for liability arising from such guarantee.
- Securities underwriting is the process by which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities

- (both equities and debt capital). The services are typically used during a public offering in the primary market.

- Underwriters are required to register with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993.

Bankers to the Issue

Bankers to an Issue means a scheduled bank carrying on all of the following activities:

- acceptance of application and application money
- acceptance of allotment of call money
- refund of application money
- Payment of dividends or interest warrants etc.
-

The activities of the Banker to an issue in the Indian Capital Market are regulated by SEBI (Bankers to an issue) Regulations, 1994

Debenture Trustees

Debenture Trustee means a Trustee of a Trust deed for securing any issue of debentures.

- Debenture trustees call for periodical reports from the body corporate
- takes possession of trust property in accordance with the provisions of the trust deed
- enforce security in the interest of debenture holders
- do such acts as necessary in the event the security becomes enforceable
- carry out such acts as are necessary for the protection of debenture holders and to do all things necessary in order to resolve the grievances of the debenture holders.

- ascertain and specify that debenture certificates have been discharged within 30 days of registration of the charge with ROC
- ascertain and specify that debenture certificates have been discharged in accordance with the provisions of the Company Act
- ascertain and specify that interest warrants for interest due on the debentures have been dispatched to the debenture holders on or before the due date and so on.
- To inform SEBI in case of breach of Trust Deed and take measures accordingly.

The activities of Debenture Trustee in the Indian Capital Market are regulated by SEBI (Debenture Trustees) Regulations, 1993.

Debt Market

Debt security investments generally have lower returns in comparison to equities. However, since debt investments do not fluctuate as much as stocks, the risk involved is also much less.

Moreover, in the event that a company has to be liquidated, the business' bondholders are paid first.

The most common debt instrument is a bond. Bonds are issued by the government and corporations with the purpose of raising funds for their undertakings and business operations. The interest rates for these investments tend to be fixed, and while they may be unsecured, third-party agencies attest to the integrity and legitimacy of the bond issuer in the form of ratings.

Additionally, note that bonds can be resold by the original buyer in the secondary market. While the sold bond retains the face value, the true net profit or yield will be lost as a certain amount as interest will have already been paid. Depending on the interest rate fluctuations in the market and the time period for a particular bond to reach maturity, the current actual value of the bond may be more or less than its face value.

Hence, it may be sold at a discount or premium according to where its face value currently stands

Importance of Debt Market

The debt market of a country performs some important functions and helps in the process of economic development of the country. We know that the debt market is the market for medium-term and long-term financial assets. It deals in securities having a maturity period of 1 year and above.

It supplies funds for financing fixed capital requirements of firms as well as long-term requirements of the government for funds. By its activities, the debt market of a country makes a considerable contribution towards the process of its economic development. This will be clear if we mention the major functions of the debt market of an economy.

The important functions of the debt market may be summarized as follows: Trade and industry of a country require funds or liquidity for their expansion. The debt market provides medium-term and long-term funds for the development of trade and industry. It thus acts as a provider of liquidity.

For economic development, small savings of the country should be mobilized first. The debt market mobilizes small savings scattered over the country through its various institutions. It thus collects much-needed funds required for the economic development of a country.

Mere mobilization of savings is not enough. The mobilized savings are to be properly invested. The debt market arranges proper investment of the funds collected from the savers. It thus makes an efficient allocation of resources.

The debt market protects the interests of both the savers and the investors. It thus helps increase the propensity to save of the savers and propensity to invest of the investors. The debt market helps in selling the securities of government enterprises and autonomous bodies.

It thus provides the much-needed funds to the government and the autonomous bodies who are important agents in the process of economic development of a country.

On the one hand, the debt market opens new opportunities for investment and thus keeps the savings of the economy mobile. On the other hand, it encourages savings, raises the rate of savings and thus helps in the economic development of the country.

In the debt market, some special purpose development financial institutions provide financial help to some targeted sectors. Some of them provide financial help to small and cottage industries. They thus help in the process of economic development of a country.

Credit rating agencies of the debt market provide superior, low-cost information to the investors about their investment. These agencies ensure optimal uses of investible funds. By providing investment information, credit rating agencies increase the propensity to invest of the investors and thus help in the economic development of a country.

There are several advantages of the debt market, including:

Access to capital: The debt market provides businesses with access to capital that they can use to finance their operations, invest in new projects, or expand their business.

Flexibility: Debt financing can be structured in various ways to meet the specific needs of businesses, such as short-term or long-term financing, fixed or variable interest rates, and different repayment schedules.

Lower cost of capital: Debt financing can often be obtained at a lower cost of capital than equity financing, as lenders are typically more risk-averse than equity investors and require a lower rate of return.

Tax advantages: In many countries, the interest paid on debt is tax-deductible, which can reduce the cost of borrowing and increase the profitability of the business.

Diversification: Debt securities offer investors a way to diversify their investment portfolio and manage risk. Debt instruments such as bonds can provide a stable source of income for investors, particularly those who are risk-averse.

Market liquidity: The debt market is typically more liquid than the equity market, as there are many different types of debt securities that can be traded, such as government bonds, corporate bonds, and mortgage-backed securities.

Overall, the debt market can be an attractive option for businesses and investors looking for access to capital, flexibility, and diversification, as well as a lower cost of capital and tax advantages.

Functions of Debt Market

Some financial institutions of the debt market provide managerial and technical know-how to industrial organizations. This service is also of great help for the expansion of the industrial sector of an economy. Other key functions of debt markets can be summarized as follows:

1. Mobilize long-term savings to finance long-term investments.
2. Provide capital in the form of debt to entrepreneurs.
3. Encourage broader ownership of productive assets.
4. Provide liquidity with a mechanism enabling the investor to sell financial assets.
5. Lower the costs of transactions and information.
6. Improve the efficiency of capital allocation through a competitive pricing mechanism.
7. Enable quick valuation of financial instruments both equity and debt.
8. Enable wider participation by enhancing the width of the market by encouraging participation through networking institutions and associating individuals.
9. Provide operational efficiency through: simplified transaction procedures: lowering settlement timings; and Lowering transaction costs.
10. Develop integration among: real and financial sectors; equity and debt instruments; long-term and short-term funds; long-term and short-term interest costs; private and government sectors; and o Domestic and external funds.
11. Direct the flow of funds into efficient channels through investment, disinvestment, and reinvestment.

Without a developed debt market, the economic development of a country is not possible. The process of economic development might be slow or may even be halted if the debt market is underdeveloped and unorganized.

Merits

These are the advantages of debt market given below:

1. The biggest advantage of investing in Indian debt markets is its assured returns.
2. The returns that the market offer is almost risk-free (though there is always certain amount of risks, however the trend says that return is almost assured).
3. Government securities are safest avenues. There are certain amounts of risks in the corporate, FI and PSU debt instruments. However, investors can take help from the credit rating agencies which rate those debt instruments. The interest in the instruments may vary depending upon the ratings.
4. Another advantage of investing in India debt market is its high liquidity.
5. Banks offer easy loans to the investors against government securities.
6. Greater safety and lower volatility as compared to other financial instruments.
7. Higher leverage available in case of borrowings against government securities.
8. Greater diversification opportunities, adequate trading opportunities with continuing volatility expected in interest rates.

9. It speeds up the economy by making it possible for banks to offer mortgages to consumers.

Disadvantages of Debt Market

These are the disadvantages of debt market explained below:

1. As the returns here are risk free, those are not as high as the equities market at the same time. So, at one hand you are getting assured returns, but on the other hand, you are getting less return at the same time.

2. Retail participation is also very less here, though increased recently. There are also some issues of liquidity and price discovery as the retail debt market is not yet quite well developed.

3. Debt securities usually have much smaller price changes than stocks or commodities. Traders in debt securities must take larger positions to achieve the same level of profits.

4. The debt trading markets are dominated by hedge funds and the trading desks of large financial institutions. These traders have access to information and capital that is difficult or impossible for the individual trader to obtain. By the time the small trader gets the news that these large players are trading on, it may be too late to profit from the news.

5. Traders in corporate debt securities trade high-yield or junk bonds to earn the higher interest rates these bonds pay. The trader can also achieve capital gains if the

issuing corporation gets an upgrade in its credit rating. The downside of high yield bonds is a bankruptcy and total loss of the principal invested.

Features of Debt Market

The bond/ Debt market is of central importance to economic activity. The bond market is vital for economic activity because it is the market where interest rates are determined. Interest rates are important on a personal level because they guide our decisions to save and to finance major purchases (such as houses, cars, and appliances, to give a few examples).

From a macroeconomic standpoint, interest rates have an impact on consumer spending and on business investment. The features of debt markets can be summarized as follows:

1. Classified into Segments
2. Nomenclature of Markets
3. Changing Structure
4. Changes in Post Liberalization Era
5. Diversified Participants
6. Fixed Return
7. Larger Volume
8. Variety of Debt Instruments
9. Stringent Regulation
10. Type of Transactions
11. Dematerialization of Debt Securities
12. Wholesale Debt Market
13. Retail Debt Market

Classified into Segments

There are three main segments in the debt markets in India, viz.

- Government Securities
- Public Sector Units (PSU) bonds
- Corporate securities

The market for Government Securities comprises the Centre, State and State-sponsored securities. In the recent past, local bodies such as municipalities have also begun to tap the debt markets for funds. Some of the PSU bonds are tax-free, while most bonds including government securities are not tax-free.

Corporate bond markets comprise commercial paper and bonds. These bonds typically are structured to suit the requirements of investors and the issuing corporation and include a variety of tailor-made features with respect to interest payments and redemption.

Nomenclature of Markets

The debt market often goes by other names, based on the types of debt instruments that are traded. In the event of the debt market dealing mainly with municipal and corporate bonds, the debt market may be known as a bond market.

If mortgages and notes are the main focus of trading, the debt market may be known as a credit market. When fixed rates are connected with the debt instruments, the market may be known as a fixed income market.

Changing Structure

In the majority of the countries, the debt market is more popular and many times bigger than other financial markets including the equity market. However, in India, the opposite was true for a very long time, because of the existence of a passive internal debt management policy, where only the government borrowed from a captive group of investors like banks.

The Indian debt market, in the pre-liberalization era, was characterized by controls on pricing of assets, segmentation of markets and barriers to entry, low levels of liquidity, the limited number of players, near lack of transparency and high transaction costs.

Changes in Post Liberalization Era

The debt market in India has traditionally been a wholesale market with participation restricted to a few institutional players – mainly banks. Indian securities and bonds markets have witnessed far-reaching reforms in the post-liberalization era in terms of market design, technological developments, settlement practices and introduction of new instruments

Today, we have integrated trading, clearing and payment platforms, which enable seamless settlement of transactions. The markets have achieved tremendous stability and as a result, have attracted huge investment.

Diversified Participants

The investors in the debt markets concentrate on banks, financial institutions, mutual funds, provident funds, insurance companies and corporations. Many of these participants are also issuers of debt instruments.

Fixed Return

The most distinguishing feature of debt instruments of the Indian debt market is that the return is fixed, i.e., returns are almost risk-free. This fixed return on the bond is often termed as the ‘coupon rate’ or the ‘interest rate’.

Larger Volume

The Indian debt market, in terms of volume, is larger than the equity market. The Indian debt market measured by the estimated value of bonds outstanding is next only to Japanese and Korean bond markets in Asia.

Variety of Debt Instruments

A variety of debt instruments have been introduced into the Indian capital market in recent years. They are called new innovative instruments. These new instruments may again be divided into two categories: instruments issued by corporate and instruments issued by financial intermediaries.

In the first category, we have participating debentures, convertible debentures with options, fully convertible debentures, warrants and so on. In the second category, we may mention floating rate bonds, zero-coupon bonds, regular income bonds, retirement bonds, growth bonds, index bonds, deep discount bonds and so on.

Stringent Regulation

The regulatory jurisdiction over the corporate debt has been assigned to the Indian securities market regulator SEBI under SEBI Act, 1992. For Government debt securities, RBI has the jurisdiction to provide the guidelines to run the debt market.

To avoid the confusion of multiple regulations, a notification issued by the Government on March 2, 2000, clearly defined the areas of responsibility between RBI and SEBI. The issue of corporate debts is also under the regulation of SEBI. The

issuance of debt instruments by the government is regulated by the Government Securities Act 2006.

The issuance of corporate securities is regulated by the SEBI Guidelines for disclosure and Investor protection. The Government Securities Act, 2006 was enacted by the Parliament in August 2006. The RBI made Government Securities Regulation, 2007 to carry out the purpose of the Government Securities Act, 2006. The Act and the Regulations are applicable to Government securities created and issued by the Central and the State governments.

Type of Transactions

There are two types of transactions in the debt market. Firstly there are direct transactions between wholesale market participants. These account for approximately 25% of the wholesale market volumes. Secondly, there are broker intermediated transactions i.e. where brokers undertake dealings for banks, institutions or other entities.

Dematerialization of Debt Securities

The government abolished stamp duty on debt securities to boost the dematerialization of debt securities and enhance levels of trading in corporate debt securities. Both the NSDL and the CDSL were permitted to admit debt instruments to the depository.

The debt instruments include debentures, bonds, commercial papers, and certificates of deposit, irrespective of whether these instruments are listed, unlisted or privately placed. With dematerialization, it has become possible for banks to sell securities in smaller lots to corporate clients, provident funds, trusts, and others.

The cost of holding securities in Demat form is negligible as most of the banks are depository participants (DPs) of NSDL.

Wholesale Debt Market

The National Stock Exchange of India Ltd set up a separate segment for trading in debt securities known as the Wholesale Debt Market segment of the exchange. Prior to the commencement of trading in the WDM segment of the NSE, the only trading mechanism available in the debt market was the telephone.

The NSE provided, for the first time in the country, an online, automated, screen-based system known as NEAT (National Exchange for Automated Trading) across a wide range of debt instruments. In the WDM trading system, there are two markets:

- Continuous Market
- Negotiated Market. In the continuous market, the buyer and seller do not know each other and they put their orders. If the orders match, it results in a trade which is settled directly between the participants. In the negotiated market, no counter-party exposure limit needs to be involved as the participants are familiar with each other.
- This system is an order-driven system which matches the best buy and sells orders on a price time priority and simultaneously protects the identity of the buyer and the seller.

Retail Debt Market

It involves participation by individual investors, Small trusts and other legal entities in addition to the wholesale investor classes.

Issues Concerned with Indian Debt Market

The corporate debt market in India is yet to be fully developed. Despite various reforms in the corporate debt market, still, there are certain issues that need to be addressed and changes will have to be made in the existing policy framework. These issues are discussed below:

1. Lack of Liquidity in respect of many Debt Instruments in the Secondary Market
2. Increasing the Number of Participants
3. Need for Change in Attitude of Retail Investors
4. Need for Innovative Instruments
5. Greater Disclosure in Respect of Privately Placed Debt Instruments

Lack of Liquidity in respect of many Debt Instruments in the Secondary Market

The secondary market for corporate debt instruments is illiquid. In the absence of an active secondary market, investors have difficulties to sale debt instruments in the secondary market. The concepts of Primary Dealers need to be introduced in respect of the corporate debt segment to create a secondary market in respect of a large number of corporate debt securities which are not listed on stock exchanges.

Increasing the Number of Participants

Increasing the number of players in the market will result in participants being available on both sides of the market and will also boost volumes. Various institutional investors need to be encouraged to participate in the secondary market.

FIIs also will have to be encouraged to invest in corporate debt securities. The Pension funds, provident funds and charitable funds, etc., need to be encouraged to participate in the market. For this, suitable tax benefits can be offered to the investors.

Need for Change in Attitude of Retail Investors

There is a need to encourage the participation of retail investors in the corporate debt market. Retail investors do not trade in the corporate debt securities in the secondary market. The normal tendency is to invest in and hold corporate debt securities till maturity.

This attitude needs to be changed. The retail investors will have to be encouraged to trade in corporate debt securities in the secondary market. The primary dealers can play a significant role in this regard. They have to offer two-way quotes in respect of a large number of debt securities.

Need for Innovative Instruments

There is no point in offering only plain Vanilla debt securities. In order to encourage savings from small investors and attract investment from institutional investors, there is a need to bring innovations in the issue of debt instruments.

The debt securities having features such as monthly interest payment, deep discount bonds, bonds with put and call options and floating rate bonds etc., are likely to be subscribed by both institutions as well as retail investors. Therefore more variety of debt instruments needs to be offered to the retail and institutional investors.

Greater Disclosure in Respect of Privately Placed Debt Instruments

A larger portion of the corporate debt securities is privately placed. In view of this, various issues relating to the private placements need to be addressed. In this context, it is essential to ensure greater transparency, adequate disclosures, minimum credit rating and proper accounting standards.

This will enhance the confidence of investors in the debentures issued by private corporate entities. Credit rating agencies will require taking utmost care while the rating of debt instruments that are privately placed.

RISK ON DEBT

Debt comes with various risks that borrowers and lenders must consider. Some of the risks associated with debt include:

Default Risk: This is the risk that the borrower will fail to repay the debt as agreed. In case of default, lenders may take legal action to recover their money, but they may not always be successful.

Interest Rate Risk: Debt comes with an interest rate that may be fixed or variable. Fixed-rate debt provides certainty to borrowers and lenders, but variable-rate debt can expose borrowers to interest rate risk, where the interest rate can change over time, affecting the borrower's ability to repay.

Currency Risk: Debt that is issued or borrowed in a foreign currency can expose borrowers to currency risk. If the currency in which the debt is issued or borrowed changes in value against the borrower's home currency, the cost of servicing the debt may increase.

Refinancing Risk: Debt that has a fixed term or maturity may need to be refinanced at the end of the term. Refinancing can be challenging if interest rates have risen or the borrower's creditworthiness has deteriorated.

Liquidity Risk: Debt can also expose borrowers to liquidity risk, where they may not be able to sell the debt or find a buyer for it when they need to. This can be particularly challenging for borrowers who need to raise cash quickly.

In summary, debt comes with various risks that borrowers and lenders must consider before entering into a debt agreement. These risks include default risk, interest rate risk, currency risk, refinancing risk, and liquidity risk.

Role of bond market

The bond market plays a crucial role in the economy by facilitating the borrowing and lending of funds between various entities such as corporations, governments, and individuals. Bonds are debt securities that are issued by these entities to raise funds for various purposes such as financing investments, paying off debts, or funding ongoing operations.

One of the primary functions of the bond market is to provide a means of raising capital for businesses and governments. When a corporation or government issues bonds, it is essentially borrowing money from investors who buy the bonds. This capital can then be used to finance investments or fund operations. Bond markets also provide a way for investors to earn income by purchasing bonds and receiving regular interest payments.

In addition to providing a source of funding, the bond market plays an important role in determining interest rates and yield curves. The interest rate on a bond reflects the risk associated with the borrower and the duration of the loan. As such, the bond market serves as an indicator of overall economic conditions and can provide valuable insights into the health of the economy.

Finally, the bond market provides a means of diversifying investment portfolios. Investors can purchase bonds with different maturities, risk levels, and credit ratings to balance their investment portfolios and manage risk.

Overall, the bond market is an essential component of the global financial system, providing a source of capital, influencing interest rates, and offering investors a means of diversifying **their portfolios.**

Price determination in debt market

In the debt market, the price of a bond is determined by several factors, including:

Interest Rates: Interest rates are the most important factor that affects bond prices. When interest rates rise, bond prices fall, and vice versa. This is because when interest rates increase, investors demand higher yields to compensate for the increased risk of holding a lower-yielding bond.

Credit Quality: Credit quality is another important factor that affects bond prices. Bonds issued by companies or governments with a higher credit rating are considered less risky and therefore, have a lower yield than bonds issued by entities with a lower credit rating.

Time to Maturity: The time to maturity also affects bond prices. Generally, the longer the time to maturity, the higher the yield, as investors require higher returns to compensate for the increased risk associated with holding a bond for a longer period.

Supply and Demand: The supply and demand for bonds also affect their prices. If there is more demand for a bond than there is supply, the price of the bond will increase. Conversely, if there is more supply than demand, the price of the bond will decrease.

Inflation: Inflation is another factor that affects bond prices. When inflation is high, bond prices decrease because the purchasing power of the bond's future cash flows decreases.

Overall, the price determination in the debt market is a complex process that takes into account multiple factors, and changes in any one of these factors can affect the price of a bond.

Yield of bond

The yield of a bond refers to the rate of return that an investor can expect to earn by holding the bond until maturity.

There are different types of bond yields, including:

Coupon Yield: This is the annual interest rate that the bond pays, expressed as a percentage of the bond's face value.

Current Yield: This is the annual interest payment divided by the current market price of the bond, expressed as a percentage.

Yield to Maturity: This is the total return that an investor can expect to earn by holding the bond until maturity, taking into account the current market price, the coupon

rate, and the time remaining until maturity. It is the most accurate measure of the bond's yield.

The yield of a bond is influenced by a number of factors, including prevailing interest rates, credit ratings of the issuer, and the maturity and coupon rate of the bond. Generally, bonds with higher credit ratings, longer maturities, and higher coupon rates will offer higher yields. Conversely, bonds with lower credit ratings, shorter maturities, and lower coupon rates will offer lower yields.

UNIT-IV

Financial service institutions – **Clearing Corporation of India Limited** – settlement of risks – risk management system – benefits –**CRISIL** – range of services – **CIBIL** – credit information – credit assessment – mechanism – defaulted credit facility –access to CIBIL information – credit information report – **DFHI**L – ICRA – Moody's Investor Service – Standard & Poor – Fitch Ratings – OTCEI – NSDL – STCI

UNIT-IV

FINANCIAL SERVICE INSTITUTIONS:

Financial service institutions, also known as financial institutions or financial intermediaries, are organizations that provide a range of financial services to individuals, businesses, and governments. These institutions play a vital role in the economy by facilitating the flow of funds between savers and borrowers, managing risks, and enabling the efficient allocation of capital.

The primary function of financial service institutions is to act as intermediaries between those who have surplus funds (savers or investors) and those who need funds (borrowers). They accept deposits from individuals and businesses and use these funds to provide loans, mortgages, and other forms of credit. By doing so, they help to channel funds from areas of surplus to areas of deficit, promoting economic growth and development.

Financial service institutions offer a wide range of services and products, including:

Deposit services: These include checking and savings accounts, certificates of deposit (CDs), and money market accounts, allowing customers to securely store their money and earn interest.

Lending and credit services: Financial institutions provide loans, mortgages, credit cards, and lines of credit to individuals, businesses, and governments. These

services help finance various activities such as purchasing homes, funding business operations, and supporting infrastructure projects.

Investment services: Financial institutions offer investment options such as brokerage services, mutual funds, retirement accounts, and advisory services to help customers grow their wealth and achieve their financial goals.

Insurance services: Many financial institutions provide insurance products, including life insurance, health insurance, property and casualty insurance, and various types of coverage to protect against unforeseen events and risks.

Payment and transaction services: Financial institutions facilitate the movement of money through various payment systems, such as wire transfers, electronic funds transfers (EFTs), debit cards, and online banking platforms.

Risk management services: Financial institutions help manage risks by providing services such as asset management, hedging strategies, and derivatives trading.

Examples of financial service institutions include commercial banks, credit unions, investment banks, insurance companies, brokerage firms, mutual funds, pension funds, and other entities involved in financial activities.

These institutions are typically regulated by government authorities to ensure stability, consumer protection, and adherence to legal and ethical standards. Regulations vary across countries, but they generally aim to maintain the integrity of the financial system and safeguard the interests of customers and investors.

Financial service institutions are entities that provide various financial services to individuals, businesses, and other organizations. These institutions play a crucial role in the economy by facilitating the flow of funds between savers and borrowers, managing risks, and offering a wide range of financial products and services.

Here are some common types of financial service institutions:

Banks: Banks are the most well-known type of financial institution. They accept deposits from customers and provide loans, mortgages, credit cards, and other financial services. Banks also offer services such as checking and savings accounts, investment management, and financial advisory services.

Credit Unions: Credit unions are member-owned financial cooperatives. They provide similar services to banks, including savings and checking accounts, loans, and mortgages. However, credit unions are typically smaller in scale and may have more localized membership.

Insurance Companies: Insurance companies offer various types of insurance coverage, including life insurance, health insurance, auto insurance, property insurance, and liability insurance. They collect premiums from policyholders and provide financial protection against potential risks.

Investment Firms: Investment firms, including investment banks, brokerage firms, and asset management companies, help individuals and businesses invest their money. They provide services such as investment advice, trading securities, underwriting IPOs (Initial Public Offerings), and managing investment portfolios.

Stock Exchanges: Stock exchanges provide a platform for the buying and selling of stocks and other securities. They facilitate trading and maintain a transparent marketplace for investors and listed companies.

Mutual Funds: Mutual funds pool money from multiple investors and invest it in a diversified portfolio of securities such as stocks, bonds, and other assets. They are managed by professional fund managers and offer investors a way to access diversified investments with relatively small amounts of capital.

Pension Funds: Pension funds manage retirement savings on behalf of employees. They invest the funds to generate returns and provide retirement benefits to employees when they reach their retirement age.

Payment Processors: Payment processors enable the transfer of funds between individuals, businesses, and financial institutions. They provide services such as credit card processing, electronic funds transfers, and online payment solutions.

These are just a few examples of financial service institutions. The financial industry is diverse and includes many other types of institutions that specialize in specific areas, such as private equity firms, venture capital firms, and mortgage lenders.

Financial service institutions play a crucial role in the economy by providing a wide range of services that facilitate economic activities and drive growth. Here are some key contributions of financial service institutions to the economy:

Capital Formation: Financial institutions, such as banks and investment firms, facilitate the flow of funds from savers to borrowers. They help individuals, businesses, and governments raise capital for various purposes, including starting or expanding businesses, investing in infrastructure, and funding research and development. By channeling savings into productive investments, financial institutions promote economic growth.

Credit Provision: Financial institutions provide credit in the form of loans and credit lines to individuals and businesses. This allows borrowers to make large purchases, invest in productive assets, and fund working capital needs. Access to credit promotes consumption, entrepreneurship, and business expansion, which stimulate economic activity and job creation.

Risk Management: Financial service institutions offer various risk management tools that help individuals and businesses mitigate financial risks. Insurance companies provide coverage against potential losses from events such as accidents, natural disasters, or health issues. Additionally, financial institutions offer derivatives and hedging products that allow market participants to manage risks associated with fluctuations in interest rates, exchange rates, and commodity prices.

Payment and Settlement Services: Banks and payment processors enable efficient and secure transactions, both domestically and internationally. Through electronic fund transfers, payment cards, and digital payment platforms, financial institutions facilitate the exchange of goods and services, enhancing economic efficiency and convenience.

Financial Intermediation: Financial institutions act as intermediaries between savers and borrowers, matching the preferences of those with excess funds to invest with those seeking capital. By providing liquidity and efficient allocation of funds, they improve the functioning of financial markets and promote investment and economic growth.

Investment and Wealth Management: Financial institutions offer investment products and wealth management services to individuals and institutional investors. These services include asset management, retirement planning, and investment advisory. By helping individuals and organizations grow their wealth and achieve financial goals, financial institutions contribute to overall economic well-being.

Economic Stability: Financial institutions play a vital role in maintaining economic stability. They monitor and assess risks in the financial system, implement risk management practices, and ensure compliance with regulations. Through prudent lending practices and capital requirements, they promote stability and prevent excessive risk-taking that could lead to financial crises.

Job Creation: The financial services sector is a significant employer, generating a wide range of job opportunities. From banking and insurance to investment banking and asset management, financial institutions create employment across various skill levels, contributing to overall employment and income levels in the economy.

Overall, financial service institutions are critical in promoting economic growth, facilitating financial transactions, managing risks, and providing essential services that support the functioning of the economy as a whole.

Clearing Corporation of India Limited (CCIL)

The Clearing Corporation of India Ltd was established in April 2001 to render guaranteed clearing and settlement functions concerning transactions in G-Secs, money, derivative markets, and foreign exchange.

The establishment of guaranteed clearing and settlement led to substantial advances in transparency, market efficiency, liquidity, and risk management/measuring practices in these markets, along with additional benefits, such as operating risk and reduced settlement, savings with respect to settlement costs, etc.

CCIL also offers a non-guaranteed settlement concerning cross-currency transactions and Rupee interest rate derivatives via CLS Bank.

CCIL's compliance with the stringent principles governing its operations as a Financial Market Infrastructure led to its recognition by Reserve Bank of India as a Qualified Central Counterparty (QCCP) in 2014. It also established a Trade Repository for enabling financial institutions to report their transactions via OTC derivatives.

CCIL is also a trade repository for every OTC transaction in interest rate, Forex, and credit derivative transactions. Portfolio compression is also undertaken on a semi-annual basis for unpaid cleared Forex forward derivative transactions and Rupee Interest Rate Swaps.

CCIL, via its subsidiary Legal Entity Identifiers India Limited, is the Local Operating Unit (LOU) for releasing globally compatible Legal Entity Identifiers (LEIs) in the Indian financial market.

As of today, CCIL is the calculation agent for a few of the big benchmarks utilised by the market under the backing of the Benchmark Administrator, Financial Benchmarks India Limited (FBIL).

CCIL Certification

CCIL obtained certification ISO / IEC 27001:2013 from DNV GL in 2015 to protect its information properties. CCIL, through its publications and website updates, disseminates information and data on CCIL activities and financial markets.

Over the years, CCIL has grown with the rising paradigms of the financial system to take on various positions in the financial industry. With the help of its wholly-owned subsidiary, the Clearcorp Dealing Systems Limited (CDSL), CCIL has launched various platforms for the electronic execution of transactions in different market segments.

Settlement risk

Settlement risk is the risk that arises when payments are not exchanged simultaneously. The simplest case is when a bank makes a payment to a counterparty but will not be recompensed until sometime later; the risk is that the counterparty may default before making the counter payment.

Settlement risk is most pronounced in the foreign exchange markets, where payments in different currencies take place during normal business hours in their respective countries and can therefore be made up to 18 hours apart, and where the volume of payments makes it impossible to monitor receipts except on a delayed basis.

The Clearing Corporation of India Limited (CCIL) plays a crucial role in the settlement of risks in the Indian financial markets. CCIL acts as a central counterparty (CCP) for various segments of the financial markets, including government securities, foreign exchange, money market instruments, and derivative products. Its primary objective is to mitigate counterparty risks and ensure the smooth functioning of the markets.

Settlement of risks refers to the process of eliminating or reducing the potential losses arising from the default or non-performance of market participants. When market participants engage in transactions, there is always a certain level of risk associated with the possibility of one party failing to fulfill its obligations. CCIL's role is to minimize these risks by acting as an intermediary between buyers and sellers, guaranteeing the completion of transactions.

Settlement of risks:

Novation: CCIL employs a novation process, which means that it becomes the buyer to every seller and the seller to every buyer. By inserting itself as the counterparty to each trade, CCIL effectively eliminates the risk of default by individual market participants. In case of a default by one party, CCIL steps in and ensures the completion of the trade, thereby protecting the interests of the non-defaulting party.

Risk Management: CCIL employs robust risk management mechanisms to safeguard against potential losses. It maintains margin requirements, which are funds or securities deposited by market participants to cover potential losses. Margins act as a buffer to absorb losses arising from adverse price movements or default events. CCIL calculates margin requirements based on various risk parameters such as volatility,

liquidity, and historical data. By continuously monitoring these margins, CCIL ensures that market participants maintain adequate collateral to cover their exposures.

Netting: CCIL facilitates multilateral netting, which means that it aggregates the positions and obligations of market participants across multiple transactions and calculates the net amount payable or receivable. Netting reduces the overall settlement obligations, as only the net amounts need to be settled, minimizing the liquidity and credit risks in the system.

Settlement Guarantee Fund: CCIL maintains a Settlement Guarantee Fund (SGF) to further enhance the security of transactions. The SGF is a pool of funds contributed by CCIL's members and serves as a reserve for meeting any losses that may arise due to default or insolvency of a member. The fund acts as a backstop, ensuring that CCIL can fulfill its obligations even in adverse situations.

Real-time monitoring and surveillance: CCIL maintains a robust system for real-time monitoring and surveillance of market activities. It continuously tracks trade positions, collateral requirements, margin calls, and any other relevant parameters. This proactive approach allows CCIL to identify and manage potential risks promptly.

CCIL's role in the settlement of risks involves acting as a central counterparty, employing novation, implementing risk management measures, facilitating multilateral netting, maintaining a Settlement Guarantee Fund, and conducting real-time monitoring. Through these mechanisms, CCIL significantly reduces counterparty risks and contributes to the overall stability and efficiency of the Indian financial markets.

This type of risk afflicted counterparties of Germany's Bank Herstatt in 1974, which closed its doors between receipt and payment on foreign exchange contracts. As a result, settlement risk is sometimes called Herstatt risk.

Risk & Risk Management in Banking Sector

Risk refers to an undesirable or an unplanned event concerning finances that can result in loss of investment or reduced earning. It includes the possibility of losing some or the entire amount of investment. So why do banks take a risk? Well, it is because of the fundamental relationship between risk and return, there is a direct relationship between risk and return. Hence, the greater the risk, the higher the chances of profit. But it is not always the case; hence the risks that the banks take need to be managed well.

Risk Management thus refers to managing the impact of the risks by analyzing, forecasting and making predictions based on the historical trends. It also includes taking corrective measures to reduce the impact of the risks. Financial risks can be in the form of high inflation, volatility in capital markets, recession, volatility, bankruptcy, etc. The magnitude of these risks depends on the type of financial instruments in which an organization or an individual invests.

Types of Risks

The risk may more generally be defined as the possibility of loss either in financial terms or loss of reputation. Considering the relationship between risk

and return, banks are prudent enough to identify, measure and price the risk that they take and also maintain appropriate capital to take care of any unforeseen event. The different types of risk in the banking industry are:

- Liquidity Risk
- Market Risk
- Credit or Default Risk
- Operational Risk

Liquidity Risk

This type of risk arises when an institution is unable to meet its financial commitments or is able to do so only by external borrowing. This may be due to the conversion of assets into NPAs. In the modern banking model, this is the most vulnerable risk that banks are subjected to.

So, how do banks manage liquidity risk? Well, it can be efficiently managed by creating a difference in the timeframe between asset maturity and liability maturity. And then, by ensuring that those differences keep enough funds flowing in the bank to both increase assets and meet obligations when customers ask for their money.

Market Risk

It will not be an understatement to say that banks operate at the whims of the market! Market risk is the risk that stems from the idea that the value of investment might decrease due to changes in factors governing a market. It is also known as a systematic risk because it is related to factors governing the market such as recession that impacts the entire market and not just one industry.

Managing market risk is very crucial in times like today when the market is extremely volatile and unpredictable. The most efficient way to do manage

market risk is by diversification of funds. Ensuring that the assets are held in a wide range of investment options can minimize the market risk.

Credit or Default Risk

Credit or Default Risk is simply the potential of the borrower to fail to meet its obligations in accordance with the signed contract. Loans are the largest and most obvious source of credit or default risk for most banks. Amongst all, this is the most significant risk typically in the Indian banking sector where NPA size is significantly high.

Although this risk can't be avoided, there are certain ways that can help in mitigating the risk. The banks manage this risk mostly by assessing the worthiness of the borrower before sanctioning the loan. A credit score is generated keeping various factors in mind, and on the basis of the score, a loan is sanctioned or suspended.

Operational Risk

Operational Risk is the risk of loss that arises due to breakdown in the internal procedures, people and systems or from external events. It is important to manage operational risk for banks because banks are exposed to a higher volume of global financial interlinkages and a high level of automation is being used in rendering banking and financial services.

The operational risk is managed by adding more internal rules and accountability. Further, adding monitoring programs to identify this risk can also be beneficial to mitigate the impact of operational risk.

CRISIL Ratings

A credit rating represents a rating agency's opinion on the likelihood of the rated debt obligation being repaid in full and on time. This opinion helps stakeholders

comparatively assess investment options and facilitates the issuer's access to funds. Rating agencies assign credit ratings using three rating scales—global, regional and national scale ratings. The essential difference between them is scope: while global scale ratings are assigned based on an assessment of the issuer in relation to other issuers globally, and regional scale ratings are based primarily on credit risk comparisons within a specific region, national scale ratings are based primarily on credit risk comparisons within a domestic context. National scale ratings, including CRISIL Ratings rating, provide superior credit differentiation among issuers/issues within a country by using the sovereign rating as a benchmark. Hence, CRISIL Ratings rating are assigned on a domestic currency scale relative to the sovereign rating of the Government of India, which is assumed to have the highest rating of 'AAA'. A CRISIL Ratings credit rating indicates CRISIL Ratings current opinion on the probability of default on the rated instrument. In other words, the credit rating indicates the probability of an investor in rated instruments, or a lender to a rated firm, not receiving interest and principal payments on time and in accordance with the terms of the rated instrument. This probability is reflected in the form of an easily understandable alphanumeric scale, with ratings such as 'CRISIL AAA', 'CRISIL AA', 'CRISIL A', or 'CRISIL A1', 'CRISIL A2' etc.

Credit ratings are

• Relative measures of default probability, not a guarantee against default: A credit rating does NOT indicate that payment of interest and principal is completely certain. There are definitive non-zero probabilities of default for any rating category including the highest, 'CRISIL AAA'. For example, if the default rate for a rating agency's 'AAA' category is 0.1% in three years, it indicates that out of 1000 'AAA' ratings that the agency has assigned in the past, ONE has defaulted on paying interest or principal

within a period of three years of assigning the rating. The rating indicates that the rated instrument is less likely to default than instruments rated lower.

• Not a comment on the issuer’s general performance, or potential price of its bonds or equity shares, or suitability to the investor: A credit rating is an opinion on an issuer’s ability and willingness to honour its financial obligations on the rated debt instrument on time. The rating should not be construed as an opinion on the issuer’s general performance. Neither is it an opinion on the likely future price of the rated bonds, nor on the potential value of the issuer’s equity shares. A CRISIL Ratings rating is not a recommendation to buy, sell or hold a rated instrument; nor is it a comment on the market price or the suitability of a rated instrument for a particular investor. CRISIL Ratings rating are based on qualitative and quantitative analyses of information provided by issuers or rated firms, or obtained from other sources considered reliable; they do not constitute audits of issuers or rated firms.

• Assigned to debt instruments alone and NOT to equity instruments: Typically, debt instruments such as nonconvertible debentures, partially convertible debentures, bonds, fixed deposits, commercial paper, bank loan facilities, short-term debt, and structured debentures, are rated. Firms issuing these instruments can also be rated on their capacity to service their debt obligations on time. A credit rating indicates the issuer’s ability and willingness to pay interest and principal on time. The rating agency assigns ratings on the basis of its analysis of the business and financial risks associated with the rated firm, and of the firm’s management. The assessment of business risk includes an analysis of the industry the firm operates in (refer to section, ‘Criteria and Methodology’ on the CRISIL website for detailed sector-specific criteria). Once a rating is assigned and accepted, CRISIL Ratings continuously monitors the credit quality of the rated instrument or firm—as reflected in periodic reaffirmations, upgrades, or

downgrades—till such time as the rating is withdrawn. CRISIL Ratings rating may be changed, suspended, withdrawn or placed on rating watch, based on one or more specific events. Accordingly, CRISIL Ratings notifies investors of the same from time to time.

Policy for assigning rating outlooks:

CRISIL Ratings' rating outlooks indicate its views on the potential direction in which a rating is likely to move over a medium-term horizon (defined as six months to two years). SEBI released a circular titled 'Enhanced Standards for Credit Rating Agencies (CRAs)' on November 1, 2016, where it has mandated all CRAs to assign a rating outlook to convey potential direction of rating movement. However, CRISIL Ratings has been using outlooks since 2003—more than a decade prior to the regulator requiring it.

While the rating conveys the most likely scenario of creditworthiness based on the expected future performance of a rated firm, possible alternate scenarios and their impact on creditworthiness drive the outlook. A rating outlook may be 'positive', 'stable' or 'negative'. A positive outlook indicates that the rating may be upgraded; a stable outlook indicates that the rating is likely to remain unchanged, while a negative outlook indicates that the rating may be lowered.

CIBIL: Credit Information Bureau (India) Limited

Established in 2000, TransUnion CIBIL Limited (formerly known as Credit Information Bureau (India) Limited) is India's first Credit Information Company. It collects and maintains credit-related information of individuals and corporates, including loans and credit cards. These records are submitted by member institutions to the credit bureau on a periodic basis. The information is then used by the bureau to create credit

reports and issue credit scores. An important point to be noted is that CIBIL is a database of credit information. The credit bureau does not make any lending decisions. It only provides data to banks and other financial institutions

CIBIL Login Registration Process

The login registration process for individuals and companies is as follows:

CIBIL Registration for Individuals

- Step 1 - Visit CIBIL's credit score section - cibil.com/creditscore. Select the subscription and fill in your basic information like PAN, email address, date of birth and gender. Click on Proceed to Payment.
- Step 2- Make payment towards the subscription. You can use net banking, credit card, debit card or cash card for this purchase.
- Step 3 - Answer questions about your loans and credit cards. The bureau will get in touch with the respective credit organization for collecting information and preparing the credit report. On successful authentication, your personalized credit report and score will be emailed to you by CIBIL.

CIBIL Registration Steps for Companies

- Step 1 - Visit the official website of CIBIL and go to ‘Company Credit Score’ section www.cibil.com/online/Company-credit-report.do
- Step 2 - Fill out necessary details like Company Name, Legal Constitution, Registered Address, etc.
- Step 3 - Make a payment of Rs. 3,000 via credit card, debit card, cash card or net banking
- Step 4 - A unique CIBIL Registration ID and Transaction ID will be mailed to your email address once the payment is processed.
- Step 5 – Upload KYC documents

- Once Step 5 is complete, the CCR and CIBIL Rank will be delivered at the earliest.

What is a Credit Information Report or CIR?

A Credit Information Report or CIR plays a key role in the lender's decision when you apply for credit. It is therefore important to monitor it on a regular basis to ensure that the credit information report is up-to-date and to check for any inaccuracies in your CIR. Your credit score and Credit Information Report is a measure of your credit worthiness.

Your Credit Information Report contains details of your credit history and track record in taking and repaying loans from banks and NBFC's. Credit Bureaus like CIBIL Equifax and Experian consolidate every individual's borrowings, credit history sourced from different member credit institutions such as banks and other NBFC's into a single report called as CIR.

A Credit Information Report (CIR) is a report on past repayment performance as reported by various member banks and financial institutions about an individual. It is important that you monitor your CIR from time to time. There are a number of things you can do to improve your credit profile: It provides information on prompt payment, as well as defaulted payments. The Credit Information Report (CIR) additionally has a list of enquiries made on your account by various member banks / financial institutions/NBFCs for the purpose of approving a credit facility.

What is the use of a Credit Information Report?

As your credit history plays a key role in your ability to obtain credit, it is important to understand the information that is shared by the lenders with a credit information

company also known as credit bureaus. Understanding your credit history enables you to take control of your financial situation. So it is a good idea to keep your CIR updated and correct, as it makes it easier for banks to approve your loans.

Standard & Poor's (S&P)

DEFINITION

Standard & Poor's (S&P) refers to S&P Global, a business intelligence company that provides research and analysis. It's best known for its credit ratings, including S&P bond ratings.

How Standard & Poor's (S&P) Works

The names "Standard" and "Poor" come from two financial companies that merged in 1941. In 2016, the company's name became "S&P Global."[1] S&P Global specializes in providing credit ratings for bonds, countries, and other investments, but that's just one of the many financial market services it offers. The company uses its vast access to data to provide customized analysis and establish market indexes.[2]

The S&P Global credit rating is a credit score that describes the general creditworthiness of a company, city, or country that issues debt.[3] S&P uses the score to rate how likely a company is to meet its financial obligations. The ratings are for informational purposes only and are opinions—they aren't investment recommendations, nor do they predict the probability of default.

S&P also rates the creditworthiness of individual bonds. There are several different types of bonds, all of which vary in their ratios of risk to return. You can use

S&P bond ratings to help you decide whether to buy a bond. They will also give you a sense of how a country's economy is doing, which can help you with other investments like forex trades or foreign stocks.

Fitch Ratings' long-term credit ratings are assigned on an alphabetic scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by S&P. Like S&P, Fitch also uses intermediate +/− modifiers for each category between AA and CCC (e.g., AA+, AA, AA−, A+, A, A−, BBB+, BBB, BBB−, etc.).

Investment grade

- **AAA:** the best quality companies, reliable and stable
- **AA:** quality companies, a bit higher risk than AAA
- **A:** economic situation can affect finance
- **BBB:** medium-class companies, which are satisfactory at the moment

Non-investment grade

- **BB:** more prone to changes in the economy
- **B:** financial situation varies noticeably
- **CCC:** currently vulnerable and dependent on favorable economic conditions to meet its commitments
- **CC:** highly vulnerable, very speculative bonds
- **C:** highly vulnerable, perhaps in bankruptcy or in arrears, but still continuing to pay out on obligations
- **D:** has defaulted on obligations, and Fitch believes that it will generally default on most or all obligations
- **NR:** not publicly rated

CRISIL, or Credit Rating Information Services of India Limited, is a leading global analytics company that provides a wide range of services across various sectors. Established in 1987, CRISIL is headquartered in Mumbai, India, and is recognized for its expertise in credit ratings, research, and risk and policy advisory services.

Here's an elaboration on the range of services offered by CRISIL:

Credit Ratings: CRISIL is primarily known for its credit rating services, where it assesses the creditworthiness of entities such as companies, banks, financial institutions, and government entities. These ratings provide investors and stakeholders with an independent evaluation of credit risk and help them make informed investment decisions.

Research and Analytics: CRISIL offers extensive research and analytical services across various sectors of the economy. Their research reports provide insights into industry trends, market analysis, and economic outlook. They cover a wide range of areas such as banking, insurance, infrastructure, energy, manufacturing, and more. These reports help businesses, investors, and policymakers understand market dynamics and make informed decisions.

Risk Solutions: CRISIL provides risk management solutions to help organizations identify, measure, and mitigate risks. They offer credit risk assessment services, portfolio risk management solutions, and counterparty risk evaluation. These services assist banks, financial institutions, and corporations in managing their risk exposures effectively.

Data and Information Services: CRISIL has a vast database of financial and economic information that enables them to offer data and information services to clients.

They provide access to financial data, industry-specific databases, and economic indicators to facilitate better decision-making and research.

Advisory Services: CRISIL offers advisory services to various stakeholders, including corporates, governments, and regulatory bodies. Their advisory services include policy advisory, risk advisory, and transaction advisory. CRISIL's expert teams provide guidance and support in areas such as infrastructure financing, project evaluations, credit risk management, and policy formulation.

Grading and Assessment Services: CRISIL provides grading and assessment services for various entities and instruments. They offer services like SME ratings, mutual fund rankings, real estate project ratings, and infrastructure project assessments. These services help investors and stakeholders assess the quality and viability of different investment options.

Training and Capacity Building: CRISIL conducts training programs and capacity-building initiatives to enhance skills and knowledge in areas such as credit risk management, financial analysis, and economic research. These programs cater to professionals, students, and organizations seeking to upgrade their expertise.

Overall, CRISIL's comprehensive range of services assists businesses, investors, financial institutions, and governments in making informed decisions, managing risks, and navigating complex market environments. Their expertise in credit ratings, research, and advisory services has established them as a trusted source of information and analysis in the financial and economic landscape.

CRISIL, formerly known as Credit Rating Information Services of India Limited, is a leading credit rating agency in India. It operates through various modes to provide credit ratings, research, risk and policy advisory services. Here are the primary modes of operation for CRISIL:

Credit Ratings: CRISIL assigns credit ratings to entities such as corporations, financial institutions, government bodies, and structured finance products. These ratings help investors and market participants assess the creditworthiness and risk associated with various debt instruments and financial obligations.

Research and Analysis: CRISIL conducts extensive research and analysis on various sectors of the economy, including industry trends, market outlooks, and policy developments. It provides reports, insights, and forecasts to assist businesses, investors, and policymakers in making informed decisions.

Risk Assessment: CRISIL offers risk assessment services to evaluate and quantify risks associated with businesses, projects, and financial instruments. It helps clients identify potential risks, develop risk mitigation strategies, and enhance risk management practices.

Advisory Services: CRISIL provides advisory services to governments, corporations, and financial institutions on a wide range of issues. This includes policy advisory, regulatory consulting, transaction advisory, and financial restructuring services.

Grading and Assessment: CRISIL offers grading and assessment services for various entities and instruments. It provides grading for mutual funds, initial public offerings (IPOs), real estate projects, and small and medium enterprises (SMEs), among others.

Training and Certification: CRISIL conducts training programs and provides certification courses in areas such as credit risk, financial analysis, and risk management. These programs aim to enhance the skills and knowledge of professionals working in the financial industry.

Indices and Benchmarks: CRISIL develops and maintains indices and benchmarks that track the performance of various sectors, asset classes, and investment strategies. These indices serve as reference points for market participants and help in performance measurement and benchmarking.

It's important to note that the specific modes of operation may vary over time as CRISIL evolves and adapts to changing market needs and regulatory requirements.

CIBIL

CIBIL stands for Credit Information Bureau (India) Limited. It is India's first credit information company and one of the leading credit bureaus in the country. CIBIL collects and maintains credit information of individuals and businesses, which is used by lenders to assess the creditworthiness of borrowers.

Here are some key points to elaborate on CIBIL:

Credit Information Company: CIBIL is a credit information company that operates under the regulations and guidelines set by the Reserve Bank of India (RBI) and the Credit Information Companies (Regulation) Act, 2005. It is a specialized institution that focuses on collecting, analyzing, and maintaining credit-related information.

Credit Reports: CIBIL maintains credit reports for individuals and businesses that contain their credit history and payment behavior. These reports are commonly known

as CIBIL reports or credit reports. The information in these reports includes details such as credit accounts, loan repayment history, outstanding balances, defaults, and inquiries made by lenders.

Credit Scores: CIBIL also assigns credit scores to individuals based on their credit history. The credit score is a numerical representation of an individual's creditworthiness and indicates the likelihood of defaulting on loan repayments. CIBIL scores range from 300 to 900, with higher scores indicating better creditworthiness.

Role in Lending Decisions: Lenders, such as banks, financial institutions, and non-banking financial companies (NBFCs), rely on CIBIL reports and credit scores to evaluate the creditworthiness of loan applicants. These reports help lenders make informed decisions on approving or rejecting loan applications and determining the terms and interest rates for approved loans.

Importance of CIBIL Score: A good credit score is essential for individuals seeking credit, such as loans or credit cards. A high CIBIL score indicates a borrower's responsible credit behavior and increases the chances of loan approval with favorable terms. On the other hand, a low credit score may result in loan rejections or higher interest rates.

CIBIL Dispute Resolution: CIBIL provides a mechanism for individuals to dispute any inaccuracies or discrepancies in their credit reports. If a person finds incorrect information in their report, they can raise a dispute with CIBIL to rectify the errors. CIBIL investigates these disputes in coordination with the concerned lender and updates the credit report accordingly.

Impact of Late Payments and Defaults: CIBIL maintains a record of late payments, defaults, and other negative credit events. These factors can significantly

impact an individual's credit score and make it difficult for them to obtain credit in the future. It is important to maintain a good payment history and fulfill credit obligations in a timely manner to avoid negative consequences on creditworthiness.

Consumer Awareness: CIBIL also plays a role in promoting consumer awareness and financial literacy. It educates individuals about the importance of credit scores, credit reports, and responsible borrowing habits. CIBIL conducts workshops, seminars, and awareness campaigns to empower consumers to make informed financial decisions.

CIBIL is a credit information company in India that collects and maintains credit-related information of individuals and businesses. It provides credit reports and credit scores to lenders, which assist them in evaluating the creditworthiness of borrowers. Maintaining a good credit score is crucial for individuals seeking credit, and CIBIL also facilitates dispute resolution and promotes consumer awareness in the credit industry.

CIBIL (Credit Information Bureau (India) Limited) is one of the leading credit bureaus in India. It is responsible for collecting, maintaining, and providing credit-related information of individuals and businesses. The main functions of CIBIL include:

Credit Information Repository: CIBIL maintains a comprehensive database that contains credit information of individuals and businesses. This information includes credit history, loan repayment records, credit card usage, and other relevant details provided by banks and financial institutions.

Credit Reports and Scores: CIBIL generates credit reports and scores based on the information in its database. These reports provide a summary of an individual's credit history, including details of existing and past loans, credit card usage, and

repayment behavior. Credit scores provided by CIBIL help lenders assess the creditworthiness of borrowers and make informed lending decisions.

Risk Assessment: CIBIL assists banks and financial institutions in assessing the credit risk associated with potential borrowers. By analyzing credit reports and scores, lenders can evaluate the likelihood of a borrower defaulting on their payments. This information helps lenders determine whether to approve a loan application and what interest rate to offer.

Fraud Prevention: CIBIL plays a crucial role in fraud prevention by maintaining a record of fraudulent activities and identifying suspicious patterns. It helps lenders identify individuals who may have a history of fraudulent behavior, reducing the risk of financial fraud and defaults.

Dispute Resolution: CIBIL provides a platform for individuals to raise disputes regarding inaccuracies or discrepancies in their credit reports. If a consumer identifies any incorrect information, they can approach CIBIL to rectify it by providing supporting documents. CIBIL investigates the dispute and updates the credit report accordingly.

Data Sharing: CIBIL collaborates with banks, financial institutions, and credit card companies to gather credit-related information. It facilitates the sharing of data between lenders, ensuring that they have access to accurate and up-to-date credit information for making lending decisions.

Overall, CIBIL plays a vital role in the Indian credit ecosystem by providing reliable credit information to lenders, enabling them to make informed decisions while assessing creditworthiness and managing credit risk.

CIBIL - Credit Information

CIBIL, which stands for Credit Information Bureau (India) Limited, is one of the leading credit information companies in India. It is now known as TransUnion CIBIL after it became a subsidiary of TransUnion, a global credit information and insights company.

CIBIL collects and maintains credit-related information of individuals and businesses. It compiles this information into credit reports and credit scores, which help lenders and financial institutions assess the creditworthiness of borrowers. These reports and scores are used to make informed decisions about granting loans, credit cards, and other forms of credit.

Key features of CIBIL include:

Credit Report: CIBIL generates credit reports that provide a detailed summary of an individual's credit history, including their borrowing and repayment behavior, outstanding loans, credit card usage, and any defaults or late payments.

Credit Score: CIBIL assigns a credit score to individuals based on their credit history. The credit score ranges between 300 and 900, with a higher score indicating a stronger credit profile and better chances of obtaining credit at favorable terms.

Credit Information Sharing: CIBIL receives credit-related information from various lenders and financial institutions, including banks, credit card companies, and non-banking financial companies (NBFCs). These entities regularly share data on their customers' credit activities with CIBIL, which helps maintain an updated credit database.

Risk Management: CIBIL assists lenders in managing credit risk by providing insights into the creditworthiness of borrowers. Lenders can access an applicant's credit

report and score to evaluate their repayment capacity and assess the risk involved in extending credit.

Dispute Resolution: In case of any inaccuracies or discrepancies in the credit report, individuals can raise disputes with CIBIL for rectification. CIBIL investigates these disputes and takes necessary action to update the credit report accordingly.

It's worth noting that CIBIL is just one of several credit information companies operating in India. Other credit bureaus include Experian, Equifax, and CRIF High Mark. Lenders may use data from one or more of these bureaus to assess creditworthiness and make lending decisions.

CIBIL – credit assessment

CIBIL (Credit Information Bureau India Limited) is one of the leading credit bureaus in India. It is responsible for maintaining credit-related information of individuals and businesses, and providing credit scores and reports to lenders and borrowers. CIBIL collects and analyzes data from various credit institutions such as banks, financial institutions, and credit card companies to assess an individual's creditworthiness.

CIBIL assesses credit in the following manner:

Credit Information Collection: CIBIL gathers credit-related information from its member institutions on a regular basis. This information includes details about loans, credit cards, repayment history, outstanding balances, and credit limits.

Credit Score Calculation: CIBIL uses the data collected to calculate an individual's credit score, also known as the CIBIL Score. The credit score is a three-digit

numeric summary that represents an individual's creditworthiness. It ranges from 300 to 900, with a higher score indicating better creditworthiness.

Credit Report Generation: Based on the collected data, CIBIL generates credit reports for individuals and businesses. These reports provide a detailed summary of an individual's credit history, including their credit score, credit accounts, payment history, and any defaults or late payments.

Creditworthiness Assessment: Lenders use the credit reports and scores provided by CIBIL to assess the creditworthiness of borrowers. A higher credit score indicates a lower credit risk, making it more likely for individuals to get loan approvals and favorable interest rates.

Factors Affecting CIBIL Credit Score:

a. Payment History: Timely repayment of loans and credit card bills positively impacts the credit score, while defaults or late payments can have a negative effect.

b. Credit Utilization: Maintaining a low credit utilization ratio (the proportion of credit used compared to the available credit limit) is advisable. Higher utilization can indicate credit dependency and affect the score negatively.

c. Credit Mix: A healthy mix of different types of credit, such as loans and credit cards, can positively influence the credit score.

d. Credit Duration: Longer credit history with a good repayment track record is generally considered positive for the credit score.

e. New Credit Applications: Multiple recent credit applications can be viewed as credit-hungry behavior and may negatively impact the credit score.

It's important to note that CIBIL is just one of the credit bureaus in India. Other credit bureaus, such as Experian, Equifax, and CRIF High Mark, also provide credit assessment services and may have slightly different scoring models.

CIBIL, which stands for Credit Information Bureau (India) Limited, is one of the four credit bureaus in India responsible for maintaining credit-related information of individuals and businesses. It plays a crucial role in the Indian financial system by collecting, storing, and providing credit information to its members, which include banks, financial institutions, and non-banking financial companies (NBFCs).

The mechanism of CIBIL involves the following key components:

Credit Information Collection: CIBIL collects credit-related information from various member institutions, including banks, NBFCs, and other lenders. This information includes details about an individual's credit accounts, such as loans, credit cards, repayment history, outstanding balances, and defaults.

Credit Report Generation: Based on the information received from member institutions, CIBIL generates credit reports for individuals and businesses. These reports provide a comprehensive overview of an individual's credit history, including their credit score, which is a numeric representation of their creditworthiness.

Credit Score Calculation: CIBIL calculates credit scores using a proprietary algorithm based on the individual's credit history. The credit score is a three-digit number that ranges from 300 to 900. A higher credit score indicates a lower credit risk, making it more likely for individuals to access credit facilities at favorable terms.

Credit Information Dissemination: CIBIL shares credit reports and credit scores with its member institutions upon request. Lenders use this information to evaluate the creditworthiness of borrowers during the loan approval process. It helps them assess the risk associated with lending money to individuals and determine interest rates, loan amounts, and other terms.

Dispute Resolution: CIBIL provides a mechanism for individuals to dispute any inaccuracies or errors in their credit reports. If someone finds incorrect information on their credit report, they can raise a dispute with CIBIL, which will then investigate the matter and make necessary corrections if required.

It's important to note that CIBIL operates under the guidelines and regulations set by the Reserve Bank of India (RBI) and Credit Information Companies (Regulation) Act, 2005. These regulations ensure the fair and responsible handling of credit information and protect the rights of individuals.

CIBIl -defaulted credit facility

If a credit facility has been defaulted with CIBIL, it means that the borrower has failed to repay the credit obligations as per the agreed terms and conditions, and this default information has been reported to CIBIL (Credit Information Bureau India Limited). CIBIL is one of the four credit bureaus in India that collects and maintains credit information of individuals and businesses.

When a default occurs, it negatively affects the borrower's credit score and creditworthiness. This default information is included in the borrower's credit report, which is used by lenders and financial institutions to assess the risk associated with lending to that individual. A defaulted credit facility can make it challenging for the

borrower to obtain future credit or loans, as lenders may view them as a high-risk borrower.

It's important to note that CIBIL itself does not determine whether a credit facility is in default. Instead, it maintains the credit information provided by member banks and financial institutions. If you have defaulted on a credit facility, it is advisable to contact the lender to discuss repayment options and work towards resolving the default. Over time, by making consistent and timely payments, it is possible to improve your creditworthiness and credit score.

CIBIL - ACCESS TO INFORMATION

Access to CIBIL (Credit Information Bureau India Limited) information is regulated by CIBIL and governed by the Credit Information Companies (Regulation) Act, 2005, and the Credit Information Companies Regulations, 2006.

As an individual, you have the right to access your own credit information report (CIR) from CIBIL. To obtain your CIBIL report, you can follow these steps:

Visit the official CIBIL website (www.cibil.com).

Look for the "Get Your CIBIL Score" or "Get Your Free CIBIL Report" section on the website.

Click on the appropriate link to initiate the request for your CIBIL report.

Fill in the required personal and financial information, including your name, address, PAN (Permanent Account Number), contact details, etc.

Complete the authentication process, which may involve answering security questions based on your credit history.

Once the authentication is successful, you may be able to view and download your CIBIL report.

It's important to note that there may be charges associated with obtaining your CIBIL report, depending on the type of report you choose and the provider you select.

If there any issues or further assistance is required, it's recommended to visit the official CIBIL website or contact CIBIL directly for support.

Credit Information Reports

CIBIL (Credit Information Bureau (India) Limited) is a credit information company in India that provides credit information reports (CIR) and credit scores to individuals and businesses. It is one of the leading credit bureaus in India and plays a significant role in the country's financial ecosystem.

CIBIL collects and maintains credit information of individuals and companies from various financial institutions, such as banks, non-banking financial companies (NBFCs), and other lending institutions. This information includes details about an individual's credit history, loan accounts, repayment behavior, credit limits, and defaults, among other relevant data.

Credit Information Reports (CIRs) from CIBIL contain a credit score, also known as the CIBIL score, which ranges from 300 to 900. This score represents an individual's creditworthiness and is an important factor considered by lenders when evaluating loan

or credit card applications. A higher credit score indicates a better credit profile and increases the likelihood of obtaining credit on favorable terms.

Lenders, including banks and other financial institutions, typically access CIBIL reports to assess an individual's creditworthiness and determine the risk associated with lending to them. Having a good credit score and a positive credit history can improve the chances of getting approved for loans, credit cards, and other forms of credit at competitive interest rates.

It is important for individuals to monitor their CIBIL report regularly to ensure accuracy and identify any discrepancies or errors that might negatively impact their credit profile. In case of any discrepancies, individuals can approach CIBIL for rectification by following the established dispute resolution process.

Discount and Finance House of India Ltd. (DFHI)

Discount and Finance House of India Ltd. (DFHI) was a specialized financial institution in India. However, please note that my training data only goes up until September 2021, and I don't have access to real-time information. As of my last knowledge update, DFHI was operating as a primary dealer in government securities in India.

DFHI was incorporated in 1988 and was jointly promoted by the Reserve Bank of India (RBI), Industrial Development Bank of India (IDBI), Unit Trust of India (UTI), and other financial institutions. Its primary objective was to facilitate the development of the Indian money market and government securities market.

DFHI played a crucial role in the management of the government's borrowing program and acted as an intermediary between the government and market

participants. It undertook various activities such as buying, selling, holding, underwriting, and dealing in government securities. Additionally, DFHI provided services like repo operations, treasury bills auctions, and money market instruments.

The Discount and Finance House of India (DFHI) was a specialized financial institution in India that operated as a primary dealer in government securities and provided short-term funding and liquidity management services. It played a crucial role in the Indian money market and government debt management.

The main functions of the Discount and Finance House of India were as follows:

Primary Dealer in Government Securities: DFHI acted as a primary dealer in government securities, meaning it participated in the primary market auctions conducted by the Reserve Bank of India (RBI) for the issuance of government securities. It purchased government securities directly from the RBI and facilitated their distribution to other market participants such as banks, financial institutions, and investors.

Money Market Operations: DFHI engaged in money market operations to manage short-term liquidity in the banking system. It offered short-term funding to banks and financial institutions through instruments like Treasury Bills, Commercial Papers, and Certificates of Deposit. These instruments helped the banking system to meet their short-term funding requirements.

Liquidity Support: DFHI provided liquidity support to the banking system by offering various liquidity management tools. It conducted repo operations, whereby it bought government securities from banks with an agreement to sell them back at a future date. This allowed banks to raise short-term funds by temporarily selling their securities to DFHI.

Secondary Market Operations: DFHI actively participated in the secondary market for government securities, buying and selling government securities to enhance market liquidity. It played a vital role in maintaining a liquid and efficient secondary market for government bonds.

Market Making: DFHI acted as a market maker in government securities, providing two-way quotes (buy and sell) to market participants. This facilitated smooth trading and enhanced market liquidity.

Treasury Management: DFHI managed its own treasury operations to optimize its investment portfolio and balance its assets and liabilities. It utilized its expertise in money market operations and government securities to generate returns on its investments.

ICRA

An investment information and credit rating agency is an organization that provides various services related to investment analysis and credit risk assessment. Its primary functions include:

Investment Research: These agencies conduct in-depth research on various investment opportunities such as stocks, bonds, mutual funds, and other financial instruments. They analyze the performance, financial health, industry trends, and other factors that can affect the investment's potential return.

Credit Rating: One of the crucial functions of these agencies is to assess the creditworthiness of individuals, companies, and governments. They evaluate the credit risk associated with borrowing entities and assign credit ratings, which reflect the likelihood of timely repayment of debts. These ratings are used by investors, lenders, and regulators to make informed decisions.

Risk Assessment: Investment information and credit rating agencies evaluate the overall risk profile of investments and credit instruments. They assess factors such as market risk, liquidity risk, default risk, and other relevant indicators to provide insights into the risk levels associated with specific investments or credit products.

Due Diligence: These agencies often perform due diligence on behalf of investors or lenders to assess the credibility and financial stability of potential investment targets or borrowers. This includes reviewing financial statements, analyzing business models, evaluating management teams, and conducting background checks.

Industry and Economic Analysis: Investment information agencies provide analysis and insights into specific industries or sectors. They assess the competitive landscape, regulatory environment, market trends, and macroeconomic factors to help investors understand the prospects and risks associated with particular sectors.

Advisory Services: Many investment information and credit rating agencies offer advisory services to their clients. These services may include investment recommendations, portfolio analysis, credit risk management strategies, and other tailored advice to help clients make informed financial decisions.

Transparency and Disclosure: These agencies play a significant role in promoting transparency and disclosure in financial markets. They provide independent assessments and opinions, which help investors and stakeholders make more informed

choices. By disclosing information and rating methodologies, they strive to enhance market efficiency and reduce information asymmetry.

Overall, investment information and credit rating agencies act as intermediaries between investors and borrowers, providing reliable and independent analysis and assessments to support investment decision-making and credit risk management. Their functions are crucial in maintaining the integrity and stability of financial markets.

Investment Information and Credit Rating Agencies play important roles in the financial industry.

Here are some key roles they perform:

Credit Rating: One of the primary roles of these agencies is to assign credit ratings to issuers of debt securities, such as governments, corporations, and financial institutions. These ratings assess the creditworthiness and ability of the issuer to meet its financial obligations. Credit ratings provide valuable information to investors and help them make informed decisions about investing in bonds, commercial paper, or other debt instruments.

Risk Assessment: These agencies assess and quantify the credit risk associated with different debt instruments. They evaluate factors such as the issuer's financial stability, repayment history, industry trends, and economic conditions to determine the level of risk involved. This risk assessment helps investors understand the potential for default and price their investments accordingly.

Investor Information: Investment information agencies collect and analyze vast amounts of data and provide it to investors. This information includes financial statements, industry reports, economic indicators, and other relevant data that help

investors make informed investment decisions. By disseminating reliable information, these agencies contribute to market transparency and efficiency.

Regulatory Compliance: Credit rating agencies often play a critical role in regulatory frameworks. Regulators may rely on credit ratings to determine capital requirements, risk weighting, and other regulatory measures for financial institutions. These agencies must adhere to specific standards and guidelines set by regulatory authorities to ensure the accuracy and integrity of their ratings.

Research and Analysis: Investment information agencies conduct research and analysis on various financial markets, sectors, and investment opportunities. They generate reports, forecasts, and recommendations that help investors understand market trends, identify potential risks and opportunities, and make strategic investment decisions.

Due Diligence: These agencies perform due diligence on behalf of investors, lenders, or other stakeholders. They assess the creditworthiness and financial health of potential investment targets, borrowers, or counterparties. This involves analyzing financial statements, evaluating business models, conducting background checks, and assessing risks to provide an objective assessment of the entity's creditworthiness.

Advisory Services: Investment information and credit rating agencies may offer advisory services to clients. They provide customized recommendations, investment strategies, and risk management solutions based on the client's specific needs and investment objectives. These advisory services can range from asset allocation guidance to portfolio optimization strategies.

Market Oversight and Surveillance: These agencies monitor financial markets, identify emerging risks, and provide early warning signals to investors and regulators.

They play a crucial role in detecting market anomalies, potential fraud, or misrepresentation of financial information. By promoting market integrity and transparency, they contribute to maintaining market stability.

Overall, investment information and credit rating agencies provide essential services to investors, issuers, and regulators by assessing credit risk, providing reliable information, conducting research, and offering advisory services. Their roles are vital in facilitating efficient capital allocation, promoting transparency, and supporting informed decision-making in the financial markets.

Moody's Investor Service:

Moody's Investor Service is a leading global credit rating agency that provides independent credit ratings, research, and risk analysis. It was established in 1909 and has grown to become one of the most recognized and respected credit rating agencies in the world.

Moody's is one of the leading global credit rating agencies, providing credit ratings, research, and risk analysis. They assess the creditworthiness of issuers of debt securities and assign ratings that reflect the agency's opinion of the issuer's ability to meet its financial obligations. Moody's ratings are widely used by investors, banks, and other financial institutions to evaluate investment risks. Moody's ratings range from AAA (highest quality) to C (lowest quality), with additional modifiers and outlooks to provide further information about credit risk.

Moody's assigns credit ratings to issuers of debt securities, such as governments, corporations, and other entities, to assess their creditworthiness and ability to fulfill their financial obligations. These ratings are based on a comprehensive

analysis of various factors, including financial performance, industry trends, economic conditions, and management quality.

Moody's ratings are represented by a combination of letters and numbers. The highest-quality rating is "AAA," indicating a low credit risk, followed by "AA," "A," "BAA," and so on. Ratings below "BAA" are considered non-investment grade or speculative grade, often referred to as "junk" or "high-yield" ratings.

In addition to credit ratings, Moody's also provides research and analysis on various financial markets, sectors, and economic trends. They offer insights and perspectives on credit risk, industry outlooks, and potential risks and opportunities for investors.

Moody's ratings are widely used by investors, financial institutions, and governments to assess credit risk and make informed investment decisions. The ratings impact borrowing costs, as higher-rated issuers typically enjoy lower interest rates due to their perceived lower credit risk. Conversely, lower-rated issuers may face higher borrowing costs due to their higher credit risk.

However, it's important to note that credit ratings are opinions and not guarantees of future performance. Investors should consider various factors and conduct their own analysis before making investment decisions.

Standard and Poor

Standard & Poor's (S&P):

S&P is another major credit rating agency that provides credit ratings, research, and analysis. S&P assesses the creditworthiness of issuers in a similar manner to Moody's and assigns ratings based on the agency's evaluation of the issuer's credit risk. S&P ratings are widely used by investors and market participants as a benchmark for evaluating credit risk. S&P's ratings range from AAA (highest quality) to D (default), with plus (+) and minus (-) modifiers to further differentiate credit quality within each rating category.

Standard & Poor's (S&P) is a renowned global credit rating agency that provides independent credit ratings, research, and analysis. It was founded in 1860 and has since become one of the leading providers of credit ratings and financial market intelligence.

S&P assigns credit ratings to issuers of debt securities, including governments, corporations, and other entities. These ratings reflect S&P's assessment of the issuer's creditworthiness and their ability to meet their financial obligations. S&P's ratings are widely used by investors, financial institutions, and governments to evaluate credit risk.

S&P's credit ratings are represented by a combination of letters and symbols. The highest-quality rating is "AAA," indicating an extremely low credit risk. It is followed by "AA," "A," "BBB," and so on. Ratings below "BBB" are considered non-investment grade or speculative grade, commonly referred to as "junk" or "high-yield" ratings.

Apart from credit ratings, S&P offers a range of research, market intelligence, and analytical services. They provide insights and analysis on various sectors,

industries, and financial markets. S&P's research helps investors and market participants make informed decisions by offering assessments of credit risk, industry trends, economic indicators, and other relevant factors.

S&P's credit ratings influence borrowing costs for issuers, as higher-rated entities tend to receive lower interest rates on their debt issuances due to their perceived lower credit risk. On the other hand, lower-rated entities may face higher borrowing costs as compensation for their higher credit risk.

However, it's important to remember that credit ratings are opinions based on available information and analysis at a specific point in time. They are not guarantees of future performance, and investors should conduct their own due diligence and consider multiple factors before making investment decisions.

Both Moody's and S&P play a crucial role in the financial markets by providing independent evaluations of credit risk.

Their ratings are widely used as benchmarks and tools for risk assessment, aiding investors and market participants in their decision-making processes.

Their ratings help investors make informed decisions about investing in bonds, loans, and other debt securities. Additionally, their assessments also influence borrowing costs for companies and governments, as higher credit ratings typically lead to lower interest rates on debt issuances.

It's important to note that credit ratings are opinions provided by these agencies and are subject to their methodologies and criteria. While they are widely respected, they are not infallible, and their ratings are based on the information available at the

time of assessment. Investors should conduct their own analysis and consider multiple factors when making investment decisions.

Fitch Ratings

Fitch Ratings is another prominent global credit rating agency that provides independent credit opinions, research, and analysis. Established in 1914, Fitch is known for its expertise in assessing creditworthiness and providing ratings for various entities, including governments, corporations, financial institutions, and structured finance.

Fitch assigns credit ratings to issuers of debt securities, similar to Moody's and Standard & Poor's, to evaluate their credit risk and ability to fulfill their financial obligations. Fitch's ratings are represented by a combination of letters and symbols, with the highest-quality rating being "AAA" and the lowest rating being "D" for default.

In addition to credit ratings, Fitch provides research, analysis, and commentary on various sectors, regions, and market trends. Their insights help investors and market participants better understand credit risks, industry dynamics, and potential investment opportunities.

Fitch's ratings are widely used by investors, financial institutions, and governments to assess credit risk and make informed investment decisions. Similar to Moody's and S&P, Fitch's ratings impact borrowing costs, as higher-rated issuers generally enjoy lower interest rates on their debt securities, while lower-rated issuers may face higher borrowing costs.

It's important to note that credit ratings provided by Fitch, as well as other credit rating agencies, are opinions based on available information and analysis. They reflect the agency's assessment of credit risk but do not guarantee future performance or outcomes. Investors should conduct their own research, consider multiple factors, and exercise due diligence when making investment decisions.

Fitch Ratings, along with Moody's Investor Service and Standard & Poor's, are widely recognized and respected credit rating agencies that provide important insights and assessments of credit risk to the global financial markets. Their ratings and research serve as valuable tools for investors, issuers, and other market participants.

OTCEI

OTCEI stands for Over-The-Counter Exchange of India. It was a stock exchange in India that was established in 1990. The purpose of OTCEI was to provide a trading platform for small and medium-sized companies that were unable to meet the listing requirements of the main stock exchanges in India, such as the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

OTCEI operated as a decentralized exchange where trading took place through a network of brokers. It allowed companies to raise capital by issuing shares and listing them on the exchange. The exchange provided transparency, liquidity, and a regulated environment for trading, which was especially beneficial for smaller companies.

The OTCEI (Over-The-Counter Exchange of India) performed several functions during its operational period. Here are the key functions of OTCEI:

Listing and Trading Platform: OTCEI provided a platform for small and medium-sized companies to list their shares and raise capital. It allowed these companies to go public and access the capital markets without having to meet the stringent listing requirements of the main stock exchanges like the BSE and NSE.

Capital Formation: OTCEI facilitated capital formation by enabling companies to issue new shares and raise funds from investors. This provided opportunities for small and medium-sized enterprises (SMEs) to access the equity market and secure capital for growth and expansion.

Market Making: OTCEI acted as a market maker by facilitating trading in the listed securities. It provided a transparent and regulated trading environment where buyers and sellers could come together to execute transactions. The exchange ensured fair pricing, efficient settlement, and proper regulation of trading activities.

Investor Protection: OTCEI played a role in safeguarding investor interests. It enforced listing and disclosure requirements, ensuring that companies provided accurate and timely information to investors. It also had regulations in place to prevent fraudulent practices and promote transparency in trading.

Research and Development: OTCEI focused on promoting research and development in the securities market. It aimed to introduce new trading technologies and innovative financial products to enhance the efficiency and competitiveness of the Indian capital markets.

Investor Education: OTCEI conducted investor education programs to increase awareness and understanding of the stock market among investors. It aimed to

empower investors with knowledge and skills to make informed investment decisions and mitigate risks.

However, over time, the popularity of OTCEI declined, and it faced various challenges. The lack of participation from institutional investors and the limited number of listed companies affected its trading volumes and liquidity. In addition, the emergence of other stock exchanges with more relaxed listing requirements, such as the SME Exchange of the BSE, further reduced the relevance of OTCEI.

NSDL stands for National Securities Depository Limited. It is the first and largest central securities depository (CSD) in India. NSDL was established in 1996 as a depository for securities, primarily to address the challenges and inefficiencies associated with physical securities and paper-based transactions.

Here are the key functions and services provided by NSDL:

Dematerialization: NSDL facilitates the dematerialization of physical securities, converting them into electronic form. This process eliminates the need for physical share certificates and enables electronic transfer and settlement of securities.

Account Opening: NSDL provides a platform for investors to open demat accounts through its participants, known as Depository Participants (DPs). These DPs, including banks, stockbrokers, and financial institutions, offer demat account services to investors and facilitate transactions in electronic securities.

Safekeeping of Securities: NSDL acts as a custodian for electronic securities held in demat accounts. It maintains records of ownership and facilitates the transfer of securities between demat accounts, ensuring the safekeeping and integrity of securities.

Settlement Services: NSDL enables the settlement of trades conducted on stock exchanges in electronic form. It facilitates the transfer of securities and funds between buyer and seller accounts, ensuring smooth and efficient settlement processes.

Corporate Actions: NSDL supports the execution of corporate actions such as dividends, bonus issues, rights issues, and other corporate events. It ensures that the entitlements and benefits resulting from these actions are appropriately credited to the demat accounts of investors.

E-Voting: NSDL provides e-voting services for shareholders of companies. It enables shareholders to cast their votes electronically on resolutions proposed by companies, thereby enhancing shareholder participation and corporate governance.

Other Services: NSDL offers additional services such as pledge and hypothecation of securities, initial public offering (IPO) application services, and various value-added services through its network of DPs.

NSDL has played a crucial role in the development and modernization of the Indian securities market by promoting dematerialization, improving efficiency, and reducing settlement risks. It has significantly contributed to the growth and integration of the Indian capital market.

STCI

STCI stands for Securities Trading Corporation of India Limited. It is a financial institution in India that primarily operates in the fixed income market and provides

various services related to debt securities. Here are the key aspects and functions of STCI:

Debt Market Activities: STCI is involved in trading and dealing in a wide range of debt instruments, including government securities, corporate bonds, treasury bills, commercial papers, and other money market instruments. It operates as a market intermediary and facilitates transactions in the debt market.

Market Making: STCI acts as a market maker for debt securities, providing liquidity and facilitating trading between buyers and sellers. It helps maintain an active secondary market for debt instruments, ensuring smooth trading and price discovery.

Bond Issuance and Underwriting: STCI assists in the issuance of debt securities by acting as an underwriter or co-underwriter. It works with issuers to structure and price bond offerings and helps in the placement and distribution of these securities to investors.

Debt Syndication: STCI offers debt syndication services, where it assists corporations, financial institutions, and government entities in raising funds through debt instruments. It helps in structuring and arranging debt issues, identifying potential investors, and coordinating the syndication process.

Debt Advisory Services: STCI provides advisory services to clients regarding their debt-related requirements. It offers expertise in debt restructuring, debt portfolio management, interest rate risk management, and other debt-related strategies.

Research and Market Intelligence: STCI conducts research and analysis on the debt market, macroeconomic factors, and trends impacting the fixed income segment. It

provides market insights, reports, and recommendations to clients, assisting them in making informed investment decisions.

Government Securities Auctions: STCI participates in auctions conducted by the Reserve Bank of India (RBI) for government securities. It acts as a primary dealer, bidding for and trading in government bonds on behalf of its clients.

STCI plays a significant role in the development and functioning of the debt market in India. It acts as an intermediary, providing liquidity, market-making services, and expertise in debt instruments.

UNIT-V

Financial Institutions–meaning – special characteristics – money market institutions – capital market institutions – cooperative banking institutions –**National Housing Bank** – functions and working – **EXIM bank of India** – functions and working – NABARD – functions and working – RBI – functions and working – NBFCs – FIIs – role and danger – IMF – World Bank – IFC – ADB – Stock exchange – meaning – functions traders – role of SEBI – stock trading – regulatory framework – Insider trading – speculation – Investor protection – listing – SBI – functions and working

UNIT V

FINANCIAL INSTITUTIONS

A financial institution is defined as an organization that is dedicated to offering **financial services.** It carries out banking activities of financial intermediation, insurance, investment in securities, and others.

Financial institutions can provide services to natural or legal persons and their profits are based on commissions, interests, or rates that they charge for the activities they carry out.

For a financial institution to take place, there must first be a financial system in which it can act, **mediating** between those who have **savings** units (lenders) and those who have **consumption** units (borrowers).

Characteristics of a financial institution

The main characteristics of a financial institution are the following:

- Financial institutions are usually **strictly regulated**, this is due to the sensitivity of their functions and the problems that poor management of financial institutions can generate for a country (bankruptcy of a bank, for example).
- There is **little differentiation.** The financial services offered by the institutions are usually very similar to each other, which is why they compete in the interest rate and the commissions they charge (although these are also usually regulated).
- They add great value to the economy. The intermediation activity solves a great problem of inefficiency in the markets, by managing to **satisfy the demand of those who require financing**.

Functions of a financial institution

Financial institutions have passive and active functions.
passive

- **Receive money deposit**: people can deposit their money in a bank account, which can be saved or current.
- **They issue and place shares issued to increase capital**: The issue of shares is a mechanism used by companies to finance themselves. This issuance is made through financial institutions, which can also issue their own shares.
- They issue and place mortgage bonds and debt in order to cover financing needs.
- They can contract credits with **the Central Bank** of the country or with other financial institutions of the country or abroad.

Active

- **Granting credits**: when granting the financing, they charge an interest rate that represents their profit.
- **Make transfers**: carry out operations with other financial institutions.
- Maintain **creditor debit card** operations of people who have accounts in the institution.
- Carry out **currency exchange operations**: they can buy or sell one currency in exchange for another (Forex).
- Carry **out operations with financial assets**: they can buy titles in the stock market, gold, silver, or precious metals (they are generally titles backed by these values).

Types of financial institutions

Financial institutions can be credit or investment services and insurance activities.
credit institutions

Credit institutions are those capable of **receiving funds from those who have surplus savings and lending them to those who have a deficit** of said funds, with the promise of paying them to those who are lending the money.

Credit institutions carry out activities such as granting loans or mortgages, providing payment services, debit or credit cards or checks, advising companies on capital structure, mergers or acquisitions, participating in the issuance of securities, renting safe deposit boxes, etc.

Their services are very varied and are usually based on **financial intermediation**. Therefore, financial credit institutions are those that intervene in the market with the aim of **matching deficits with surpluses**, obtaining a profit from this intermediation.

Financial institutions refer to entities that provide various financial services and play a crucial role in the financial system. These institutions facilitate the flow of funds between individuals, businesses, and governments, enabling the efficient allocation of capital. They offer a wide range of services, including borrowing, lending, investing, and safeguarding money.

The functions of financial institutions can be broadly categorized into the following:

Intermediation: Financial institutions act as intermediaries by connecting borrowers and lenders. They accept deposits from individuals and businesses and use those funds to provide loans and credit to borrowers. This intermediation function helps

channelize funds from surplus units (those with excess funds) to deficit units (those in need of funds).

Depository Services: Banks and credit unions are examples of financial institutions that offer depository services. They provide safekeeping for individuals' and businesses' money through current accounts, savings accounts, and certificates of deposit (CDs). These institutions also offer payment services, such as issuing debit and credit cards and facilitating electronic fund transfers.

Lending and Credit: Financial institutions provide loans and credit to individuals, businesses, and governments. They evaluate borrowers' creditworthiness, set interest rates, and disburse funds for various purposes, such as purchasing homes, financing businesses, or funding infrastructure projects. These institutions help stimulate economic growth by providing access to capital.

Investment Services: Financial institutions, such as investment banks, asset management firms, and mutual funds, offer investment services. They assist individuals and organizations in investing their funds in various assets, such as stocks, bonds, mutual funds, real estate, and commodities. These institutions provide investment advice, portfolio management, and brokerage services.

Risk Management: Financial institutions play a crucial role in managing and mitigating risks associated with financial transactions. They provide insurance services to individuals and businesses to protect against potential losses due to unforeseen events, such as accidents, natural disasters, or liabilities. Additionally, they engage in risk management activities, such as hedging, diversification, and underwriting, to minimize the impact of financial risks.

Payment Systems: Financial institutions facilitate payment transactions by providing payment processing services. They operate payment networks, issue payment instruments (e.g., checks, credit cards), and offer electronic payment solutions (e.g., online banking, mobile payments). These services ensure the smooth and efficient transfer of funds between parties.

Financial Advisory Services: Many financial institutions offer advisory services to individuals and businesses. They provide financial planning, investment advice, tax planning, and retirement planning services. These institutions help clients make informed financial decisions and achieve their financial goals.

Overall, financial institutions play a vital role in the economy by mobilizing savings, allocating capital efficiently, facilitating transactions, and managing risks. They provide the necessary infrastructure and services to support economic growth and stability.

Money Market

The money market is a market for short-term instruments that are close substitutes for money. The short term instruments are highly liquid, easily marketable, with little change of loss. It provides for the quick and dependable transfer of short term debt instruments maturing in one year or less, which are used to finance the needs of consumers, business agriculture and the government. The money market is not one market but is “a collective name given to the various form and institutions that deal with the various grades of near money.”

Institutions of the Money Market:

The various financial institutions which deal in short term loans in the money market are its members. They comprise the following types of institutions:

1. Central Bank:

The central bank of the country is the pivot around which the entire money market revolves. It acts as the guardian of the money market and increases or decreases the supply of money and credit in the interest of stability of the economy. It does not itself enter into direct transactions, but controls the money market through variations in the bank rate and open market operations.

Central banks, such as the Federal Reserve in the United States or the European Central Bank, act as the monetary authority and oversee the stability of the money market. They play a crucial role in managing interest rates and providing liquidity to banks and other financial institutions.

2. Commercial Banks:

Commercial banks also deal in short-term loans which they lend to business and trade. They discount bills of exchange and treasury bills, and lend against promissory notes and through advances and overdrafts.

Commercial banks offer a wide range of financial services, including money market accounts, certificates of deposit (CDs), and short-term loans. They play a crucial role in providing liquidity and credit to various market participants.

3. Non-bank Financial Intermediaries:

Besides the commercial banks, there are non-bank financial intermediaries which lend short-term funds to borrowers in the money market. Such financial intermediaries are savings banks, investment houses, insurance companies, provident funds, and other financial corporations.

4. Discount Houses and Bill Brokers:

In developed money markets, private companies operate discount houses. The primary function of discount houses is to discount bills on behalf of other. They, in turn, form the commercial banks and acceptance houses. Along-with discount houses, there are bill brokers in the money market who act as intermediaries between borrowers and lenders by discounting bills of exchange at a nominal commission. In underdeveloped money markets, only bill brokers operate.

5. Acceptance Houses:

The institution of acceptance houses developed from the me change bankers who transferred their headquarters to the London Money Market in the 19th and the early 20 the century. They act as agents between exporters and importers and between lender and borrower traders. They accept bills drawn on merchants whose financial standing is not known in order to make the bills negotiable in the London Money Market. By accepting a trade bill they guarantee the payment of bill at maturity. However, their importance has declined because the commercial banks have undertaken the acceptance business.

6. Savings and Loan Associations: Savings and loan associations (S&Ls), also known as thrift institutions, primarily focus on accepting deposits and providing mortgage loans. They often offer money market accounts and CDs as part of their product offerings.
7. Credit Unions: Credit unions are member-owned financial cooperatives that provide banking services to their members. They typically offer money market accounts with competitive interest rates and low fees.

Credit unions have the purpose of promoting thrift, providing credit at reasonable rates, and providing other financial services to its members.[7] Its members are usually required to share a common bond, such as locality, employer, religion or profession,

and credit unions are usually funded entirely by member deposits, and avoid outside borrowing. They are typically (though not exclusively) the smaller form of cooperative banking institution. In some countries they are restricted to providing only unsecured personal loans, whereas in others, they can provide business loans to farmers, and mortgages.

8. Money Market Mutual Funds: Money market mutual funds (MMMFs) are investment funds that invest in short-term debt securities, such as Treasury bills, commercial paper, and certificates of deposit. They allow investors to pool their funds to achieve greater diversification and access to money market instruments.
9. Brokerage Firms: Brokerage firms offer various financial services, including money market accounts and sweep accounts. These accounts often provide easy access to cash while earning some interest.
10. Government-Sponsored Enterprises: Government-sponsored enterprises (GSEs), such as Fannie Mae and Freddie Mac, play a significant role in the money market. They issue short-term debt securities to fund their operations and provide liquidity to the mortgage market.

Money market institutions are financial institutions that specialize in short-term lending and borrowing, as well as other money market instruments. They provide a range of services that help facilitate liquidity and short-term funding for individuals, businesses, and governments.

These institutions play an essential role in maintaining stability and liquidity in the money market, allowing for efficient short-term borrowing and lending among various market participants.

All these institutions which comprise the money market do not work in isolation but are interdependent and interrelated with each other.

Capital market institutions are organizations and entities that facilitate the flow of capital between investors and borrowers in the financial markets. These institutions play a crucial role in the functioning of the capital market by providing a platform for buying and selling financial securities, raising capital for businesses, and managing investment portfolios. Here are some examples of capital market institutions:

Stock Exchanges: Stock exchanges are the primary platforms where stocks and other securities are traded. They provide a regulated marketplace for buyers and sellers to exchange shares of publicly traded companies.

Brokerage Firms: Brokerage firms act as intermediaries between investors and the stock exchanges. They facilitate the buying and selling of securities on behalf of their clients and provide various financial services, including investment advice, research, and portfolio management.

Investment Banks: Investment banks specialize in providing financial services to corporations and institutional clients. They assist in raising capital through activities like underwriting initial public offerings (IPOs) and issuing debt securities. Investment banks also offer advisory services for mergers and acquisitions, restructurings, and other corporate finance transactions.

Mutual Funds: Mutual funds pool money from multiple investors to invest in a diversified portfolio of securities, such as stocks, bonds, and money market instruments. They are managed by professional fund managers who make investment decisions on behalf of the investors.

Pension Funds: Pension funds are long-term investment funds established by employers, labor unions, or governments to provide retirement benefits to employees.

These funds invest in a wide range of assets, including stocks, bonds, real estate, and alternative investments, aiming to generate returns over the long term.

Insurance Companies: Insurance companies not only provide coverage for risks but also invest the premiums collected in various financial instruments. They often have significant capital market operations, investing in stocks, bonds, and other assets to generate returns that can meet their insurance obligations.

Hedge Funds: Hedge funds are privately managed investment funds that pool capital from accredited or high-net-worth individuals and institutional investors. They typically employ more sophisticated investment strategies and have more flexibility compared to traditional investment funds.

Clearinghouses: Clearinghouses provide post-trade services to ensure the smooth settlement of securities transactions. They act as intermediaries between buyers and sellers, guaranteeing the financial performance of trades and reducing counterparty risk.

These institutions, along with regulatory bodies and other participants, form the infrastructure of the capital market, enabling the efficient allocation of capital and fostering economic growth.

Cooperative banks

Cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote. Co-operative banks are often regulated under both

banking and cooperative legislation. They provide services such as savings and loans to non-members as well as to members, and some participate in the wholesale markets for bonds, money and even equities.[6] Many cooperative banks are traded on public stock markets, with the result that they are partly owned by non-members. Member control can be diluted by these outside stakes, so they may be regarded as semi-cooperative.

Cooperative banking systems are also usually more integrated than credit union systems. Local branches of co-operative banks select their own boards of directors and manage their own operations, but most strategic decisions require approval from a central office. Credit unions usually retain strategic decision-making at a local level, though they share back-office functions, such as access to the global payments system, by federating.

Some cooperative banks are criticized for diluting their cooperative principles. Principles 2-4 of the "Statement on the Co-operative Identity" can be interpreted to require that members must control both the governance systems and capital of their cooperatives. A cooperative bank that raises capital on public stock markets creates a second class of shareholders who compete with the members for control. In some circumstances, the members may lose control. This effectively means that the bank ceases to be a cooperative. Accepting deposits from non-members may also lead to a dilution of member control.

Cooperative banking institutions, also known as co-operative banks or simply co-ops, are financial institutions that are owned and operated by their members. These institutions are based on the principles of cooperative movement, where individuals with similar needs and interests come together to achieve common goals. Cooperative banks differ from traditional commercial banks in their ownership structure, decision-making processes, and focus on community development.

Here are some key features and characteristics of cooperative banking institutions:

Ownership: Cooperative banks are owned by their members, who are typically customers of the bank. Each member has an equal say in the bank's operations, regardless of the amount of money they have deposited. The principle of "one member, one vote" ensures democratic decision-making.

Purpose: The primary objective of cooperative banks is to serve their members' financial needs and promote their economic interests. They aim to provide accessible and affordable banking services, particularly to individuals and communities who may be underserved by traditional banks.

Focus on Local Communities: Cooperative banks often have strong ties to the communities they serve. They prioritize local economic development and reinvest profits into the community through loans, grants, and other initiatives. Their goal is to promote sustainable and inclusive growth.

Member Benefits: Members of cooperative banks benefit from the institution's services, such as savings accounts, loans, mortgages, and other financial products. Cooperative banks typically offer competitive interest rates and lower fees compared to commercial banks, as their focus is on serving members rather than maximizing profits.

Risk Sharing: Cooperative banks emphasize risk-sharing among members. The collective pool of funds allows for the distribution of risks and rewards. Members contribute to a common fund, and the bank uses these funds to provide loans and other financial services to members.

Social and Environmental Responsibility: Cooperative banks often prioritize social and environmental sustainability. They may support initiatives that promote social welfare, ethical practices, and environmental conservation. These banks align their operations with the values and needs of their members and communities.

It's important to note that cooperative banking institutions can vary in their size, scope, and specific operations. They may operate at local, regional, or national levels and offer a range of financial services tailored to the needs of their members. Regulations and governance structures for cooperative banks can also vary across countries.

Cooperative banking institutions perform various functions to fulfill the financial needs of their members and promote community development. Here are some of the key functions performed by cooperative banks:

Mobilizing Savings: Cooperative banks encourage their members to save by offering savings accounts and deposit services. They collect savings from members and mobilize these funds to be used for lending and other financial services.

Providing Loans: One of the primary functions of cooperative banks is to provide loans to their members. These loans can be for various purposes such as agriculture, small business, housing, education, or personal needs. Cooperative banks assess the creditworthiness of their members and provide loans at competitive interest rates.

Credit Intermediation: Cooperative banks act as intermediaries between those with surplus funds (depositors) and those in need of funds (borrowers). They channel the savings from members into productive sectors of the economy, thus facilitating investment and economic growth.

Offering Financial Products and Services: Cooperative banks offer a wide range of financial products and services tailored to the needs of their members. These can include current accounts, fixed deposits, recurring deposits, insurance products, remittance services, debit cards, and electronic banking facilities.

Promoting Financial Inclusion: Cooperative banks play a crucial role in promoting financial inclusion by reaching out to underserved and unbanked populations. They provide banking services to individuals and communities who may not have access to traditional banking institutions, thereby promoting economic empowerment.

Community Development: Cooperative banks often have a strong focus on community development. They actively support local economic initiatives, provide financial assistance for community projects, and promote entrepreneurship and self-employment opportunities. These banks prioritize the overall development and welfare of the communities they serve.

Member Education and Training: Cooperative banks emphasize member education and financial literacy. They provide training programs, workshops, and seminars to educate their members about financial management, investment options, and the responsible use of credit. This empowers members to make informed financial decisions.

Advocacy and Representation: Cooperative banks represent the interests of their members and advocate for policies and regulations that benefit cooperative banking and

the communities they serve. They participate in forums and engage with regulatory authorities to ensure a favorable operating environment for cooperative banking institutions.

Overall, cooperative banking institutions serve as community-driven financial intermediaries that prioritize the needs and interests of their members. They strive to create a sustainable and inclusive financial ecosystem by providing accessible financial services and fostering local economic development.

What is National Housing Bank?

National Housing Bank acts as an autonomous Institute with focus on Housing development, promoting Housing Finance Institutions across the country for both regional and national development of Housing Infrastructure and also to make available financing needs of these Institutes through either fundraising for onward refinancing to such Institutes or to provide a guarantee to such Institutions for raising finances.

National Housing Bank operates under the control of its Board of Directors and the Current Managing Director of National Housing Bank is Mr. S. K. Hota along with various other Directors which are appointed and includes officials of Reserve Bank of India, Ministry of Finance, Ministry of Rural Development and Ministry of Housing and Urban Affairs. Together the Board of Directors manages the functioning of National Housing Bank. It acts as a regulator of Housing finance Companies operating in India and is responsible for the proper functioning and control of Housing Finance Companies, their financial stability as well as ensuring the creation of Housing Units in line with the government objective of Housing for All by 2022. The entire Paid-up Share Capital of National Housing Bank is owned and controlled by the Central Bank of India i.e. Reserve Bank of India. National Housing Bank operates across India through its Branch Offices and its Head Office is located in the Capital city of India i.e. New Delhi.

Functions of National Housing Bank

The National Housing Bank (NHB) is an apex financial institution in India that was established in 1988 under the National Housing Bank Act. It is wholly owned by the Reserve Bank of India (RBI) and serves as the principal agency to promote housing finance institutions and provide financial and other support to the housing sector.

The primary functions of the National Housing Bank are as follows:

Regulation and Supervision: NHB regulates and supervises housing finance companies (HFCs) in India. It sets prudential norms and guidelines for HFCs to ensure their sound functioning and stability. NHB monitors their operations, capital adequacy, risk management, and compliance with regulations.

Refinancing and Lending: NHB provides refinancing facilities to eligible HFCs. It refinances the housing loans extended by HFCs, thereby ensuring the availability of funds for housing finance. NHB also provides direct lending to HFCs for specific purposes such as affordable housing and rural housing.

Housing Policy and Development: NHB contributes to the formulation and implementation of housing policies in coordination with the central and state governments. It provides technical and financial assistance to various stakeholders in the housing sector, including housing boards, developers, and other organizations involved in housing and infrastructure development.

Capacity Building and Research: NHB promotes capacity building initiatives to enhance the skills and knowledge of professionals working in the housing finance

sector. It conducts research and studies related to housing finance and housing markets, which helps in formulating effective policies and strategies.

Market Development: NHB plays a crucial role in developing and strengthening the housing finance market in India. It facilitates the creation of secondary mortgage markets, supports the development of mortgage-backed securities, and encourages innovations in housing finance products and services.

Consumer Protection: NHB aims to protect the interests of consumers in the housing finance sector. It establishes and enforces fair lending practices, ensures transparency, and resolves complaints and grievances of consumers.

The working of the National Housing Bank involves collaboration with various stakeholders, including the central government, state governments, RBI, HFCs, housing developers, and other financial institutions. NHB provides financial assistance, technical expertise, and policy guidance to promote the growth and stability of the housing sector in India. Through its regulatory and developmental functions, NHB strives to ensure the availability of affordable housing finance and facilitate the realization of the government's housing objectives.

Export and Import Bank of India (EXIM)

The Export and Import Bank of India, popularly known as the EXIM Bank was set up in 1982. It is the principal financial institution in India for foreign and international trade. It was previously a branch of the IDBI, but as the foreign trade sector grew, it was made into an independent body.

The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country. And it oversees and

coordinates the working of other institutions that work in the import-export sector. The ultimate aim is to promote foreign trade activities in the country.

Functions of the EXIM Bank

The Export-Import Bank of India, commonly known as EXIM Bank, is the premier export finance institution of India. It was established in 1982 and operates under the purview of the Ministry of Finance, Government of India. The bank's primary objective is to enhance India's international trade by providing financial assistance, information, and support to Indian exporters and importers.

Functions of EXIM Bank of India:

Financing Export and Import Transactions: EXIM Bank offers various financial products and services to facilitate export and import activities. It provides pre-shipment credit, post-shipment credit, export credits, buyer's credit, and lines of credit to support Indian exporters and importers.

Export Promotion: EXIM Bank actively promotes Indian exports by participating in international trade fairs, exhibitions, and conferences. It collaborates with various trade promotion organizations and chambers of commerce to facilitate market access for Indian exporters.

Export Credit Insurance: EXIM Bank provides export credit insurance to protect Indian exporters against commercial and political risks associated with overseas trade. This insurance coverage helps exporters mitigate the risks of non-payment or delayed payment by foreign buyers.

Project and Investment Finance: The bank extends financial support for overseas projects and investments by Indian companies. It provides project finance, lines of credit, and buyer's credit to enable Indian companies to undertake overseas ventures and expand their international presence.

Research and Information Services: EXIM Bank conducts research and analysis on international trade, market trends, and economic developments. It disseminates this information to Indian exporters, importers, and policymakers to enable informed decision-making and strategic planning.

Working of EXIM Bank:

EXIM Bank operates through a network of offices in India and overseas. Its working involves the following key steps:

Identification of Export Potential: EXIM Bank identifies potential sectors and markets where Indian exports can be promoted. It assesses the viability and competitiveness of various export projects and endeavors to align its financing and support accordingly.

Financial Assistance: Once an export transaction or project is identified, EXIM Bank provides financial assistance through a range of credit facilities. It offers both short-term and long-term financing options tailored to the specific needs of exporters and importers.

Risk Assessment and Mitigation: EXIM Bank evaluates the creditworthiness of buyers and countries to assess the risks involved in export transactions. It provides credit insurance and risk mitigation solutions to protect exporters from potential non-payment or default.

Collaboration with Financial Institutions: EXIM Bank collaborates with commercial banks and financial institutions in India and abroad to leverage their resources and expertise. It works closely with them to structure financing packages and ensure smooth execution of export-import transactions.

Monitoring and Evaluation: The bank closely monitors the performance of its financed projects and export transactions. It evaluates the impact of its support and measures the effectiveness of its programs in promoting Indian exports and imports.

EXIM Bank of India plays a crucial role in facilitating India's international trade by providing financial assistance, export credit insurance, market information, and support services to Indian exporters and importers. It aims to enhance India's competitiveness in global markets and contribute to the country's economic growth.

Importance of the EXIM Bank

Other than providing financial assistance, the Export and Import Bank of India bank is always looking for ways to promote the foreign trade sector in India. In the early 1990s, EXIM introduced a program in India known as the Clusters of Excellence.

The aim was to improve the quality standards of our imports and exports. It also has a tie-up with the European Bank for Reconstruction and Development. It has agreed to co-finance programs with them in eastern Europe.

In order to promote exports EXIM bank also has schemes such as production equipment finance program, export marketing finance, vendor development finance, etc.

The Export-Import Bank of India (EXIM Bank) holds significant importance for the Indian economy and plays a crucial role in promoting and supporting India's international trade.

Here are some key reasons why EXIM Bank is important:

Facilitating International Trade: EXIM Bank provides financial assistance, credit facilities, and export credit insurance to Indian exporters, enabling them to conduct international trade with confidence. It supports exporters in accessing working capital, pre-shipment and post-shipment financing, and mitigating risks associated with cross-border transactions. This support boosts India's export capabilities and facilitates the growth of foreign trade.

Enhancing Competitiveness: By offering financial products and services tailored to the needs of exporters, EXIM Bank helps enhance the competitiveness of Indian exporters in the global market. It provides export credits at competitive rates, offers credit insurance to protect against non-payment risks, and facilitates market research and information dissemination. This support enables Indian exporters to explore new markets, expand their customer base, and compete effectively with their international counterparts.

Promoting Investments: EXIM Bank extends financial assistance and lines of credit for overseas projects and investments by Indian companies. It supports Indian businesses in undertaking infrastructure projects, setting up manufacturing units abroad, and acquiring strategic assets. This promotes foreign direct investment, enhances India's economic presence globally, and contributes to the country's industrial development and job creation.

Mitigating Risks: International trade involves various risks, including commercial and political risks. EXIM Bank plays a crucial role in mitigating these risks by offering export credit insurance, which protects exporters against non-payment, insolvency, and

other risks associated with overseas buyers. This insurance coverage provides a safety net for exporters, enabling them to explore new markets, accept larger orders, and expand their export volumes.

Supporting Small and Medium Enterprises (SMEs): EXIM Bank recognizes the importance of SMEs in India's export landscape and provides specialized financial products and services to support their international trade activities. It offers tailored credit facilities, export credit insurance, and assistance in market research and promotion. This support helps SMEs overcome financial constraints, access global markets, and compete on a level playing field with larger companies.

Strengthening Bilateral and Multilateral Relations: EXIM Bank plays a vital role in strengthening India's bilateral and multilateral relationships with other countries. It provides lines of credit and financing support to facilitate trade and economic cooperation between India and its trading partners. This fosters closer ties, promotes investments, and enhances diplomatic relations, leading to mutual benefits and shared economic growth.

EXIM Bank of India is important due to its role in facilitating international trade, enhancing competitiveness, promoting investments, mitigating risks, supporting SMEs, and strengthening bilateral and multilateral relations. It serves as a catalyst for India's economic growth and contributes to the country's positioning as a significant player in the global trade arena.

NABARD (NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT):

Agriculture plays a vital role in the Indian economy. Over 70 per cent of the rural households depend on agriculture. Agriculture is an important sector of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. Considering the importance of the agriculture sector in Indian Economy, need was felt to sustain, encourage and promote agriculture and allied activities. To achieve this objective the Government of India recognized right from its early stages of planning the importance of institutional credit in boosting rural economy. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to review the arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into these very critical aspects. The Committee was formed on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India.

The Committee's interim report outlined the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to credit related issues linked with rural development. The Committee recommended formation of a unique development financial institution which would address these aspirations and formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act 61 of 1981. NABARD came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Set up with an initial capital of Rs.100 crore, its' paid-up capital stood at Rs.14,080 crore as on 31 March 2020.

Consequent to the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India. NABARD's initiatives are aimed at building an empowered and financially inclusive rural

India through specific goal-oriented departments which can be categorized broadly into three heads: Financial, Developmental and Supervision. Through these initiatives NABARD touches almost every aspect of rural economy. From providing refinance support to building rural infrastructure; from preparing district level credit plans to guiding and motivating the banking industry in achieving these targets; from supervising Cooperative Banks and Regional Rural Banks (RRBs) to helping them develop sound banking practices and on boarding them to the CBS (Core Banking Solution) platform; from designing new development schemes to the implementation of GoI‘s development schemes; from training handicraft artisans to providing them a marketing platform for selling these articles. Over the years NABARD‘s initiatives have touched millions of rural lives across the country. To name a few, the SHG Bank Linkage Project launched by NABARD in 1992 has blossomed into the world‘s largest micro finance project. Kisan Credit Card, designed by NABARD has become source of comfort for crores of farmers.

NABARD also financed one fifth of India‘s total rural infrastructure, pioneered in the field of watershed development as a tool for sustainable climate proofing, etc. Development of food processing industry in the country is accorded top priority by the Government of India as it is one of the most critical links in the agri value chain. Taking this agenda further, the Hon‘ble Finance Ministry, in 2014, announced setting up of a Special Fund of Rs.2,000 crore in NABARD for providing direct term loans at affordable rates of interest to Designated Food Parks (DFPs) and food processing units in the DFPs.

Loans are provided to eligible entities for projects involving creation of storage infrastructure with a minimum aggregate capacity of 5000 metric tons (MT) for agricultural and allied produce, including construction of: • Warehouses • Silos • Cold storage, Controlled Atmosphere (CA) Stores, other Cold Chain Infrastructure Activities like Pack Houses/ Integrated Pack Houses, Reefer Vans, Bulk Coolers, Individually

Quick- Frozen Units, Chilling/ Freezing Infrastructure, etc. • Construction/ Modernisation/ Upgradation of Marketing Infrastructure Facilities of Agricultural Produce Marketing Committee (APMC). • Modernization/ Improvement of the existing storage infrastructure projects will be considered on merit of each proposal provided it leads to Scientific/ Additional storage capacity. • There‘s no minimum capacity for projects of Governments/ Government owned corporations. Another important activity of NABARD is extending Credit Facilities to Marketing Federations. Marketing federations and cooperatives are playing a very vital role in agri business and value/supply chain management of the various agricultural commodities. Major activities undertaken by these institutions are: • Procurement of agricultural commodities including milk • Aggregation, storage and value addition in few select commodities like milk etc. • Marketing Large number of farmers, producers‘ organizations, and primary societies depend upon these institutions for marketing of their produce and for value-added services like input supply, value addition and storage facilities. The marketing operations by these federations and cooperatives require seasonal and timely short-term credit facility to support their day-to-day operations.

Eligible Institutions The following institutions, fulfilling broad eligibility criteria, will be eligible for funding under Credit Facility to Federations (CFF) I. State/Central Govt. Agricultural Marketing Federations, Corporations II. Dairy Co-operatives/Federations III. Agriculture Marketing Co-operatives/Federations IV. Registered Companies.

NABARD (National Bank for Agriculture and Rural Development) is an apex development financial institution in India that focuses on the promotion and development of agriculture, rural sectors, and sustainable rural livelihoods. It was established on 12 July 1982 by the Government of India as a statutory body under the National Bank for Agriculture and Rural Development Act, 1981.

Functions of NABARD:

Providing credit: NABARD provides credit facilities to various institutions and agencies involved in agricultural and rural development. It refinances the loans and advances given by commercial banks, cooperative banks, and regional rural banks for agricultural and rural development purposes.

Rural development programs: NABARD plays a crucial role in implementing and monitoring various rural development programs and schemes. It provides financial assistance and technical support for activities such as watershed development, rural infrastructure projects, agricultural marketing, and rural entrepreneurship.

Rural infrastructure development: NABARD promotes the development of rural infrastructure by financing projects related to irrigation, rural roads, bridges, electrification, water supply, and sanitation. It also supports the construction of rural godowns (warehouses) and promotes the establishment of agricultural and rural-based industries.

Institutional development: NABARD focuses on strengthening and developing rural financial institutions, including cooperative banks, regional rural banks, and microfinance institutions. It provides them with financial assistance, capacity building, and training programs to enhance their performance and reach in rural areas.

Research and development: NABARD undertakes research and development activities related to agriculture, rural development, and rural livelihoods. It conducts studies, surveys, and pilot projects to identify innovative solutions, best practices, and new technologies that can improve agricultural productivity and rural incomes.

Working of NABARD:

Refinancing: NABARD refinances the loans provided by commercial banks, cooperative banks, and regional rural banks for agricultural and rural development purposes. It provides them with financial assistance at concessional rates, which enables these banks to offer affordable credit to farmers and rural borrowers.

Direct lending: NABARD directly lends to state governments, rural infrastructure projects, and selected institutions involved in agricultural and rural development. It provides long-term loans for infrastructure projects and short-term loans for working capital requirements.

Monitoring and supervision: NABARD monitors and supervises the credit flow and utilization in rural areas. It ensures that the loans provided for agriculture and rural development purposes are effectively utilized and reaches the intended beneficiaries.

Capacity building and training: NABARD conducts capacity building programs and training sessions for rural financial institutions, farmers, and other stakeholders. It aims to enhance their skills, knowledge, and understanding of agricultural and rural development practices.

Policy advocacy: NABARD plays an active role in policy advocacy related to agriculture, rural development, and rural livelihoods. It provides inputs and suggestions to the government on policies, schemes, and programs for the welfare of farmers and rural communities.

Overall, NABARD acts as a catalyst for rural development in India by providing financial and technical support, promoting sustainable agriculture practices, and strengthening rural institutions. Its efforts are focused on reducing poverty, enhancing rural incomes, and ensuring overall rural prosperity.

RBI (Reserve Bank of India) :

RBI (Reserve Bank of India) is the central bank of India and a statutory body responsible for multiple tasks like printing the currency notes and acting as a custodian to other primary banks of the nation. The RBI was formed on the recommendation of the Hilton-Yong-Commission or commonly referred to as Royal Commission on Indian currency and finance in April 1934. The main motive behind setting up RBI was to separate the currency control from the government and provide other banking facilities. The working of RBI is regulated by the RBI governor appointed by the central government of India and the Governor acts as the main decision-maker in RBI.

The Reserve Bank of India (RBI) is the central banking institution of India, established in 1935. It serves as the country's monetary authority and is responsible for formulating and implementing monetary policy, regulating and supervising the financial system, and managing the exchange rate of the Indian rupee. The RBI operates under the Reserve Bank of India Act, 1934.

Functions of RBI:

Monetary Policy Formulation: The RBI formulates and implements monetary policy in India with the objective of maintaining price stability while promoting economic

growth. It uses various instruments like repo rate, reverse repo rate, cash reserve ratio, and statutory liquidity ratio to control inflation and regulate money supply.

Currency Issuance: The RBI is the sole authority responsible for issuing and managing currency in India. It prints and supplies currency notes and coins to meet the demand of the economy and ensures the availability of clean and genuine currency in circulation.

Banker to the Government: The RBI acts as a banker to the central and state governments. It manages their accounts, receives and makes payments on their behalf, and provides short-term loans to bridge any temporary mismatches in their receipts and expenditures.

Banker's Bank and Lender of Last Resort: The RBI functions as a banker's bank, providing banking services to other banks. It maintains the cash reserves of commercial banks, facilitates interbank transactions, and acts as a lender of last resort by extending financial assistance to banks facing liquidity crunches.

Regulation and Supervision of Banks: The RBI is responsible for regulating and supervising commercial banks, cooperative banks, and other financial institutions in India. It issues licenses to banks, sets prudential norms, conducts inspections, and takes corrective measures to ensure the stability and soundness of the banking system.

Foreign Exchange Management: The RBI manages and controls the foreign exchange market in India. It formulates and implements policies related to foreign exchange reserves, exchange rates, and capital flows. The RBI intervenes in the foreign exchange market to stabilize the value of the Indian rupee.

Developmental Functions: The RBI plays a developmental role in the Indian economy by promoting financial inclusion, facilitating the development of payment and settlement systems, and providing credit to priority sectors such as agriculture, small-scale industries, and exports.

Working of RBI:

The RBI is governed by a central board of directors appointed by the Government of India. The board consists of a Governor, Deputy Governors, and other directors representing various fields of expertise. The Governor is the chief executive officer of the RBI and is responsible for the overall management and functioning of the institution.

The RBI operates through its various departments and regional offices located across India. It formulates policies through discussions and deliberations in internal committees and expert groups. It also engages in regular consultations with the government, financial institutions, and stakeholders to gather inputs and maintain coordination.

The RBI communicates its monetary policy decisions, policy statements, and other important information through periodic announcements, press releases, and publications. It also conducts regular meetings with bank officials, economists, and market participants to exchange views and gather feedback on the economy and financial markets.

Overall, the RBI works towards maintaining price stability, promoting economic growth, ensuring financial stability, and safeguarding the interests of depositors and the general public. Its functions and operations are crucial in maintaining the stability and efficiency of the Indian financial system.

RBI

- **Issue Currency Notes:** The issue and printing of currency notes are one of the primary functions of the RBI. The Reserve Bank of India prints notes of all denominations except 1 rupee and that's because the one rupee note is issued by the Indian Ministry of Finance. The issue and printing of currency notes in India are regulated under the Minimum Reserve System (MRS). As per the MRS, the RBI keeps a reserve asset of Rs 200 crore out of which INR 120 crore would be in form of Gold and the rest in the form of foreign currency. Also, the addition of any new denomination or discontinuation of any existing denomination is being done by RBI. For example, during demonization, RBI discounted old 500 rupee notes and added new 2000 and 500 rupee notes.
- **Acting as a Central Bank for other Banks:** The Reserve Bank of India acts as a parent bank to all the primary banks operating in India. However hereby RBI plays a role lender that lends money to the primary banks of India on certain interests. Also, it keeps an eye on the financial transactions of the banks so that amount of account holders remain secured in the banks.
- **Keeping a Track of Foreign Exchange:** Buying and selling foreign currencies and thus making sure a stable foreign exchange in India comes into RBI's account. RBI holds the right to buy and sell foreign currencies in the international foreign exchange market. Also, RBI makes sure that turbulence in the foreign exchange market does not affect the economy of the nation.

- **Acting as a Bank to the Government:** The RBI acts as a banker to the central and the state governments of India and fulfills all the banking necessities of the government. Also, RBI plays a crucial role as an advisor to the central government of India and assists the government in framing economic policies for the nation.
- **Controlling Credit Flow:** The credit made by the primary commercial banks of India is being controlled by the RBI. Also, RBI is responsible for regulating the flow of money in the market. RBI adopts both quantitative and qualitative methods to regulate the cash flow in the market. RBI increases or decreases the repo rate to control inflation and regulate the cash flow in the market.
- **Other Important Functions:** The RBI acts as a representative of India in the IMF (International Monetary Fund), and also in many other major international financial organizations. The RBI is also responsible for looking after government treasures, available securities, foreign reserves, etc. The RBI also plays a major role in the development program run by the central government of India and finances some of these programs. Also, other activities like presenting the economic data of the nation, GDP growth, and the inflation rate is also done by the RBI.

Functions of State Bank of India

The State Bank of India enjoys the status of being the largest bank in India. Recently due to the merger, it became the largest banks in terms of asset size in the world. Thus, there are a lot of functions being handled by SBI daily. So, below are the functions of State Bank of India.

Central Banking Functions

SBI acts as an agent to the RBI, where there are no branches RBI available. Accordingly, there are many functions which are rendered by the SBI. These are

- Maintaining the currency
- Government's bank
- Bank's banker
- Acts as a clearinghouse
- Maintaining the currency

RBI is reporting for maintaining its own currency. But the offices of RBI are only available in big cities. But the branches of SBI are available everywhere in the country. The network of SBI works in rural as well as urban areas.

In such places, RBI maintains its currency with SBI. The currency is withdrawn from these branches whenever required by RBI.

Government's Bank

SBI caters to the needs of the government, both the central as well as the state. On behalf of the government, it receives the money and deposits it. It collects the charges on behalf of government like tax collection and other payments. It also grants advances and loans to the government.

Bank's Bankers

Many commercial banks have their accounts with SBI. These banks resort to help SBI whenever they face the financial shortage. It also discounts the bills for these commercial banks. Due to this function, SBI is also considered as the banker's bank but only in a limited sense.

Acts as a Clearinghouse

In places where RBI has no branches, SBI acts as a clearinghouse for them. There, it facilitates the services of interbank settlements and many other services. All the banks have accounts with SBI, so the process of clearing becomes easier for SBI.

General Banking Functions

There are many functions that SBI beyond the above-mentioned services. These services are rendered by SBI under section 33A. These are:

- It accepts the deposits from the people in the form of savings, fixed, current, and recurring deposit accounts.
- Based on the security of stocks, securities, SBI gives advances and loans to the public.
- SBI gives the facility of drawings, accepting, and buying and selling the bills of exchange.
- It also issues and circulates the letters of credit.
- SBI also invests in funds or any special kind of security.
- The bank also acts as a trustee, executor, or otherwise, based on the circumstances.
- It is also entrusted with selling and purchasing of either movable or immovable properties that come in the bank.
- SBI also functions for selling and buying of gold and silver.
- For the general public, it helps in the opening of public provident fund accounts.
- It underwrites any issue related to the securities or the debentures that are authorized.
- It provides the facility of shipping finance as well as various factoring services.
- There are many leading bank schemes in which SBI participates.

NBFC

NBFCs, or Non-Banking Financial Companies, are financial institutions that offer various financial services and products similar to traditional banks but do not have a full banking license. They play a significant role in the financial system by providing credit, investments, and other financial services to individuals and businesses.

Here are some key characteristics and functions of NBFCs:

Activities: NBFCs engage in a wide range of financial activities, including lending, investment, asset financing, wealth management, infrastructure financing, insurance, and more. They cater to diverse financial needs and sectors of the economy.

Regulation: NBFCs are regulated by financial authorities in each country. The specific regulatory framework and requirements for NBFCs may vary, but they generally aim to ensure financial stability, protect the interests of consumers, and maintain the integrity of the financial system.

Deposit-taking: Unlike banks, most NBFCs are not allowed to accept deposits that are repayable on demand. However, some NBFCs may accept certain types of deposits, usually with a fixed term.

Credit extension: NBFCs provide credit facilities to individuals and businesses. They offer loans, advances, and credit products such as vehicle loans, personal loans, housing finance, and small business loans. NBFCs often serve as an alternative source of credit for those who may not meet the stringent requirements of traditional banks.

Investment services: Many NBFCs offer investment-related services such as portfolio management, mutual funds, and wealth management. They help individuals and institutions make investments, manage their portfolios, and provide guidance on financial planning.

Regulation of NBFCs: Regulatory bodies typically impose certain capital adequacy requirements, prudential norms, and conduct regulations on NBFCs. This oversight helps ensure the stability of the financial system and protect the interests of customers.

Role in financial inclusion: NBFCs often play a crucial role in promoting financial inclusion by extending credit and financial services to underserved segments of society. They may focus on lending to small businesses, rural areas, and low-income individuals who may have limited access to formal banking services.

It's important to note that the specific regulations and operations of NBFCs can vary across different countries and jurisdictions. Therefore, it's recommended to refer to the relevant financial authorities or legal sources in a specific region for detailed and up-to-date information on NBFCs.

FIIs

Foreign Institutional Investors, play a significant role in the global financial markets. They are institutional investors, such as mutual funds, pension funds, hedge funds, and insurance companies, that invest in financial assets (such as stocks, bonds, and derivatives) of countries other than their own.

The role of FIIs can be both positive and negative, depending on various factors. Here are some key aspects to consider:

Capital Inflows: FIIs can bring substantial capital inflows into a country's financial markets, which can boost liquidity, deepen the market, and facilitate economic growth. These investments can provide opportunities for domestic companies to access capital and expand their operations.

Market Efficiency: FIIs enhance market efficiency by increasing trading volumes, improving price discovery, and reducing bid-ask spreads. Their participation can improve the overall liquidity and functioning of the markets, making it easier for investors to buy and sell securities.

Portfolio Diversification: FIIs allow investors to diversify their portfolios geographically. By investing in foreign markets, investors can reduce their exposure to a single country's economic conditions and potentially mitigate risks associated with domestic events.

However, there are also potential dangers associated with FIIs:

Volatility: FIIs' investments can introduce volatility in the local markets. Sudden inflows or outflows of capital can lead to significant price fluctuations, potentially destabilizing the market and causing volatility in stock prices, exchange rates, and interest rates.

Contagion Effects: If a large number of FIIs decide to withdraw their investments simultaneously, it can trigger a domino effect, leading to a widespread sell-off in the

market. This can have adverse effects on the overall economy, including currency depreciation and financial instability.

Speculative Behavior: Some FIIs engage in short-term speculative trading, seeking quick profits from price movements rather than long-term investments based on fundamental analysis. This speculative behavior can increase market volatility and create an environment prone to bubbles and market distortions.

External Dependence: Excessive reliance on foreign capital inflows can make a country vulnerable to external shocks. Sudden changes in global investor sentiment, economic conditions in the home countries of FIIs, or shifts in monetary policies of major central banks can result in capital flight and financial instability.

To mitigate the risks associated with FIIs, countries often implement regulations and safeguards, such as capital controls, circuit breakers, and prudential norms. These measures aim to maintain stability in the financial markets while allowing for the benefits of foreign investments.

Overall, while FIIs can bring significant benefits to a country's financial markets, their presence also poses risks that need to be carefully managed to maintain stability and ensure the sustainable development of the economy.

IMF

The International Monetary Fund (IMF) is an international financial institution that was created in 1944 at the Bretton Woods Conference. The primary goal of the IMF is to

promote global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The IMF works with its member countries to provide policy advice, technical assistance, and financial support when needed. It monitors global economic and financial developments, provides economic research and analysis, and offers financial resources to countries facing balance of payments problems. The IMF also plays a role in fostering economic and financial stability by promoting sound economic policies and providing a forum for member countries to discuss global economic issues.

Membership in the IMF is open to all countries that are willing to abide by its rules and regulations. Currently, there are 190 member countries. Each member country contributes funds to the IMF, which are used to provide financial assistance to countries in need.

The IMF is governed by its member countries through a Board of Governors, which is made up of representatives from each member country. The day-to-day operations of the IMF are overseen by its Managing Director, who is supported by a staff of economists, policy experts, and other professionals.

The IMF has been involved in various initiatives and programs to address global economic challenges. It provides loans and financial assistance to countries facing economic crises, implements policy conditionality to promote economic reforms and sustainable growth, and conducts surveillance of global economic trends and policies.

Overall, the IMF plays a crucial role in promoting international financial stability, providing financial assistance to countries in need, and fostering global economic cooperation and growth.

World Bank

The World Bank is an international financial institution that provides loans and grants to the governments of developing countries for development projects. Its primary goal is to reduce poverty and promote economic development by providing financial assistance, technical expertise, and policy advice.

Here are some key points about the World Bank:

Establishment: The World Bank was established in 1944 and is headquartered in Washington, D.C., United States. It was created at the Bretton Woods Conference along with the International Monetary Fund (IMF).

Structure: The World Bank Group consists of five institutions:

International Bank for Reconstruction and Development (IBRD): Provides loans and financial assistance to middle-income and creditworthy low-income countries.

International Development Association (IDA): Provides interest-free loans and grants to the world's poorest countries.

International Finance Corporation (IFC): Focuses on supporting private sector investment in developing countries.

Multilateral Investment Guarantee Agency (MIGA): Provides political risk insurance and credit enhancement for investments in developing countries.

International Centre for Settlement of Investment Disputes (ICSID): Facilitates the resolution of investment disputes between governments and foreign investors.

Mission: The World Bank's mission is to end extreme poverty and promote shared prosperity. It aims to achieve this by supporting sustainable economic development, investing in human capital, fostering resilience to global challenges, and promoting good governance.

Financing: The World Bank raises funds for its lending activities through borrowing in the international financial markets. It offers loans and grants to member countries based on their needs and repayment capacity. The terms and conditions of the loans vary depending on the institution within the World Bank Group.

Focus areas: The World Bank focuses on several priority areas, including poverty reduction, education, healthcare, infrastructure development, agriculture, climate change mitigation and adaptation, and governance. It provides technical expertise and policy advice to help countries implement effective development strategies.

Country membership: The World Bank has 189 member countries. Each member country holds shares in the institution and has voting rights based on the number of shares owned.

Criticisms: The World Bank has faced criticisms and controversies over the years. Some concerns include the conditionality of loans, impact on local communities and the environment, lack of transparency, and the effectiveness of its development projects. The institution has made efforts to address these issues and improve its policies and practices.

The World Bank plays a crucial role in global development by providing financial resources and expertise to support countries' efforts to reduce poverty and achieve sustainable development.

IFC

IFC stands for the International Finance Corporation. It is an international financial institution that is part of the World Bank Group. The IFC was established in 1956 and is headquartered in Washington, D.C., United States.

The primary goal of the IFC is to promote private sector investment in developing countries, with the aim of reducing poverty and fostering sustainable economic development. It provides financing, advisory services, and technical assistance to both private businesses and governments in developing countries.

The IFC focuses on various sectors, including agriculture, infrastructure, manufacturing, healthcare, education, and financial markets. It offers a range of financial products, such as loans, equity investments, guarantees, and structured finance.

In addition to financial support, the IFC also helps its clients improve their corporate governance practices, environmental and social sustainability, and access to markets. It aims to create opportunities for the private sector to contribute to economic growth, job creation, and poverty reduction in developing countries.

The IFC works closely with governments, businesses, and other stakeholders to identify investment opportunities, address challenges, and create a favorable investment climate. It operates in more than 100 countries and has a strong focus on emerging markets.

Overall, the IFC plays a crucial role in mobilizing private sector resources for development and promoting sustainable and inclusive economic growth in developing countries.

ADB

ADB stands for the Asian Development Bank. It is a regional development bank that aims to promote economic and social progress in Asia and the Pacific region. The bank provides financial assistance, technical assistance, and policy advice to its member countries. ADB's primary focus areas include poverty reduction, sustainable economic growth, regional cooperation, and environmental sustainability.

ADB was established in 1966 and is headquartered in Manila, Philippines. It currently has 68 member countries, both from within and outside the Asia-Pacific region.

The bank raises funds through capital markets and offers loans and grants to its member countries for various development projects, including infrastructure development, education, healthcare, agriculture, and rural development.

ADB also plays a crucial role in promoting regional cooperation and integration in Asia. It supports initiatives that enhance trade, investment, and connectivity among its member countries. Additionally, ADB works closely with other international organizations, governments, private sector entities, and civil society organizations to achieve its development goals.

The bank has been instrumental in supporting economic development and poverty reduction efforts in the Asia-Pacific region over the years. Its operations cover a wide range of sectors and activities, and it has been actively involved in addressing pressing regional challenges such as climate change, energy security, and inclusive growth.

Stock exchange

A stock exchange is a regulated marketplace where buyers and sellers can trade various financial securities, such as stocks, bonds, options, and commodities. It serves as a central platform that facilitates the buying and selling of these securities between participants.

The primary functions of a stock exchange include:

Trading Platform: Stock exchanges provide a centralized platform where buyers and sellers can come together to trade securities. The exchange acts as an intermediary, ensuring fair and transparent transactions.

Price Determination: Stock exchanges play a crucial role in determining the prices of securities through the forces of supply and demand. The prices of securities are influenced by factors such as market sentiment, economic conditions, and company performance.

Liquidity: By providing a centralized marketplace, stock exchanges enhance the liquidity of securities. Liquidity refers to the ease with which an asset can be bought or sold without significantly impacting its price. The presence of numerous buyers and sellers on a stock exchange increases liquidity and allows participants to enter or exit positions more efficiently.

Listing and Delisting: Companies can list their shares on a stock exchange to raise capital from the public. Stock exchanges have listing requirements and regulatory standards that companies must meet to be listed. Similarly, stock exchanges can delist securities if they no longer meet the listing criteria, ensuring that only viable securities are traded.

Market Surveillance: Stock exchanges employ surveillance mechanisms to monitor trading activities and detect any potential market manipulation, insider trading, or other fraudulent practices. These surveillance systems help maintain market integrity and investor confidence.

Clearing and Settlement: Stock exchanges provide clearing and settlement services, ensuring the timely and accurate transfer of securities and funds between

buyers and sellers. Clearing involves verifying trades and matching buyer and seller obligations, while settlement involves the actual transfer of securities and funds.

Market Information: Stock exchanges disseminate real-time market information, including prices, trading volumes, and other relevant data. This information helps investors make informed decisions, facilitates price discovery, and promotes market efficiency.

Regulation and Oversight: Stock exchanges are subject to regulatory oversight by government bodies or securities commissions to ensure fair and transparent trading practices. They enforce rules and regulations to protect investors and maintain market integrity.

Overall, stock exchanges provide a vital platform for investors, companies, and other market participants to trade securities, access capital, and participate in the financial markets. They contribute to the functioning of the economy by facilitating capital formation, investment,

Role of SEBI:

This regulatory authority acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate the efficient and smooth working of the securities market. SEBI also plays an important role in the economy.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investors, and financial intermediaries.

1. *Issuers of securities*

These are entities in the corporate field that raise funds from various sources in the market. This organization makes sure that they get a healthy and transparent environment for their needs.

2. *Investor*

Investors are the ones who keep the markets active. This regulatory authority is responsible for maintaining an environment that is free from malpractices to restore the confidence of the general public who invest their hard-earned money in the markets.

3. *Financial Intermediaries*

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

Functions of SEBI:

The main primary three functions are-

1. Protective Function
2. Regulatory Function
3. Development Function

***1.** Protective Functions*

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

***2.** Regulatory Functions*

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

***3.** Development Functions*

This regulatory authority performs certain development functions also that include but they are not limited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

Objectives of SEBI:

The objectives of the Stock Exchange Board of India are:

1. *Protection to the investors*

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

2. *Prevention of malpractices*

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

3. *Fair and proper functioning*

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

SEBI (Securities and Exchange Board of India) is the regulatory authority in India responsible for overseeing and regulating the securities market. It plays a crucial role in ensuring transparency, fairness, and investor protection in the Indian capital market. Here are some key roles and functions of SEBI:

Regulation and Oversight: SEBI regulates various entities operating in the securities market, including stock exchanges, brokers, mutual funds, portfolio

managers, rating agencies, and other intermediaries. It formulates rules, regulations, and guidelines to govern their activities, ensuring compliance with applicable laws.

Investor Protection: SEBI works towards safeguarding the interests of investors. It enforces rules related to disclosure and transparency, preventing fraudulent and unfair trade practices, and promoting investor education and awareness. SEBI also handles investor grievances and facilitates dispute resolution mechanisms.

Market Development: SEBI focuses on developing and promoting the securities market in India. It introduces reforms and initiatives to enhance market efficiency, liquidity, and depth. SEBI encourages innovation and market expansion while maintaining stability and investor confidence.

Supervision and Surveillance: SEBI conducts inspections, audits, and investigations to monitor market participants' activities and ensure adherence to regulations. It employs advanced surveillance systems and tools to detect market manipulation, insider trading, and other irregularities.

Listing and Disclosure Requirements: SEBI sets guidelines for companies regarding their listing on stock exchanges, initial public offerings (IPOs), and continuous disclosure requirements. It ensures that companies provide accurate and timely information to investors, promoting transparency and preventing fraudulent practices.

Intermediary Regulations: SEBI regulates various intermediaries, including stockbrokers, merchant bankers, registrars, transfer agents, and other market

participants. It sets qualification criteria, code of conduct, and licensing requirements to maintain professionalism and integrity in their operations.

Regulatory Framework and Policy Formulation: SEBI continuously reviews and updates the regulatory framework for the securities market. It formulates policies and guidelines to address emerging challenges, promote market development, and align with international best practices.

Overall, SEBI's role is to create a fair, transparent, and efficient securities market in India, protecting the interests of investors and fostering the growth and stability of the capital market.

SEBI, which stands for the Securities and Exchange Board of India, is the regulatory body governing the securities market in India. It was established in 1988 and operates under the purview of the Ministry of Finance. SEBI plays a crucial role in ensuring fair and transparent functioning of the securities market and protecting the interests of investors. Here are some key roles and responsibilities of SEBI:

Regulatory Oversight: SEBI acts as the primary regulator for the Indian securities market. It formulates rules, regulations, and guidelines for various market participants, including stock exchanges, brokers, depositories, mutual funds, and other intermediaries. SEBI monitors their activities to ensure compliance with the regulatory framework.

Investor Protection: SEBI is committed to safeguarding the interests of investors. It promotes fair practices, transparency, and disclosure norms to ensure that investors have access to accurate and adequate information. SEBI also takes action against fraudulent and manipulative activities, insider trading, and other market malpractices that may harm investors.

Market Development: SEBI plays an active role in developing and promoting the securities market in India. It introduces new products and instruments, encourages innovation, and enhances market efficiency. SEBI regularly reviews and updates market regulations to keep pace with changing market dynamics and international best practices.

Supervision and Surveillance: SEBI conducts surveillance and supervision of market activities to maintain market integrity. It monitors trading activities, investigates potential violations, and takes enforcement actions when necessary. SEBI has the authority to impose penalties, issue warnings, and suspend or cancel licenses of market participants found in non-compliance with regulations.

Intermediary Regulation: SEBI regulates various market intermediaries such as stockbrokers, merchant bankers, portfolio managers, credit rating agencies, and depositories. It sets qualification and registration requirements, defines their code of conduct, and oversees their operations to ensure investor protection and market integrity.

Investor Education and Awareness: SEBI plays an active role in promoting investor education and awareness. It conducts awareness campaigns, disseminates information about investment risks and opportunities, and educates investors about their

rights and responsibilities. SEBI aims to empower investors with knowledge and help them make informed investment decisions.

Overall, SEBI plays a pivotal role in maintaining a well-regulated and investor-friendly securities market in India. Its efforts are directed towards ensuring market integrity, protecting investor interests, promoting market development, and fostering investor confidence.

Stock trading

Stock trading refers to the buying and selling of stocks (shares) in publicly traded companies. It is a form of investment where individuals or entities aim to profit from the fluctuations in stock prices. Here are some key points to consider:

Stock Market: Stock trading takes place on stock exchanges, such as the New York Stock Exchange (NYSE) or NASDAQ. These exchanges provide a platform where buyers and sellers can trade stocks.

Brokerage Account: To participate in stock trading, you typically need a brokerage account. A brokerage firm acts as an intermediary between you and the stock market, executing your trades and holding your securities.

Types of Orders: When placing a trade, you can use different types of orders. Market orders are executed immediately at the prevailing market price, while limit orders allow you to specify the maximum price (for buying) or minimum price (for selling) at

which you are willing to trade. There are also stop orders, which trigger a trade once the stock reaches a specified price.

Fundamental and Technical Analysis: Traders use various strategies to make informed decisions. Fundamental analysis involves examining a company's financial health, performance, and industry trends to determine its intrinsic value. Technical analysis, on the other hand, focuses on analyzing historical price patterns, trading volume, and indicators to forecast future price movements.

Risks and Rewards: Stock trading involves risks. The value of stocks can fluctuate based on market conditions, company performance, economic factors, and investor sentiment. While trading can lead to substantial profits, it also carries the risk of financial loss. It's important to understand and manage risks by diversifying your portfolio, setting realistic goals, and conducting thorough research.

Regulations: Stock trading is regulated to ensure fair and transparent markets. Different countries have their own regulatory bodies, such as the U.S. Securities and Exchange Commission (SEC), that oversee the functioning of stock exchanges and protect investors' interests.

Long-term Investing vs. Day Trading: Stock trading strategies can vary. Long-term investors focus on holding stocks for an extended period, aiming to benefit from the company's growth over time. Day traders, on the other hand, engage in frequent buying and selling within a single trading day, seeking to profit from short-term price fluctuations.

It's important to note that stock trading can be complex, and success often requires knowledge, experience, and discipline.

Securities and Exchange Board of India (SEBI) – Regulatory framework

The Securities and Exchange Board of India (SEBI) is the regulatory authority in India for the securities market. It was established in 1988 as an independent statutory body to protect the interests of investors and promote the development and regulation of the securities market in India. SEBI operates under the Securities and Exchange Board of India Act, 1992, and has been given wide-ranging powers to regulate various aspects of the securities market.

The regulatory framework of SEBI encompasses several key areas, including:

Registration and Regulation: SEBI regulates and registers various entities operating in the securities market, such as stockbrokers, sub-brokers, depository participants, mutual funds, portfolio managers, investment advisers, credit rating agencies, and others. It sets eligibility criteria, code of conduct, and disclosure requirements for these entities.

Disclosure and Investor Protection: SEBI mandates the disclosure of information by companies issuing securities to ensure transparency and protect the interests of investors. It requires companies to make periodic financial disclosures, disclose material events, and follow guidelines for corporate governance practices. SEBI also regulates insider trading to prevent unfair trading practices and ensure a level playing field for investors.

Market Infrastructure Institutions: SEBI regulates stock exchanges, depositories, and clearing corporations to ensure fair and efficient market operations. It sets guidelines for their governance, operations, risk management, and technology

infrastructure. SEBI also oversees the registration and regulation of market intermediaries like stockbrokers and depository participants.

Regulatory Framework for Securities: SEBI regulates the issuance and trading of securities, including equities, debt instruments, derivatives, and mutual funds. It formulates rules and regulations for public issues, rights issues, preferential allotments, buybacks, and delisting of securities. SEBI also supervises and monitors the functioning of stock exchanges and regulates trading practices, including listing requirements, trading rules, and settlement mechanisms.

Surveillance and Enforcement: SEBI maintains surveillance over the securities market to detect and prevent market manipulation, fraud, and other irregularities. It has the power to investigate and take enforcement actions against entities violating securities laws. SEBI can impose penalties, issue warnings, initiate legal proceedings, and even suspend or cancel the registration of intermediaries found guilty of misconduct.

Regulatory Reforms and Policy Development: SEBI continuously reviews and updates its regulations to keep pace with market developments and address emerging challenges. It formulates policies to foster market development, promote investor education and awareness, and enhance the overall regulatory framework.

SEBI's regulatory framework is designed to foster investor confidence, ensure market integrity, and facilitate the growth and development of the securities market in India. It aims to strike a balance between protecting investor interests and promoting market efficiency and innovation.

Insider trading

Insider trading refers to the illegal practice of trading stocks, securities, or other financial instruments based on non-public, material information about the company or organization involved. It involves buying or selling securities using information that is not available to the general public, giving the insider an unfair advantage in the market.

Insiders typically include corporate executives, board members, employees, or anyone who has access to confidential information about a company. This confidential information can include financial results, mergers and acquisitions, regulatory approvals, or any other material information that could significantly impact the company's stock price.

Engaging in insider trading is considered illegal in most jurisdictions, including the United States, where it is regulated by the Securities and Exchange Commission (SEC). The laws against insider trading aim to ensure fair and transparent markets and prevent individuals from profiting unfairly at the expense of other investors.

Penalties for insider trading can be severe and may include fines, imprisonment, disgorgement of profits, and civil lawsuits. In addition to legal consequences, individuals found guilty of insider trading can face significant reputational damage and harm to their professional careers.

It is important to note that this response provides a general overview of insider trading, and specific regulations and penalties may vary depending on the jurisdiction.

Insider trading refers to the buying or selling of stocks or other securities based on material non-public information about the company involved. It is generally considered illegal in most jurisdictions, as it undermines the fairness and integrity of financial markets. However, for the sake of providing a comprehensive answer, I will outline some perceived advantages and disadvantages of insider trading. It's important

to note that these advantages should not be seen as justifications for engaging in insider trading, as it is illegal and unethical.

Advantages of Insider Trading:

Profit Generation: Insider trading can potentially allow individuals with access to privileged information to make significant profits by buying or selling securities before the information becomes public knowledge. By capitalizing on this information, insiders may be able to make well-timed trades that result in substantial financial gains.

Information Efficiency: Proponents argue that insider trading can contribute to the efficiency of financial markets by incorporating non-public information into stock prices more quickly. This can lead to prices that better reflect the true value of a company, benefiting investors who rely on publicly available information.

Incentivizing Information Flow: Some argue that insider trading incentivizes corporate insiders, such as executives and employees, to share information more freely with the public. The potential for personal gain through trading could encourage insiders to disclose information that could benefit investors and improve market transparency.

Disadvantages of Insider Trading:

Unfairness: One of the primary criticisms of insider trading is that it creates an unfair advantage for those with access to non-public information. It undermines the principle of equal access to information for all market participants, eroding trust in the fairness of the market and potentially discouraging individual investors from participating.

Market Manipulation: Insider trading can distort market prices, as insiders' actions based on material non-public information may lead to artificial price movements. This manipulation can harm other investors who trade based on publicly available information, leading to a less efficient and less reliable market.

Damage to Investor Confidence: Widespread insider trading can erode investor confidence in the financial markets, as it undermines the belief that markets are fair and transparent. This loss of confidence can discourage individuals from investing, leading to decreased liquidity and reduced capital formation in the market.

Legal and Ethical Concerns: Insider trading is illegal in most jurisdictions, and individuals found guilty of engaging in it can face severe penalties, including fines and imprisonment. Beyond legal consequences, it is widely considered unethical because it prioritizes personal gain over the fair and equitable functioning of the market.

It's important to emphasize that insider trading is illegal and generally seen as detrimental to the integrity of financial markets. It undermines fair competition, investor confidence, and the proper functioning of a transparent and efficient market.

Speculation

Speculation is the act of forming conjectures or hypotheses about something without having complete information or evidence. It involves making educated guesses or predictions based on available information or personal assumptions. Speculation is often used when discussing uncertain future events, potential outcomes, or scenarios

that have not yet been confirmed. It's important to note that speculation does not provide definitive answers and should be taken with caution, as it is subject to change or be disproven as more information becomes available.

Speculation refers to the act of forming opinions or making predictions about something based on incomplete information or assumptions. It can be an important tool for exploring possibilities and generating ideas, but it also comes with certain pros and cons. Here are some pros and cons of speculation:

Pros:

Creativity and Innovation: Speculation encourages creative thinking and can lead to the generation of new ideas and possibilities. By imagining different scenarios and outcomes, speculation can foster innovation and problem-solving.

Exploration of Possibilities: Speculation allows us to explore various potential outcomes or consequences of certain events or decisions. It helps us consider alternative paths and uncover hidden opportunities or risks that might not be immediately apparent.

Preparedness: By speculating about future events or trends, individuals and organizations can prepare themselves better. Speculation can help identify potential challenges and enable proactive measures to mitigate risks or take advantage of opportunities.

Mental Stimulation: Engaging in speculation exercises our cognitive abilities. It encourages critical thinking, analysis, and evaluation of different factors, stimulating our minds and promoting intellectual growth.

Cons:

Inaccuracy: Speculation is based on incomplete information or assumptions, making it inherently uncertain and prone to inaccuracies. Predictions or opinions formed through speculation may not necessarily align with reality, leading to misguided conclusions or decisions.

Biased or Uninformed Opinions: Speculation can be influenced by personal biases, preconceived notions, or limited knowledge. Without access to all relevant information, speculation may yield biased or uninformed opinions that can be misleading or detrimental.

Overreliance on Speculation: Relying too heavily on speculation without considering factual data or evidence can lead to poor decision-making. It is important to balance speculation with empirical information to make informed choices.

Unproductive Rumination: Excessive speculation without concrete action or follow-through can become unproductive rumination. Continually pondering hypothetical scenarios without taking practical steps towards a goal can lead to wasted time and energy.

Emotional Impact: Speculation about negative outcomes or potential risks can induce anxiety, stress, or fear. It may create unnecessary worry or apprehension, impacting one's mental well-being.

It is worth noting that speculation can serve as a valuable thought exercise or brainstorming tool when used appropriately. However, when making important decisions or assessments, it is crucial to complement speculation with concrete evidence, analysis, and expert opinions to increase accuracy and minimize potential risks.

Investor protection refers to the measures and regulations put in place to safeguard the interests of individual investors in financial markets. The primary goal of investor protection is to ensure fairness, transparency, and accountability in the investment process, allowing investors to make informed decisions and protecting them from fraudulent activities. Here are some key aspects and benefits of investor protection:

Disclosure and Transparency: Investor protection regulations require companies to provide accurate and timely information about their financial health, operations, and risks to investors. This promotes transparency and helps investors make informed investment decisions based on reliable data.

Fraud Prevention: Investor protection laws aim to prevent fraudulent practices such as insider trading, market manipulation, Ponzi schemes, and false advertising. These regulations establish legal frameworks, enforcement mechanisms, and penalties to deter fraudulent activities and hold wrongdoers accountable.

Investor Education: Investor protection initiatives often include educational programs and resources to enhance investors' understanding of financial products, risks, and investment strategies. Educated investors are better equipped to assess opportunities and make sound investment choices.

Regulation of Financial Institutions: Investor protection regulations impose standards on financial institutions, including banks, brokers, and investment advisors, to ensure they operate ethically and with the best interests of their clients. This oversight helps prevent conflicts of interest and misconduct that may harm investors.

Dispute Resolution: Investor protection frameworks typically provide mechanisms for resolving disputes between investors and financial service providers. These

mechanisms, such as arbitration or ombudsman services, offer a fair and efficient process for resolving conflicts and seeking redress.

Market Integrity: Investor protection measures contribute to maintaining the integrity and stability of financial markets. By deterring fraudulent activities, ensuring fair practices, and promoting investor confidence, these regulations help create an environment that attracts capital, fosters economic growth, and reduces systemic risks.

Investor Confidence: Strong investor protection fosters trust and confidence in financial markets. When investors feel secure in their investments, they are more likely to participate in the market, leading to increased liquidity and efficient allocation of capital.

It's important to note that investor protection is a complex and evolving field, and different jurisdictions may have varying regulatory frameworks. Investors themselves also bear responsibility for conducting due diligence, diversifying their portfolios, and seeking professional advice when needed. While investor protection measures mitigate risks, investing always carries inherent uncertainties, and investors should be aware of the potential for losses.

Listing of securities refers to the process of a company making its shares or other financial instruments available for trading on a stock exchange. When a security is listed, it becomes tradable and accessible to investors through the exchange's trading platform. Here is an overview of the general steps involved in the listing process:

Meet Listing Requirements: Companies seeking to list their securities on an exchange must fulfill certain eligibility criteria set by the exchange. These requirements typically include factors such as financial performance, market capitalization, number of

shares outstanding, corporate governance standards, and compliance with relevant regulations.

Engage Advisors: The company may engage financial advisors, investment banks, or underwriters to assist with the listing process. These professionals provide guidance on meeting listing criteria, regulatory compliance, and structuring the offering.

Prepare Prospectus: A prospectus is a legal document that provides detailed information about the company, its business operations, financials, risks, and the offering itself. The prospectus is submitted to the regulatory authorities and made available to potential investors.

Due Diligence: The regulatory authorities and the stock exchange conduct a thorough review of the company's prospectus and financial information to ensure compliance with listing regulations and investor protection standards. This process involves assessing the accuracy and completeness of the disclosed information.

Pricing and Allocation: If the listing is in the form of an initial public offering (IPO), the company and its advisors determine the offer price for the securities based on market conditions, demand, and valuation considerations. They also allocate the securities to institutional and retail investors.

Underwriting and Book building: In an IPO, the underwriters or investment banks help market the securities to potential investors through a process called bookbuilding. This involves soliciting indications of interest and orders from institutional investors to determine the demand for the securities.

Exchange Approval: Once the regulatory authorities and the stock exchange are satisfied with the listing application, they grant approval for the company's securities to

be listed and traded on the exchange. The company is assigned a ticker symbol, and its securities are ready for trading.

Trading Commences: On the listing day, the company's securities become available for trading on the exchange. Investors can buy and sell the listed securities through brokerage accounts using the exchange's trading platform.

Ongoing Compliance: Listed companies have ongoing obligations to comply with exchange rules and regulations, including periodic financial reporting, disclosure of material information, and adherence to corporate governance standards. Failure to meet these requirements can result in penalties or delisting.

It's important to note that the specific requirements and procedures for listing securities can vary between different stock exchanges and jurisdictions. Companies considering a listing should seek guidance from legal and financial professionals familiar with the relevant regulations and listing processes in their specific market.

SBI – functions and working

State Bank of India (SBI) is one of the largest public sector banks in India. It serves as the primary financial institution for millions of individuals and businesses in the country. SBI performs a variety of functions and operates through a network of branches and digital platforms. Here are some key functions and working aspects of SBI:

Retail Banking: SBI offers a wide range of banking services to individual customers, including savings accounts, current accounts, fixed deposits, loans (such as home loans, car loans, personal loans), credit cards, and investment products.

Corporate Banking: SBI caters to the banking needs of large corporations, small and medium enterprises (SMEs), and government organizations. It provides various services like working capital financing, project financing, cash management, trade finance, and corporate advisory services.

International Banking: SBI has a significant presence in the international banking arena. It offers services related to foreign exchange, trade finance, remittances, correspondent banking, and international treasury operations. SBI has overseas branches, subsidiaries, and joint ventures to facilitate global operations.

Rural and Agricultural Banking: SBI plays a crucial role in providing financial services to rural areas and the agricultural sector. It offers specialized products like agricultural loans, Kisan credit cards, crop insurance, and other rural development schemes. SBI also promotes financial inclusion by extending banking services to the unbanked and underprivileged sections of society.

Digital Banking: SBI has made significant investments in digital banking infrastructure to provide convenient and accessible banking services. Customers can access their accounts, make transactions, apply for loans, pay bills, and avail various services through online banking platforms, mobile banking apps, and ATMs.

Government Banking: SBI acts as the banker to the Indian government, both at the central and state levels. It handles government transactions, manages government accounts, and provides treasury and cash management services.

Asset Management and Insurance: SBI offers mutual funds and other asset management services through its subsidiary, SBI Mutual Fund. It also provides life insurance, general insurance, and pension products through its subsidiaries like SBI Life Insurance and SBI General Insurance.

SBI operates through a hierarchical structure with a central management team and regional offices overseeing the functioning of numerous branches across the country. It follows regulatory guidelines set by the Reserve Bank of India (RBI) and is subject to regular audits and inspections. SBI aims to provide secure and reliable banking services, promote financial inclusion, and contribute to the overall economic development of India.

Current Status of Financial Institutions in India:

Reserve Bank of India (RBI): The RBI is India's central banking institution and regulator of the banking sector. It formulates and implements monetary policy, supervises banks, and maintains financial stability.

Commercial Banks: India has a mix of public sector banks, private sector banks, foreign banks, and regional rural banks. State Bank of India (SBI) is the largest public sector bank, and HDFC Bank and ICICI Bank are prominent private sector banks.

Non-Banking Financial Companies (NBFCs): NBFCs are financial institutions that provide various banking services but do not hold a banking license. They play a significant role in providing credit and financial services to individuals and businesses, especially in underserved areas.

Insurance Companies: Life and general insurance companies operate in India, providing various insurance products such as life insurance, health insurance, motor

insurance, and more. The Insurance Regulatory and Development Authority of India (IRDAI) regulates the insurance sector.

Mutual Funds: Mutual fund companies pool money from investors to invest in a diversified portfolio of securities. They offer various types of funds to cater to different investment objectives and risk profiles.

Stock Exchanges: The major stock exchanges in India are the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). These exchanges facilitate the trading of stocks, bonds, derivatives, and other financial instruments.

Future Scenario and Trends:

Digital Transformation: The financial sector in India is witnessing a significant digital transformation. Digital payments, online banking, and mobile banking services are becoming more prevalent, driven by government initiatives like the Digital India campaign and the Unified Payments Interface (UPI) system.

Fintech Innovation: Fintech companies are playing a crucial role in India's financial landscape. They are leveraging technology to offer innovative financial solutions, including peer-to-peer lending, digital wallets, robo-advisory services, and online investment platforms.

Regulatory Reforms: The Indian government has been introducing regulatory reforms to enhance transparency, promote financial inclusion, and ensure stability in the financial sector. Initiatives like the Insolvency and Bankruptcy Code (IBC) and the Goods and Services Tax (GST) have been significant steps in this direction.

Increasing Financial Inclusion: Efforts are being made to expand access to financial services, especially in rural and underserved areas. The Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Aadhaar-based biometric identification system have been instrumental in bringing the unbanked population into the formal financial system.

Focus on Wealth Management and Asset Management: As India's middle class continues to grow, there is an increasing demand for wealth management services and investment options. Asset management companies are expanding their product offerings and targeting retail investors with mutual funds and other investment instruments.

It's important to note that the financial landscape is dynamic, and new developments have been taking place.

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Prepared by

Dr.B.REVATHY

Dean of Arts,

Professor & Head,

Department of Commerce,

Manonmaniam Sundaranar University,

Tirunelveli -627 012, Tamilnadu