	SRI CHANDRASEKHARENDRA SARASWATHI VISWA MAHAVIDALAYA **(Deemed to be University)** **Enathur, Kanchipuram – 631561**

Emerging trends in Financial Markets
(Course Material)

Prepared by

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SCSVMV

Program	MBA
Course Code & Name	T4MF2 & Emerging trends in Financial Markets
Academic Year, Trimester	2020-21, IV
Type of Course	Specialization course
Specialization	Finance
Periods	45
Credit	03
Google classroom code	njg7y66
Google meet link	https://meet.google.com/lookup/h72rsccz54?authuser=1&hs=179
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PART I: COURSE OUTCOMES, OBJECTIVES, OVERVIEW AND SYLLABUS

PART I.1: COURSE OUTCOMES & OBJECTIVES

CO.	COURSE OUTCOMES	COURSE OBJECTIVES	BT Level on course outcome
	On completion of the course, the Students will be able to	**Following are the course Objectives**	
CO1	Understand the objectives, functioning, importance and types of Financial Markets, Institutions, Intermediaries, Regulatory Bodies, Credit rating Institutions, Instruments and rates of return	To get an exposure on financial markets and related areas	Understand
CO2	Evaluate and analyze the ratings provided by the benchmarking agencies on Financial Markets, Products, Institutions and services	To acquire the skills of evaluating and analyzing the ratings provided by various credit rating agencies such as CRISIL, ICRA etc on Financial Markets, Products, Institutions and services	Evaluate & Analyze
CO3	Evaluate and analyze the various market performance indicators	To acquire the skills of evaluating and analyzing the various market performance indicators such as corporate action, Top gainers, Top losers, Bulk deals, market indices, market trends, sector wise performance and company wise performance etc	Evaluate & Analyze
CO4	Understand the interface between equity, debt, bond and money markets	To know the interconnection among various financial markets	Understand
CO5	Understand the importance of fair-trade practices and creating financial literacy amongst investors	To make the students realize and communicate the importance of ethical trade practices in financial markets and creation of investor awareness to overcome fraudulent trades as a social responsibility initiative	Understand
CO6	Understand the availability of various borrowing and investment avenues that facilitates savings mobilization, capital formation and economic development of the Individual, Institutions and the nation as the whole	To make the students realize the presence of various borrowing and investment avenues and their contribution to the overall development of the nation	Understand

Mapping of Course Objectives (Cos) with Program Objectives (Pos)

(Note: Program objectives referred from AICTE's model curriculum for Management program (MBA) 2018)

(Reference link: https://www.aicte-india.org/sites/default/files/AICTE_MBA.pdf)

COs / POs & PSOs	PO1	PO2	PO3	PO4	PO5	PO6
CO1	3	1	1	1	1	3
CO2	2	2	2		1	2
CO3	2	2	2		1	2
CO4	3	1	1			2
CO5		2		3	1	1
CO6	3			3		2

PO1. Business Environment and Domain Knowledge (BEDK):
PO2. Critical thinking, Business Analysis, Problem Solving and Innovative Solutions (CBPI):
PO3. Global Exposure and Cross-Cultural Understanding (GECCU):
PO4. Social Responsiveness and Ethics (SRE):
PO5. Effective Communication (EC):
PO6. Leadership and Teamwork (LT):

1 – Slight, 2 – Moderate, 3 – Substantial

Part I.2: Course Overview

The course by name Emerging trends in Financial Markets will give exposure to the students in the following aspects:

1. Financial System
2. Financial Markets
3. Financial Services
4. Financial Instruments(securities)
5. Savings Mobilization process
6. Financial Markets Regulatory framework
7. Role of Market Intermediaries
8. Role of Credit Rating Agencies
9. Market Participants
10. Market Indicators
11. Interconnection among Markets
12. Trading and settlement mechanism
13. Market Progress
14. Capital formation Process
15. Financial Rates of return matching various investment avenues (Instruments/assets)

PART I.3: COURSE SYLLABUS:

Unit I

Introduction to Money Market- Evolution, Structure and Role of the Indian Money Market – Money Market Instruments in India, Indian Money Market – Future Challenges

Unit II

Capital Market – Introduction, Concept, Role, Importance, Evolution in India etc. – Critical evaluation of the development – Future trends

Unit III

Types of scripts – methods of issue, book-building, road-show, intermediaries in issue management – Primary market intermediaries: commercial banks, development banks, custodians, merchant bankers, issue managers, rating agencies etc.

Unit IV

Secondary Market System and Regulations in India – Stock exchanges in India: History and development and importance – Listing of scripts – On-line trading Depositories: Growth, development, regulation, mechanism – OTC Exchange Stock exchange mechanism: trading, settlement, risk management, investor grievances, basics of pricing mechanism, carry forward, Badala, automated lending and borrowing mechanism Inside trading, circular trading, price rigging etc. – Players on stock exchange: investors, speculators, market makers, bulls, bears, stags – Stock Exchange Board – Stock indices – Role of FIIs, MFs and Investment Bankers

Unit V

Regulations and Regulatory Agencies (Primarily SEBI) for primary markets for secondary markets

Unit VI

Bond market in India: government bond market and its interface with capital market – Debt market in India –Interface between Stock market and bond market

Part II: Unit wise overview and Notes of lecture

Unit I (Overview):

Lesson Plan Number	Lesson Plan	Topics for discussion	Key Take away
01	Financial System	Financial system (Need and Objectives) Money, Credit and Finance in Financial system Functions of Financial System Structure of Financial system	Understanding the concepts of 1. Financing and Liquidity Functions 2. Savings Mobilization
02	Introduction to Financial Markets	Meaning, Roles, Functions and Constituents	Understanding the Overview about Financial Markets
03	Money Market	Concept Nature of Money Market Instruments Characteristics of Money Market Objective Importance Market segments History of Indian Money Market Organized vs unorganized money market Role of Indian Money Market Money market instruments Future challenges	Role of Money market in mobilizing high liquid short term fuds from different sources to Banks, Governments, Traders and Corporates

Lesson Plan Number	**Lesson Plan**	**Topics for discussion**	**Key Take away**
04	Submarkets of Money market	About various submarkets such as 1.Treasury Bills Market 2. Call Money Market 3. Commercial Bills Market 4.Certificate of Deposit Market 5. Commercial Paper Market	Understanding the various functioning of submarkets in terms of the following: ➢ Meaning ➢ Interest /Discount ➢ Income to the investor ➢ Features ➢ Instrument type ➢ Form ➢ Investors ➢ Eligible issuers ➢ Maturity ➢ denominations ➢ Basic issue conditions ➢ Purpose

Unit I – Notes of Lecture

Lesson Plan (No): 1
Name of the Lesson Plan: Financial System

What is Financial System?

- The financial system deals with the financial transactions and the exchange of money between savers, investors, lenders and borrowers.
- Financial systems are made of different intricate and complex models that link financial institutions and markets to provide financial services for various stakeholders operating in the financial system like depositors, lenders, borrowers, government and others.

Money, Credit and Finance

- The financial system is concerned about money, credit, and finance

- **Money** refers to the current medium of exchange or means of payment.

- **Credit** or loan is a sum of money to be returned normally with interest; it refers to a debt of economic unit.

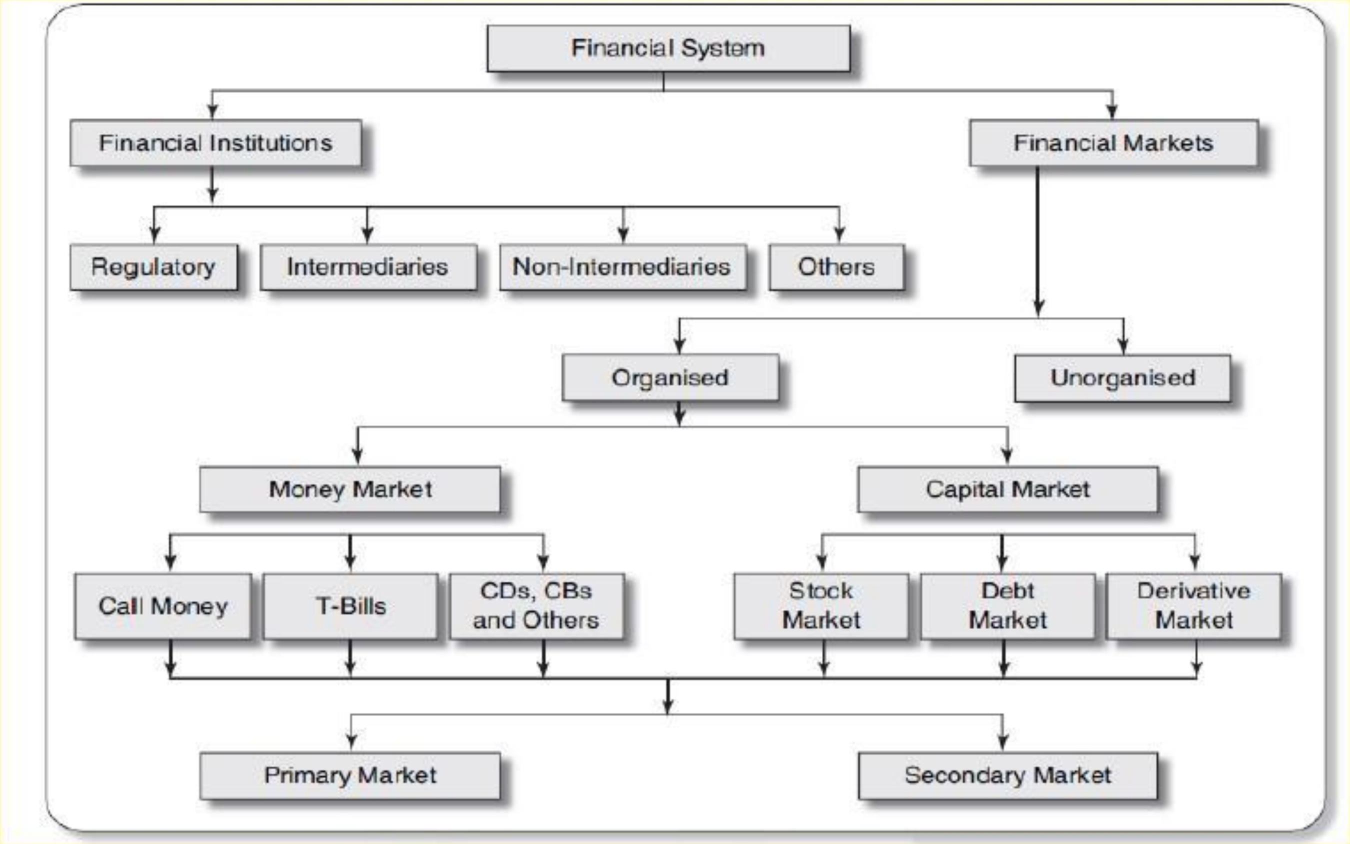
- **Finance** is monetary resources comprising debt and ownership funds of the State, com-pany or person.

Functions of Financial System

- It provides payment system for the exchange of goods and services in the economy.
- It provides the mechanism to pull the funds in terms of household savings for corporate investments.
- It provides the financial capital for long-term capital formation for the government and business organizations.
- It facilitates the investors and other market participants to liquidate their investment alternatives like stocks and bonds etc.
- It provides the avenues for managing the risks faced by the market participants.
- It takes care of both short-term and long-term needs of the market participants.
- It supplies the required financial capital to government for public expenditure on the social welfare activity, infrastructure development etc.

- It provides the price information which helps to coordinate the decentralized decision making process in the various sectors.
- It helps in reduction of the asymmetric information and moral hazard problems which in turn facilitates in reducing the transaction costs
- It creates different investment opportunities for the investors to maximize their return.
- It helps in efficient allocation of financial resources.
- It plays a significant role for economic growth as it helps to create the demand and supply of the funds through which the interest rates are determined in various markets. Changes in interest rates affect the money supply, inflation rate and also the possibility of the foreign investments.

Structure of the Financial System



Classification of Financial Institutions

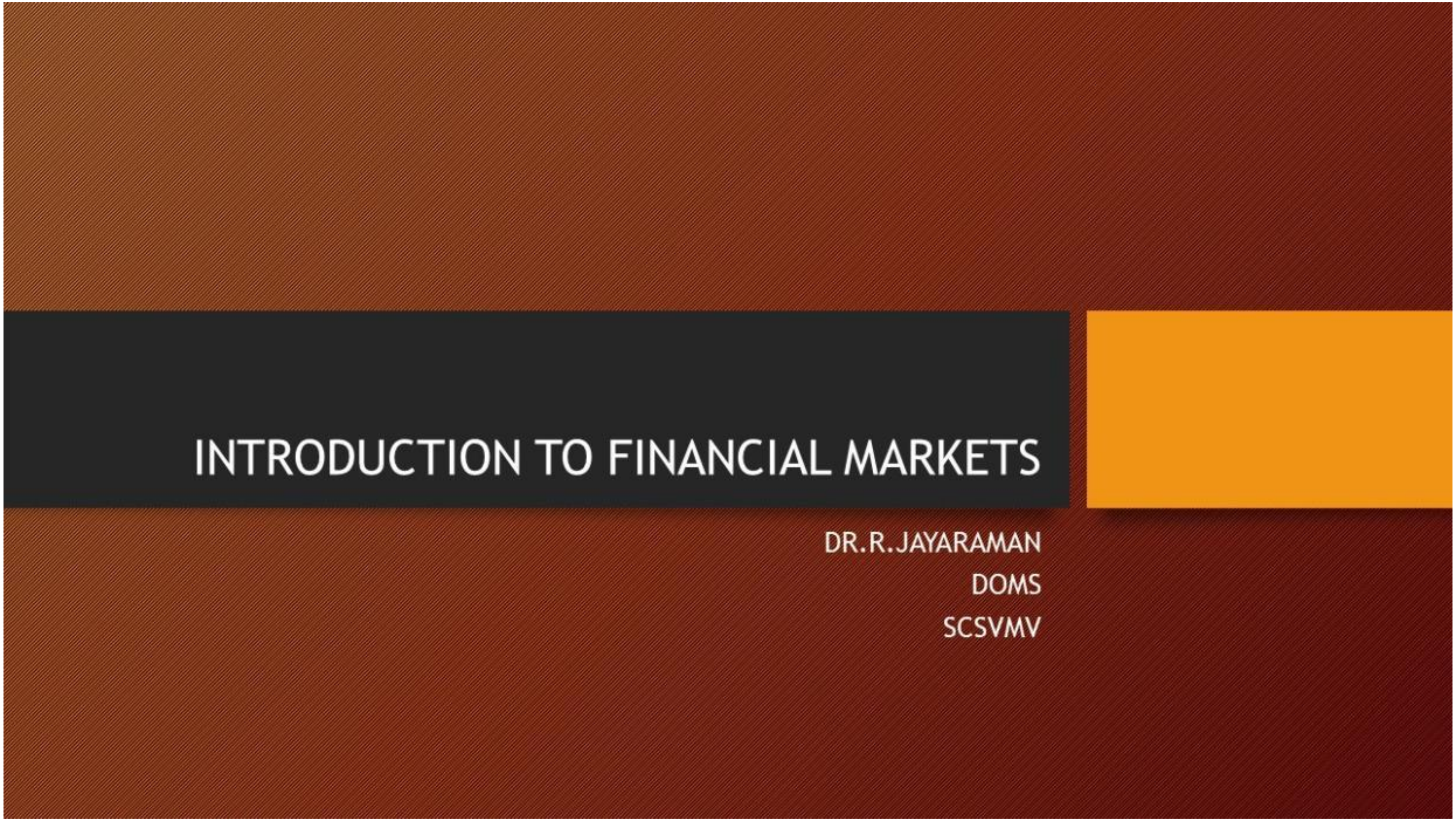
- Banking and Non-Banking
  - Banks provide transactions services
  - Create deposits or credit
  - Subject to legal reserve requirements
  - Can advance credit by creating claims against themselves
  - other institutions can lend only out of resources put at their disposal by the savers
  - Examples of non-banking financial institutions are Life Insurance Corporation (LIC), Mutual Fund Institutions (MFIs), and other Non-Banking Financial Companies (NBFCs).
  - According to Sayers banks are "creators" of credit, and non-banking institutions are "purveyors" of credit

- Intermediaries Vs. Non-Intermediaries
  - Intermediaries intermediate between savers and investors;
  - They lend money as well as mobilise savings;
  - Their liabilities are towards the ultimate savers, while their assets are from the investors or borrowers
  - All banking institutions are intermediaries and LIC and GIC are some of the non-banking financial intermediaries (NBFI)
  - Non-intermediary institutions do the loan business but their resources are not directly obtained from the savers Example: IFC, NABARD etc.

Classification of Financial Markets

- **Money and Capital Markets**
  - This conventional distinction is based on the differences in the period of maturity of financial assets issued in these markets
  - While the money markets deal in the short-term claims (with a period of maturity of one year or less), the capital markets does so in the long-term (maturity period above 1 year) claims
- **Primary and Secondary Markets**
  - Primary markets deal in the new financial claims or new securities
  - Secondary markets deal in securities already issued or existing or outstanding

Lesson Plan (No): 2
Name of the Lesson Plan: Introduction to Financial Markets



MEANING

- MARKET IS DEFINED AS AN INSTITUTION OR ARRANGEMENT THAT FACILITATES THE PURCHASE AND SALE OF GOODS AND SERVICES.
- FINANCIAL MARKET IS AN INSTITUTION OR ARRANGEMENT THAT FACILITATES THE EXCHANGE OF FINANCIAL INSTRUMENTS INCLUDING DEPOSITS AND LOANS, CORPORATE STOCKS AND BONDS, GOVERNMENT BONDS AND INSTRUMENT SUCH AS OPTIONS AND FUTURE CONTRACTS

DEFINITION

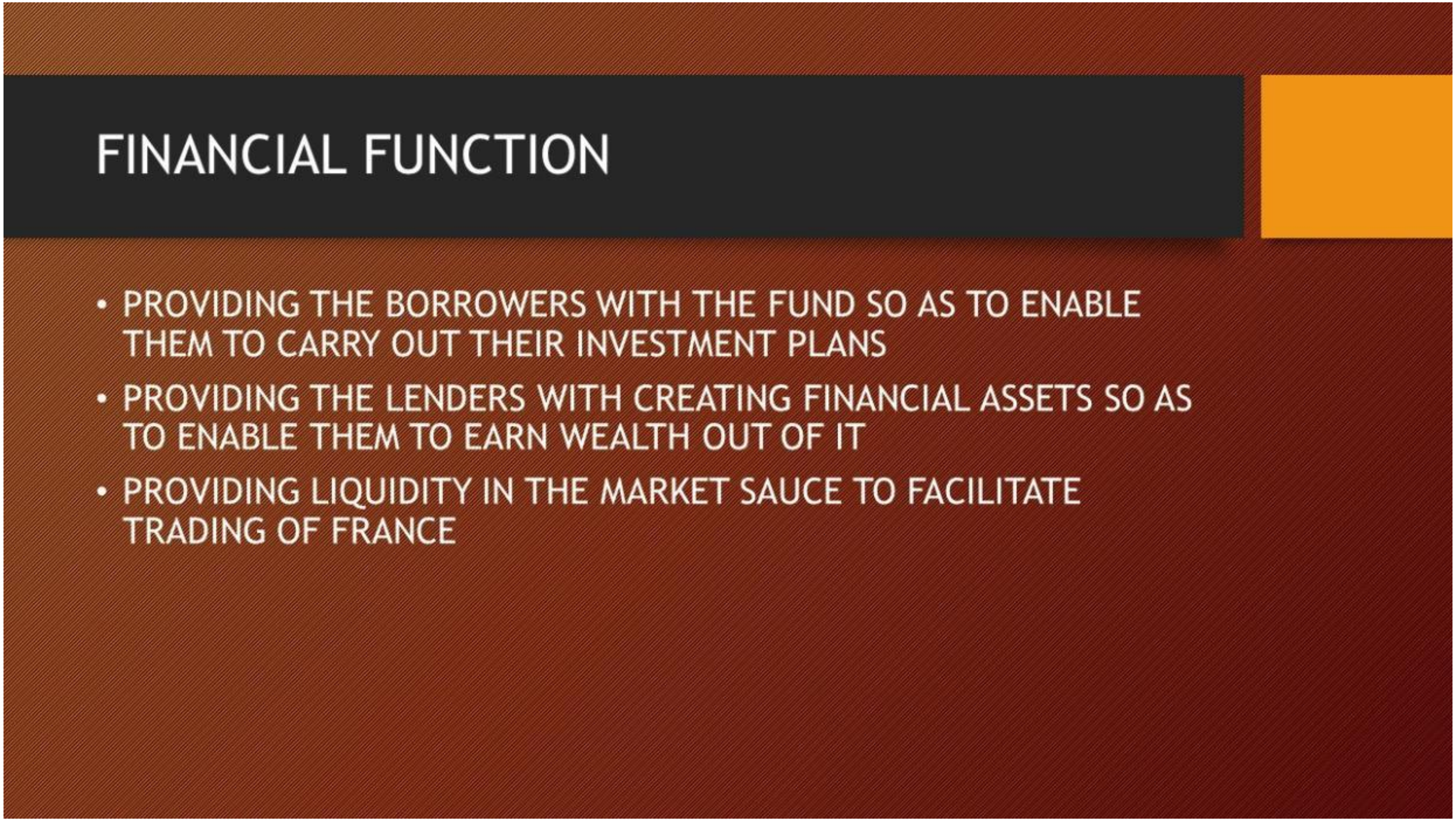
THE PLACE WHERE PEOPLE AND ORGANISATIONS WANTING TO BORROW MONEY ARE BROUGHT TOGETHER WITH THOSE HAVING SURPLUS FUNDS IS CALLED A FINANCIAL MARKETS

ROLE OF FINANCIAL MARKETS

- SAVINGS MOBILISATION
- INVESTMENT
- NATIONAL GROWTH
- ENTREPRENEURSHIP GROWTH
- INDUSTRIAL DEVELOPMENT

INTERMEDIARY FUNCTIONS OF FINANCIAL MARKETS

- TRANSFER OF RESOURCES
- ENHANCING INCOME
- PRODUCTIVE USAGE
- CAPITAL FORMATION
- PRICE DETERMINATION
- SALE MECHANISM
- INFORMATION


FINANCIAL FUNCTION
• PROVIDING THE BORROWERS WITH THE FUND SO AS TO ENABLE THEM TO CARRY OUT THEIR INVESTMENT PLANS
• PROVIDING THE LENDERS WITH CREATING FINANCIAL ASSETS SO AS TO ENABLE THEM TO EARN WEALTH OUT OF IT
• PROVIDING LIQUIDITY IN THE MARKET SAUCE TO FACILITATE TRADING OF FRANCE

CONSTITUENTS OF FINANCIAL MARKETS

- MONEY MARKET
- CAPITAL MARKET

MONEY MARKET

- MEANING – MONEY MARKET IS A MARKET WHERE SHORT TERM INSTRUMENTS THAT MATURE IN A YEAR OR EARLIER ARE TRADED
- FEATURES

1. SHORT TERM FINANCING
2. NERVE CENTER
3. LIQUIDITY ADJUSTMENT
4. CENTRAL BANK
5. RISK
6. SUBMARKETS

MONEY MARKET INSTRUMENTS

1. COMMERCIAL PAPER
2. CERTIFICATES OF DEPOSIT
3. TREASURY BILLS
4. REPURCHASE AGREEMENT
5. CALL MONEY INSTRUMENTS
6. COMMERCIAL BILL MARKET

COMMERCIAL PAPER

- IT IS A SHORT TERM FINANCIAL INSTRUMENT ISSUED BY LARGE AND CREDIT WORTHY COMPANIES
- IT IS A TYPICAL DEBT INSTRUMENT SOLD BY ONE COMPANY TO ANOTHER COMPANY OR FINANCIAL INSTITUTION TO RAISE IMMEDIATE FUNDS
- IT CONTAINS A PROMISE TO PAY BACK A HIGHER SPECIFIED AMOUNT AT A DESIGNATED TIME IN THE IMMEDIATE FUTURE, SAY, 30 DAYS
- BY ISSUING COMMERCIAL PAPER , A CORPORATION AVOIDS THE PROCESS OF APPLYING FOR A LOAN
- THE MAIN PURPOSE OF COMMERCIAL PAPER IS TO MANAGE WORKING CAPITAL POSITION OF THE COMPANY

CERTIFICATE OF DEPOSITS

1. CERTIFICATE OF DEPOSITS ARE THE DEBT INSTRUMENTS SOLD BY BANKS AND OTHER DEPOSITORY INSTITUTION'S .
2. CERTIFICATE OF DEPOSIT PAYS THE DEPOSITOR A SPECIFIC AMOUNT OF INTEREST DURING THE TERM OF THE CERTIFICATE, PLUS THE PURCHASE PRICE OF THE CERTIFICATE OF DEPOSIT AT MATURITY

TREASURY BILLS

1. TREASURY BILLS ARE ALSO CALLED AS T – BILLS, ARE SHORT TERM DEBT INSTRUMENTS ISSUED BY THE GOVERNMENT TO OBTAIN FUNDS
2. T-BILLS ARE ISSUED IN 3 ,6 AND 12 MONTH MATURITIES
3. THESE INSTRUMENTS DO NOT MAKE REGULAR INTEREST PAYMENTS ; RATHER T ARE SOLD AT A DISCOUNT .
4. THIS MEANS THAT SUCH BILLS ARE SOLD FOR AN AMOUNT THAT IS LESS THAN THE AMOUNT PROMISED BY GOVERNMENT AT MATURITY .
5. THE DIFFERENCE BETWEEN THE PURCHASE PRICE AND THE FACE VALUE IS THE RETURN FROM THE TREASURY BILLS
6. THE ADVANTAGES OF READY MARKET AND ZERO DEFAULT RISK FROM THE GOVERNMENT MAKES THIS INSTRUMENT VERY ATTRACTIVE

REPURCHASE AGREEMENT

1. AN AGREEMENT BY 2 PARTIES IN WHICH THE BORROWER SELLS AND AGREES TO BUY BACK A FINANCIAL INSTRUMENT IS CALLED A REPURCHASE AGREEMENT . THIS IS POPULARLY KNOWN AS REPO AND IS GENERALLY USED BY BANKS
2. FOR INSTANCE IF A BANK NEEDS SHORT TERM CASH TODAY , IT CAN SELL SOME FINANCIAL INSTRUMENTS TO AN INSTITUTION WITH THE AGREEMENT THAT THE BANK WILL REPURCHASE THE FINANCIAL INSTRUMENT IN 30 DAYS AT HIGHER PRICE
3. HERE THE FINANCIAL INSTRUMENT ACTS AS A COLLATERAL

CALL MONEY INSTRUMENTS

1. THE CALL MONEY INSTRUMENTS ARE TRADED IN THE CALL MONEY MARKET, WHICH IS THE MARKET WHERE CALL FUNDS ARE BORROWED AND LENT
2. CALL FUNDS INCLUDE VERY SHORT PERIOD FUNDS SUCH AS MONEY AT CALL AND SHORT NOTICE
3. TRANSACTIONS ON CALL MONEY MARKET ARE CONDUCTED OVER THE TELEPHONE.
4. DEALINGS ARE ARRIVED AT, AFTER PROLONGED TELEPHONIC NEGOTIATIONS BETWEEN BORROWERS AND LENDERS
5. LENDERS ISSUE A RBI CHEQUE IN FAVOUR OF THE BORROWING BANK , WHICH IS ACKNOWLEDGED BY THE CALL MONEY BORROWING RECEIPT.
6. THE BUSINESS COMMENCES AT 10:00 AM AND CLOSE BY 2.30 PM .
7. ON THE REVERSAL DAY THAT IS THE NEXT DAY, THE BORROWING BANK REPAYS THE AMOUNT WITH INTEREST BY ISSUING RBI CHEQUE AND THE LENDER RETURNS THE RECEIPT

COMMERCIAL BILLS

CAPITAL MARKET – MEANING

- THE MARKET WHERE LONG TERM FUNDS ARE BORROWED AND LENT IS KNOWN AS CAPITAL MARKET .
- THE PRIMARY PURPOSE BEING DIRECTING THE FLOW OF SAVINGS INTO LONG TERM INVESTMENTS (MOSTLY FOR A PERIOD OF ONE YEAR AND ABOVE)

- FEATURES

1. DEMAND FOR FUNDS
2. INSTRUMENTS
3. SUPPLY OF FUNDS
4. IDEAL CONDUIT
5. ECONOMIC GROWTH
6. PRICE MECHANISM

CAPITAL MARKET INSTRUMENTS

- CORPORATE STOCK
- CORPORATE BONDS
- MORTGAGES
- COMMERCIAL LOANS
- LONG TERM/ MEDIUM TERM SECURED LOANS
- GOVERNMENT BONDS

CORPORATE STOCK

1. IT IS AN EQUITY INSTRUMENT THAT REPRESENTS OWNERSHIP OF A SHARE OF THE ASSETS AND EARNINGS OF A CORPORATION
2. A FIRM UNDERTAKES SALE OF STOCK WHEN IT WISHES TO MOBILISE CAPITAL REQUIRED FOR TAKING UP NEW INVESTMENT PROJECTS OR FOR MODERNIZATION AND EXPANSION PROJECTS .
3. THE PROFITS EARNED BY A CORPORATION ARE PAID TO SHAREHOLDERS ARE KNOWN AS DIVIDENDS
4. UNLIKE INTEREST PAYMENTS, DIVIDEND PAYMENTS VERY WITH RESPECT TO THE HEALTH OF THE COMPANY.
5. A COMPANY WOULD RECEIVE MONEY ONLY WHEN SHARES OR STOCK ARE ISSUED BY IT
6. PRIMARY AND SECONDARY MARKET

CORPORATE BONDS (DEBENTURES)

1. CORPORATE BOND IS A DEBT INSTRUMENT
2. ISSUED BY A CORPORATE ENTITY THAT CONTAINS A PROMISE THAT THE FIRM WILL MAKE SPECIFIED INTEREST PAYMENT AND A PRINCIPAL AMOUNT OR THE FACE VALUE ON THE MATURITY OF THE INSTRUMENT
3. UNLIKE STOCKHOLDERS, BOND HOLDERS OWN NO SHARES OF THE PROFITS.
4. BOND HOLDERS ARE ENTITLED ONLY TO THE INTEREST PAYMENTS AND THE FACE VALUE DUE ON MATURITY

MORTGAGES

1. A DEBT INSTRUMENT USED TO FINANCE THE PURCHASE OF HOME OR OTHER FORM OF REAL ESTATE WHERE THE UNDERLYING REAL ESTATE SERVES AS A COLLATERAL FOR THE LOAN IS KNOWN AS A MORTGAGE
2. IF THE BORROWER DEFAULTS, THE LENDER RECEIVES TITLE TO THE REAL ESTATE TOWARDS PAYMENT OF THE DEBT
3. THERE ARE 2 TYPES OF MORTGAGES. ONE IS THE FIXED RATE MORTGAGE AND THE OTHER ONE IS ADJUSTABLE RATE MORTGAGE
4. IN THE FIXED RATE MARKET MORTAGE , THE RATE OF INTEREST IS FIXED THROUGHOUT THE LIFE
5. IN THE ADJUSTABLE RATE MARKET MORTGAGE, RATE OF INTEREST IS FLOATING THROUGHOUT THE LIFE

COMMERCIAL LOANS

- COMMERCIAL LOANS ARE LOANS OBTAINED BY INDIVIDUALS

LONG TERM/ MEDIUM TERM SECURED LOANS

- LOANS BORROWED BY CORPORATES FROM DEVELOPMENT AND COMMERCIAL BANKS WITH COLLATERAL SECURITIES ARE KNOWN AS LONG TERM/ MEDIUM TERM SECURED LOANS

GOVERNMENT BONDS

CENTRAL, STATE AND LOCAL GOVERNMENTS ISSUE MUNICIPAL BONDS TO OBTAIN LONG TERM FUNDS FOR FINANCING GOVERNMENT PROJECTS

Lesson Plan no: 3
Name of the Lesson Plan: Money Market

MONEY MARKET

- CONCEPT

  THIS IS THE MARKET FOR SHORT-TERM MONEY AND FINANCIAL ASSETS THAT ARE CLOSE SUBSTITUTES OF MONEY WITH IN A PERIOD OF ONE YEAR.

- NATURE OF MONEY MARKET INSTRUMENTS

  THE INSTRUMENTS DEALT WITHIN THE MONEY MARKET ARE LIQUID AND CAN BE TURNED OVER QUICKLY AT LOW TRANSACTION COST AND WITH OUT LOSS.

CHARACTERISTICS OF MONEY MARKET

- NO SPECIFIED GEOGRAPHICAL AREA CALLED PLACE
- BORROWING NAD LENDING OF SHORT TERM FUNDS
- BROKERS INTERFIARENCE IS THERE BUT IN SOME CASES ITS THERE.
- FUNDS ARE TRADED FOR A MAXIMUM PERIOD OF ONE YEAR.
- EXECUTES THE WORK AND PROCESS THROUGH THE SUB –MARKETS
- THE INSTRUMENTS ARE SUSTITUTING THE MONEY AND THEY ARE CALLED AS NEAR MONEY

OBJECTIVES

- Equilibrating the surplus and deficit funds
- To provide an opportunity to the users to meet their requirements at a reasonable cost
- Helps the central bank to interfere in the liquidity of the economy

importance

- Source of capital
- Ideal investments- by banks to maintain their statutory reserve requirements. For instance the requirements of CRR and SLR vary every fortnight depending upon bank's NDTL (net demand and time liability).
- Effective monetary management.
- Economic development
- Efficient banking system
- Facilitating the trade activities
- Helpful to government.

market segments(sub-market)

- Call money market
- Bill market
- Market for certificates of deposit
- Market for commercial paper

Indian money market

- History

before 1935

market remained highly disintegrated, unorganized and narrow and was in a very backward position.

after 1935

RBI was set up

during 1951 the planned economic development commenced, which was the first foot step in case of the development of money market.

during 1969 nationalization of banks happened which made RBI to reform the financial system of our country.

Committee set up by RBI

- Sukhmoy chakravarthy committee (1982)to review the performance of money market in India.
- Vaghul working group (1986) for the same
- Narashimman committee to review the financial system of our country.

Recommendations made by the committees

- Sukhmoy chakravarthy committee recommended that there should be some measures for improvement in the monetary system.
- Vaghul working group recommended that there should be some measures to activate and vitalize the money market.
- Narashimman committee recommended that there should be some measures to streamline the functioning of the financial system.

Evolution of Indian money market

- Hundies /indigenous has been in the practical since 12^{th} century, we can say money market in our country is the existing market but that was not an organized market till RBI has established.

Organized vs. unorganized money market

Feature	Organized sector	Unorganized sector
Interest rates	Reasonable interest rates	Normally vague and exorbitant rate of interest
Institutions	Comprises RBI,SBI,27 public sector commercial banks, private sector commercial banks, FOREIGN BANKS, RRBs,Non scheduled commercial banks,NBFCs comprising of LIC,GIC and UTI etc.,	Indigenous bankers , money –lenders and chit funds etc
Instruments	TBs,CDs,Cps,callfunds,derivatives etc	Hundi,indegenous bill of exchange etc.,

Role of indian money market

Role towards commercial banks, trade and commerce, central and state government and the economy as the whole.

- Money market is able to provide an outlet for any surplus funds available temporarily.
- It provides inter bank call money market and bills rediscount market.
- Stable the economy by contributing its best
- Providing fund to governments also
- Facilitates trade and traders to execute their business
- Helps the industries to meet out their operational fund requirement called working capital.

Money market instruments

- Money at call and short notice
- TBs
- CDs
- CPs
- Trade bills
- Securitized debt
- Repurchase option or ready forward

New money market instruments in India

- Asset securitization
- Factoring
- Inter bank participation certificates (IBPCs)
- Money market mutual funds (MMMFs)

Money market in india future challenges

- Introduction and use of a reference/base rate
- Reduction in fortnightly balances to be maintained under CRR
- Taking a relook at CRR
- More Market
- Government Securities And treasury bills to provide positive yield over inflation rate
- Up gradation of IT
- Setting up of depository
- Treasury bills of various maturities to be introduced
- Maturity period of commercial bills to be reduced

CONT....

- Removal of impediments in the growth of new instruments

Lesson Plan no: 04
Lesson plan: Submarkets of Money Market

Money Market Instruments

Call money Instruments – Interbank Call money market/ over the phone market

<table>
<tr><td>Other Name</td><td colspan="2">Notice Money (Money at call at short notice)</td></tr>
<tr><td>Meaning</td><td colspan="2">➢ Amount borrowed/lent basis demand for a very short duration/time (overnight to 14 days)
➢ Unsecured short-term borrowing</td></tr>
<tr><td>Location</td><td colspan="2">Centralized inter- bank call money market in Mumbai
Sub- markets in delhi, Kolkata, Chennai and ahmedabad</td></tr>
<tr><td>Activities</td><td colspan="2">Inter-bank basis</td></tr>
<tr><td rowspan="2">Participants</td><td>Borrowers & Lenders</td><td>Only lenders</td></tr>
<tr><td>RBI, SCBs, Co-operative Banks and Primary Dealers</td><td>1. Financial Institutions like LIC, UTI, GIC,IDBI,NABARD,ICICI and Mutual Funds etc
2. Corporates with bulk lendable resources of minimum Rs 5 crores per transaction can lend through primary dealers
(Note: The particular company should not have short term borrowings with banks)</td></tr>
<tr><td colspan="3">Features of Call money</td></tr>
<tr><td>1. Interest rate relationship</td><td colspan="2">1.Call money interest rate is the reference rate for other money market
2. Call money interest rate is the reference rate Govt. securities market also (up to certain level)</td></tr>
<tr><td>2. Interest rate driven through market</td><td colspan="2">Demand and supply
Both Inter-day and intra-day</td></tr>
<tr><td colspan="3">Purpose</td></tr>
<tr><td colspan="3">1.To overcome temporary mismatch of funds
2.To meet CRR and SLR mandatory requirements (NDTL – Net Demand and Time Liability –
Banks accepts two deposits 1) Time Deposit – FD & RD – Repayment will be on maturity & 2) Demand Deposit – Savings account - Repayment will be on demand)
3.To meet sudden demand for funds arising due to huge outflows</td></tr>
</table>

Treasury Bills

Other Name	Short term promissory notes issued by Govt
Meaning	**Treasury Bills are** Short term promissory notes issued by Govt for their requirement, with different maturity periods say 14 to 365 days
Interest /Discount	TBs are issued at discount and redeemed at Par Interest on TBs is the discount rate
Yield of T-bills	Yield = ((FV-IP)/IP) X (365/Maturity period in days) x100 Suppose the FV is RS 100 IP is Rs 99.97 Maturity period is 182 days Then the yield = ((100-99.97)/99.97) x (365/182) x100 = 0.0601 or 6.01% approx. - risk free rate for the CAPM model which conveys the cost of capital K_c or K_e
Features of Treasury Bills	
1. No risk	Since claims of Govt
2. Form	Promissory note
3. Investors	Person, Firm, Company, state govts, SCBs (Scheduled commercial banks will invest to maintain SLR)
4. Auction	Sold through auction Pre- announcement of Amount before auction Discount/ int / cutoff rate and price of issue will be determined in auction
5. Repayment	t-bills are repaid at par on the expiry at the office of RBI
6. Availability of primary and secondary market	Primary dealers/DFHI/Banks//fund managers
7. underwritings	Primary dealers can underwrite a minimum of 25%
8. SLR	T-Bills are approved instruments for the purpose of maintaining SLR norms by banks
9. Day count	364 days a year
Purpose	
1.To overcome fiscal deficit	

Commercial Paper

Other Name	CP
Meaning	**It is the** Short-term promissory note issued by corporates
Interest /Discount	CPs are issued at discount and redeemed at Par
Income to the investor	Difference between the initial investment and maturity value is the **Income to the investor**
Features of Commercial Paper	
1. Instrument type	Unsecured money market instrument
2. Form	Promissory note
3. Investors	Person, Company, unincorporated bodies Banks, NRIs, FIIs
4. Eligible issuers	Corporates Primary dealers All- India Financial institutions (SCBs, Development Banks and NBFCs)
5. Maturity	Maturity between 7 days to one year
6. denominations	Rs 5 lakhs and multiples thereof
7. Basic issue conditions for corporates	1.Tangible net worth not less than Rs 4 crores as per latest audited B/S 2. As per sanctioned WC limit by Bank(s) or AIFIs 3. Shall obtain the credit rating minimum A3 from credit rating agencies before issuing CPs
Purpose	
1.To meet out Working Capital requirements	

Certificate of Deposit

Other Name	CD
Meaning	**It is the** Short-term promissory note issued by Banks and select (or) eligible FIs
Interest /Discount	CDs can be issued at discount and redeemed at Par CDs can be issued at floating discount rate decided by Banks/FIs
Income to the investor	Difference between the initial investment and maturity value is the **Income to the investor** **Or** **The Interest rate (floating) decided by** Banks/FIs
Features of Call money	
1. Instrument type	Unsecured money market instrument
2. Form	Promissory note
3. Investors	Person, Company, unincorporated bodies Banks, NRIs, FIIs, Trusts etc
4. Eligible issuers	SCBs (exclusive of RRBs and Local Area Banks) Select All-India Financial Institutions
5. Maturity	Issued by banks: 15 days to one year Issued by Select All-India Financial Institutions: one year to three years
6. denominations	Rs 1 lakhs and multiples thereof
7. Basic issue conditions for Banks	1. To maintain reserve requirements
Purpose	
1.To Lend	

Unit II (Overview):

Lesson Plan Number	Lesson Plan	Topics for discussion	Key Take away
01	Capital Market	➢ Meaning ➢ Features ➢ Segments ➢ Major Instruments ➢ Participants ➢ Functions ➢ Evolution ➢ Importance ➢ Growth ➢ future trends	Understanding how Capital Market caters long term funds for capital formation and productive usage by Industries and Government through various Instruments.

Unit II – Notes of Lecture

Lesson Plan (No): 1
Name of the Lesson Plan: Capital Market

Capital Market

Meaning	➢ Market for borrowing and lending long-term capital funds required by business enterprises ➢ Capital market is the market for financial assets that have long or indefinite maturity. ➢ Capital market offers an ideal source of external finance
Features	➢ It indicates the strength of the Economy ➢ It is the very largest source for funds with long or indefinite maturity ➢ Enhances the capital formation ➢ Facilitates in channelizing the savings pool or surplus pool (Savings of Individuals, Institutions and Government) towards optimal parking of capital in the economy
Segments	1. Primary Market 2. Secondary Market 3. OTCEI
Major Instruments	Share, Debentures, Bonds, Depository Receipts, Futures, Options and Mutual Fund Units
Participants	Insurance COs, Investment COs, Pension Funds, Mutual Funds, Non-Financial enterprises (Corporates), Ultimate Economic Units (Households) and Governments
Functions	➢ Allocation function – allocation of finance and allocation of shares, debentures etc (Primary Market) ➢ Liquidity function – trading of shares (existing share holders can liquidate the shares in stock exchange by selling the shares) ➢ Indicative function – indicating price movements, Cos performance etc ➢ Savings and investments function ➢ Transfer function ➢ Merger function

Evolution	**Infrastructure stage (1947 to 1973)** ➢ Establishment of IFCI (1948), ICICI (1955), IDBI and UTI (1964), SFCs (during 50s and 60s) ➢ Number of important enactments made such as capital issues (control) act, 1947, Securities contracts (regulation) act 1956 and Indian companies act 1956 **New issue stage (1973 to 1980) Enactment of FERA:** under this act, shareholding of foreign firms in joint ventures was restricted to 40% if the company wanted to be recognized as Indian companies. During this stage large number of domestic companies came out with new/fresh issue of shares to the public **The SEBI Stage (1980 to 1992)**
Importance	➢ It serves as an important source for the productive use of economic savings ➢ It provides incentives to savings and facilitates capital formation ➢ It provides an avenue for investors, particularly the household sector to invest in financial assets ➢ Induces economic growth
Growth	➢ Computerized online trading ➢ Setting up of clearing houses ➢ Constitution of depository ➢ Sustained regulation by SEBI ➢ Permission to Indian companies to raise resources abroad through the issue of global depository receipts and American depository receipts and foreign currency convertible bonds ➢ Opening up of the market for portfolio investment by FIIs ➢ Encouragement for foreign private placement ➢ Increasing M&As ➢ Entry for new institutions like merchant bankers, leasing and higher purchase companies, venture capital funds and companies etc ➢ Growth in savings mobilization from household sector ➢ Introduction to innovative financial instruments such as warrants, cumulative convertible preference shares ➢ Measures taken by SEBI for the protection of the interest of the investors

future trends	➢ Active participation of retail investors ➢ Motivation of FII ➢ Motivation of III ➢ Active trading ➢ Investor education ➢ Scope for cross border M&As ➢ Strengthening of investor Grievance etc

Unit III (Overview):

Lesson Plan Number	Lesson Plan	Topics for discussion	Key Take away
01	Primary Market	➢ Meaning ➢ other name ➢ securities issued ➢ Intention ➢ Seller ➢ Fund flow to the company ➢ Types of Scrips ➢ Name of securities ➢ Methods of issue of shares ➢ Public issue through prospectus ➢ Tender or Book Building Method ➢ Offer for sale method ➢ (bought out deals) ➢ Private placement method ➢ Rights issue ➢ Intermediaries in the issue management	1. Understand the process of raising capital through primary market by Corporate firms with different methods, intermediaries, and Instruments **2.** Price discovery and demand for shares through Book building process

Unit III – Notes of Lecture

Lesson Plan (No): 1
Name of the Lesson Plan: Primary Market

Primary Market

Meaning	Primary market is a market where new securities are issued and subscribed for the first time
other name	new issue market or market for IPOs and FPOs
securities issued	new securities or fresh securities
Intention	securities are offered to the public und institutions, for subscription, for raising capital. Such issue may be a first-time issue known as initial public offering or subsequent issue of capital known as follow on public offering
Seller	the company / issuer
Fund flow to the company	Primary market's contribution to company financing is direct
Types of Scrips	**Group A:** Shares in this category have a high Liquidity, Market Capitalization and Capital Appreciation. **Group B1 and B2:** Like A, but with a slightly lower Market Capitalization and Appreciation but good liquidity. There are financially healthy stocks. **Group C:** It includes the odd lots of Categories of A, B1 and B2. As you may be aware, Shares/Stocks are sold in Lots, any ODD lot remaining among the A, B1, B2 Groups, are put under C Category. **Group F:** It is a Debt Market Segment (Note A. B1.B2 are all only Equities) **Group T:** Their settlement needs to be done by DELIVERY only. Trading under "T", means, actual delivery of Scrips is warranted. **Group Z:** Suspended Lots of Shares. They are Suspended due to non-compliance of SEBI Norms.
Name of securities	➢ equity shares ➢ preference shares ➢ debentures ➢ ADRs/GDRs ➢ derivatives ➢

Methods of issue of shares	➢ Public issue through prospectus ➢ tender or book building ➢ offer for sale ➢ placement ➢ rights issue
Public issue through prospectus	Under this method companies will directly issue to general public a fixed number of shares at a given price
Tender or Book Building Method	➢ **Book building** refers to the process of generating, capturing, and recording institutional investor demand for shares at a given price during an IPO (or other securities during their issuance process) in order to support efficient price discovery. Usually, the issuer appoints a major investment bank or Merchant Banker to act as a major bookrunner. ➢ In book building mechanism, the issue price is not priorly determined by the company under not inviting public to subscribe the shares ➢ the company initiates the process with an indicative price band which is fixed through the process of consultation with its merchant banker and ask its merchant banker to invite bids from prospective investors at different prices ➢ based on the response from investors the final price will be selected ➢ the merchant banker also called as bookrunner manages the entire book building process ➢ investors who have bid a price equal to or more than the final price selected are given allotment. those who have bid for a lower price will get their application money refunded **Merits of Book building** ➢ This process allows for price and demand discovery ➢ Demand for shares is known under book building process, even before the issue closes. so, if there is not much demand, the issue may be deferred and rescheduled to a future date

Offer for sale method (bought out deals)	➢ issuing company sells the securities at an agreed fixed price to sponsoring institutions or intermediaries such as issue houses /merchant bankers /investment banks /stockbrokers ➢ The issue houses resell the securities to the ultimate investors at a price higher than the price at which they were acquired from the company ➢ difference between the sale price and purchase price called as turn or spread, represents the remuneration of the issue houses
Private placement method	➢ Placement involves Sale by an issue house to their own clients, of securities which have been previously purchased from the issuing company ➢ securities are first acquired by issue houses like offer for sale method but instead of being subsequently offered to the public, they are placed with the clients of the issue houses both individual and institutional clients or investors
Rights issue	➢ In case of companies who's securities are already listed and widely held , shares can be offered to the existing shareholders ➢ Rights – an option given to the existing shareholders by the existing company ➢ The option is the existing shareholders can get a quantum of shares freshly issued by the company through the execution of share warrant.
Intermediaries in the issue management	➢ **Merchant bankers** – issue manager/lead manager/issue house – their role is bought-out deals ➢ **Registrars** – appointed by the company in consultation with the merchant banker. Their role is classified into pre-issue roles and post –issue roles **Pre-issue roles** – 1.Suggest draft application form to the merchant bankers 2. Help in identifying collection centers. 3. Assist in opening collection accounts with banks 4.Send instructions to collecting branches, for collection of filled in application along with cheques and dd 5.Workout modalities to receive the collection figures on a regular basis until subscription list is closed

	Post-issue roles – 1.Rceive the collection figures every day 2. Tabulate and classify the collection data based on the standard proforma of slabs of shares applied for 3.Keep the merchant bankers and the company informed of the progress of total Subscriptions Inform the stock exchange about the closure of issue ➢ **Collecting and coordinating banker** – collect the daily subscriptions, coordinating banker collect the information of daily subscription. The coordinating banker may be the same collection bank or a different bank ➢ **Underwriters &Brokers** ➢ **Printers, advertising agencies and mailing agencies** ➢ **Credit rating agencies – they credit rate the IPOs and FPOs**

Unit IV (Overview):

Lesson Plan Number	**Lesson Plan**	**Topics for discussion**	**Key Take away**
01	Secondary Market	➢ Meaning ➢ Functions of Stock Exchange ➢ NSE ➢ BSE ➢ Index calculation ➢ LISTING OF SECURITIES ➢ ONLINE TRADING ➢ DEPOSITORIES ➢ OTC ➢ TRADING & SETTLEMET ➢ RISK MANAGEMENT ➢ INVESTOR GREVIENCES ➢ SHARE PRICE - MECHANISM ➢ Insider Trading ➢ Circular Trading ➢ Price Rigging ➢ Players in stock exchange	**Understand the stock market operations in terms of** 1. Index calculation 2. Online trading 3. Dematerialization process 4. Clearing and settlement of Scrips and Funds 5. Liquidity/ transfer of shares 6. Share price movement 7. Fraudulent trade practices **8.** Investment vs speculation

Unit IV – Notes of Lecture

Lesson Plan (No): 1
Name of the Lesson Plan: Secondary Market

Secondary Market

Meaning	➢ A market where investors purchase securities or assets from other investors, rather than from issuing companies themselves. The national exchanges - such as the New York Stock Exchange and the NASDAQ, BSE, NSE are secondary markets. ➢ A newly issued IPO will be considered a primary market trade when the shares are first purchased by investors directly from the underwriting investment bank; after that any shares traded will be on the secondary market, between investors themselves. In the primary market prices are often set beforehand, whereas in the secondary market only basic forces like supply and demand determine the price of the security.
Functions of Stock Exchange	**Maintains Active Trading** Shares are traded on the stock exchanges, enabling the investors to buy and sell securities. The prices may vary from transaction to transaction. A continuous trading increases the liquidity or marketability of the shares traded on the stock exchanges. **Fixation of Prices** Price is determined by the transactions that flow from investors' demand and supplier's preferences. Usually the traded prices are made known to the public. This helps the investors to make better decisions. **Ensures Safe and Fair Dealing** The rules, regulations and by-laws of the stock exchanges' provide a measure of safety to the investors. Transactions are conducted under competitive conditions enabling the investors to get a fair deal. **Aids in Financing the Industry** A continuous market for shares provides a favourable climate for raising capital. The negotiability and transferability of the securities helps the companies to raise long-term funds. When it is easy to trade the securities, investors are willing to subscribe to the initial public offerings. This stimulates the capital formation. **Dissemination of Information** Stock exchanges provide information through their various publications. The publish the share prices traded on daily basis along with the volume traded. Directory of Corporate information is useful for the investors' assessment

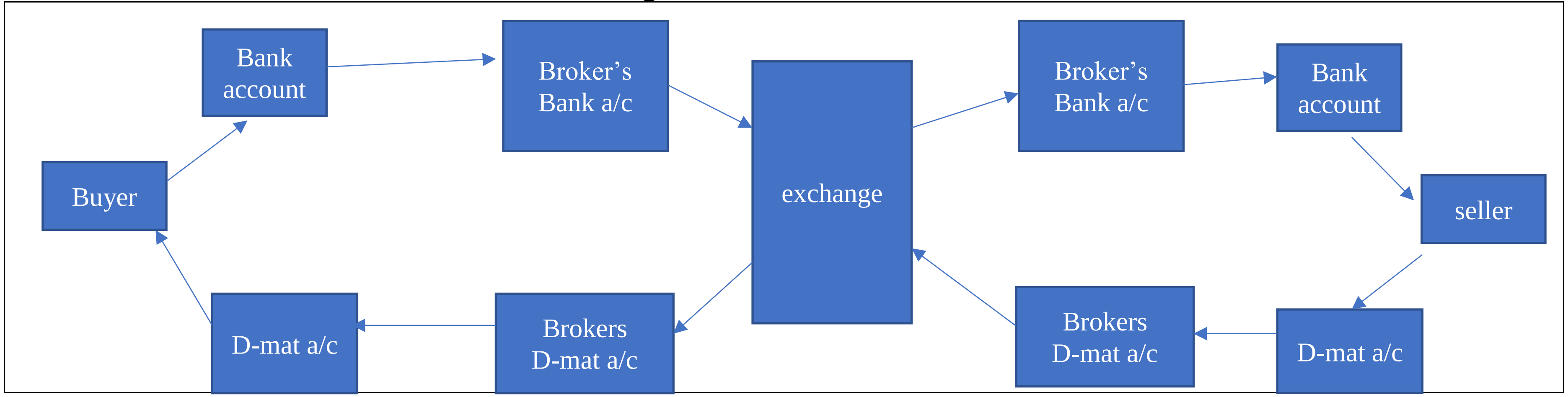
	regarding the corporate. Handouts, handbooks and pamphlets provide information regarding the functioning of the stock exchanges. **Performance Inducer** The prices of stock reflect the performance of the traded companies. This makes the corporate more concerned with its public image and tries to maintain good performance**.** **Self-regulating Organisation** The stock exchanges monitor the integrity of the members, brokers, listed companies and clients. Continuous internal audit safeguards the investors against unfair trade practices. It settles the disputes between member brokers, investors and brokers.
NSE	The National Stock Exchange is India's largest financial market. Established in 1992, the NSE has developed into a sophisticated, electronic market, which ranks third in the world for transacted volume. The NSE conducts transactions in the wholesale debt, equity and derivative markets. Based in Mumbai, India, the National Stock Exchange is a leader in market technology. The exchange's supports more than 3,000 VSAT terminals, making the NSE the largest private wide-area network in the country. The National Stock Exchange has been a pioneer for Indian financial markets, being the first electronic limit order book to trade derivatives and ETFs.
BSE	• The first and largest securities market in India, the Bombay Stock Exchange (BSE) was established in 1875 as the Native Share and Stock Brokers' Association. Based in Mumbai, India, the BSE lists over 6,000 companies and is one of the largest exchanges in the world. The BSE has helped develop the country's capital markets, including the retail debt market, and helped grow the Indian corporate sector. • In 1995 the BSE switched from an open-floor to an electronic trading system. Securities listed by the BSE include stocks, stock futures, stock options, index futures, index options and weekly options. The BSE's overall performance is measured by the Sensex, an index of 30 of the BSE's largest stocks covering 12 sectors.
Index calculation	**Computation:** **First day index** (Closing market capitalization of all stocks for the day / opening market capitalization of all stocks for the day) X 100 **Subsequent days index** (Closing market capitalization of all stocks for the day / opening market capitalization of all stocks for the day) X Previous day index
LISTING OF SECURITIES	• Listing means admission of securities of an issuer to trading privileges on a stock exchange through a formal agreement. The prime objective of admission to dealings on the Exchange is to provide liquidity and marketability to securities, as also to provide a mechanism for effective management of trading. Thus, Listing is the admission of

	securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi-governmental and other financial institutions/corporations, municipalities, etc.
ONLINE TRADING	• The act of placing buy/sell orders for financial securities and/or currencies with the use of a brokerage's internet-based proprietary trading platforms. The use of online trading increased dramatically in the mid- to late-'90s with the introduction of affordable high-speed computers and internet connections. Stocks, bonds, options, futures and currencies can all be traded online. The use of online trades has increased the number of discount brokerages because internet trading allows many brokers to further cut costs and part of the savings can be passed on to customers in the form of lower commissions. Another benefit of online trading is the improvement in the speed of which transactions can be executed and settled, because there is no need for paper-based documents to be copied, filed and entered into an electronic format.
DEPOSITORIES	• On the simplest level, depository is used to refer to any place where something is deposited for storage or security purposes. More specifically, it can refer to a company, bank or an institution that holds and facilitates the exchange of securities. Or a depository can refer to a depository institution that is allowed to accept monetary deposits from customers. Central security depositories allow brokers and other financial companies to deposit securities where book entry and other services can be performed, like clearance, settlement and securities borrowing and lending. NSDL & CDSL
OTC	• **OTCEI** was incorporated in 1990 as a Section 25 company under the Companies Act 1956 and is recognized as a stock exchange under Section 4 of the Securities Contracts Regulation Act, 1956. The Exchange was set up to aid enterprising promoters in raising finance for new projects in a cost-effective manner and to provide investors with a transparent & efficient mode of trading. Modelled along the lines of the NASDAQ market of USA, OTCEI introduced many novel concepts to the Indian capital markets such as screen-based nationwide trading, sponsorship of companies, market making and scripless trading. As a measure of success of these efforts, the Exchange today has 115 listings and has assisted in providing capital for enterprises that have gone on to build successful brands for themselves like VIP Advanta, Sonora Tiles & Brilliant mineral water, etc.
TRADING & SETTLEMET	**Below as image**
RISK MANAGEMENT	• HEDGING is the risk management tool WITH DERIVATIVES (Futures & options) • PRIOR INDICATION ABOUT THE RISK IN THE APLLICATION • INVESTOR EDUCATION ETC
INVESTOR	• SEBI’s Initiatives

GREVIENCES	
SHARE PRICE - MECHANISM	• DEMAND & SUPPLY • MARKET PLAYERS • DIVIDEND POLICY • PROFILE OF MANAGEMENT • TRADE CLUES • SPECULATION & • POLITICAL FACTORS
Insider Trading	The buying or selling of a security by someone who has access to material, non-public information about the security. Insider trading can be illegal or legal depending on when the insider makes the trade: it is illegal when the material information is still non-public--trading while having special knowledge is unfair to other investors who don't have access to such knowledge. Illegal insider trading therefore includes tipping others when you have any sort of non-public information. Directors are not the only ones who have the potential to be convicted of insider trading. People such as brokers and even family members can be guilty.
Circular Trading	If the trading price of a security was on a trajectory (curve) to fall below levels desired by certain shareholders, a circular trade could serve to buttress (strengthen) the share price by giving the impression that new owners are buying the stock at the desired level. This activity might convince others, who are not privy (aware of) to the scheme, to buy into the stock as they assume the trades indicate there is a growing interest in the stock. There may even be some presumption that the company is about to release news that, once made publicly known, would drive up the price. A fraudulent trading scheme where sell orders are entered by a broker who knows that offsetting buy orders, the same number of shares at the same time and at the same price, either have been or will be entered.
Price Rigging	An illegal action performed by a group of conspiring businesses by spreading the fake news or false or untrue statements that artificially inflate prices to recognize higher profits at the expense of the consumer. **For example:** someone of high importance says that Infosys is a great company and will see a huge profit in near future, this will make the price of that company to go up. Everyone starts buying Infosys because of the news. Now that person can sell his stock at a higher price. (Reference from Quora.com: **Pranav MV** , Beginner in Indian stock market. CA student. Answered March 13, 2017 · Author has **91** answers and **90.4K** answer views)
Players in stock exchange	• Speculators – bull, bear and stag • Investors – will aim for long term capital gain by holding the stock position

	• Market makers – who goes for bulk deals - Institutional investors (Foreign and India) -stake acquisition

Trading and settlement mechanism



Pay in – anything paid by brokers to exchange (Money or shares)
Pay in of money by buyer through broker
Pay in shares by seller through broker
Pay In should happen with in 11.30 am of T+2 days
Pay out – anything paid by exchange to brokers (money or shares)
Pay out of money by exchange to seller's broker
Pay out shares by exchange to the buyer's broker
Pay out should happen within 3.00 pm of T+2 days

- **09.11.2020 I am holding 10 shares for Rs 10 each**
- **I fear (my forecast) that the price per share after 3 months 09.02.2021 will be Rs 9 each**
- **I have come out with an agreement with Mr.X that I will sell the shares to Mr.X on 09.02.2021 for Rs 11 each**
- **You may ask a question that how Mr.X agrees to buy the no. of shares for Rs 11 each on 09.02.2021**
- **Mr.X according to his prediction as on 09.02.2021 the per share price will be Rs 12**

- **On 09.02.2021 the price is Rs 9**
  since I made agreement on 09.11.2020 to sell Mr.X shares for Rs 11, I got escaped from the risk
  With agreement Rs 1 profit per share (Hedging)
  Without agreement Rs 1 loss per share

- **Speculators – bull, bear and stag**
  Very short-term capital gain – by doing an intra-day trading (with in a day they will buy and sell and also they will sell and buy)

1. **Buy and sell –**
   Buy for Rs 10 and sell for Rs 15 – market is going to be bullish (as per forecast market goes up)
2. **Sell and buy – (short selling)**
   sell for Rs 15 and buy for Rs 10 – market is going to be bearish (as per the forecast market goes down)

shortage selling
morning 10.00 am the price is Rs 15 – sell order for Rs 15 – now I don't have the shares (I should give delivery of stock with in T+2 Days)

morning 11.30 am the price is going to be Rs 10 – that time I am putting buy order Rs 10 and paying money to the seller and seller delivers me stock with in T+2 days
on Wednesday I can deliver to the sell order

Unit V (Overview):

Lesson Plan Number	Lesson Plan	Topics for discussion	Key Take away
01	Capital Market Regulatory Framework	➢ SEBI ➢ Functions ➢ Powers ➢ Guidelines ➢ Regulations ➢ Rules ➢ ACTs	Understanding the role of Regulatory Body (SEBI) in ensuring the effective and ethical functioning of Capital market and protecting the interest of investors

Unit V – Material Links

Lesson Plan (No): 1
Name of the Lesson Plan: Capital Market Regulatory Framework

Topic	Web link
About SEBI	https://www.sebi.gov.in/about-sebi.html
SEBI ACTS	https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=1&smid=0
SEBI Rules	https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=2&smid=0
SEBI Regulations	https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=3&smid=0
SEBI Guidelines	https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=5&smid=0
SEBI Powers	https://www.sebi.gov.in/powers-and-functions.html

Unit VI (Overview):

Lesson Plan Number	Lesson Plan	Topics for discussion	Key Take away
01	**Bond & Debt Market**	➢ Corporate debt instruments ➢ Debt instruments ➢ Bonds ➢ Debentures ➢ Secured premium notes ➢ Features of a SPN ➢ Participants of the corporate debt market ➢ Advantages of debt market to the investors ➢ Risk of the debt instruments	Role of fixed income securities in raising long term debt capital and its associated risk parts

Unit VI – Notes of Lecture

Lesson Plan (No): 1
Name of the Lesson Plan: Bond & Debt Market

Market for Bonds and Debentures

Bonds (govt securities/ gilt edged securities) and debentures – fixed income securities (by name both differs but by concept/philosophy both are same)

Corporate debt instruments

They are known as fixed income securities with following features

1. The amount of interest to be paid is pre-determined – coupon rate 12% debentures
2. The period of payment is also fixed. Interest may be paid quarterly, semi-annually, or yearly
3. Holders of debt instruments are creditors of the company

Debt instruments

(a) Bonds – Government issues
(b) Debentures – bonds issued by corporate firms to individuals and institutions to raise debt capital – public issue and private placement
(c) Secured premium notes

Bonds

1. Fixed rate bonds – The int rate is fixed or non-variable
2. Floating rate bonds – The int rate is non fixed and fluctuate according to bank rate announced by RBI – If bank rate increases, debenture int will float to high (accordingly). debenture int will float to high -RPLR
   If bank rate decreases, debenture int will float to low (accordingly)
3. Discount bonds (zero coupon bonds) – There is no int rate. But the bonds are issued at discount and redeemed at par – Issued for Rs 90 and redeemed for Rs 100 (FV) – Rs 10 is the implied yield
4. Foreign currency convertible bonds (FCCB) –
   1.Bonds issued to the foreign investors
   2. bond is issued at a price denominated in foreign currency
   3. these bonds will get converted to equity shares

Debentures

1. NCD – Nonconvertible debentures
2. FCD – Fully convertible debentures
3. Partially convertible debentures
4. Optionally convertible debentures
5. Callable and puttable debentures

Secured premium notes

Secured premium notes (SPNs) are financial instruments which are issued with detachable warrants and are redeemable after certain period. SPN is a kind of non-convertible debenture (NCD) attached with warrant. It can be issued by the companies with the lock-in-period of say four to seven years. This means an investor can redeem his SPN after lock-in-period. SPN holders will get principal amount with interest on instalment basis after lock in period of said period. However, during the lock in period no interest is paid.

Thus, SPNs are nothing but a share warrant which are only issued by the listed companies after getting the approval from the central government. SPN is a hybrid security i.e. it combines both features of equity and debt products.

Features of a SPN

- SPN instruments are issued with a detachable warrant.
- These instruments have lock-in-period for 4 to 7 years.
- No interest is paid during the lock in period.

After the lock-in-period, the holder may sell back the SPN to the company.

- The detachable warrants are convertible into equity shares provided the secured premium notes are fully paid. The conversion of detachable warrants into equity has to be done within the specified time.
- After the lock-in-period, the holder has an option to sell back the SPN to the company at par value. If the holder exercises this option, no interest/premium is paid on redemption.
- In case the holder keeps his investment further, he is repaid the principal amount along with the additional interest/premium on redemption in instalments. SPN were so formulated that the return on investment was treated as capital gain and not regular income. Consequently, the rate of tax applicable was lower.

Participants of the corporate debt market

Advantages of debt market to the investors

1. Regular flow of income
2. Governed by legal structure
3. Less risk

Risk of the debt instruments

1. Default risk - Non repayment of loan (principal amount with int) by the borrowing company
2. Interest rate risk – bonds bearing floating int rate

   Suppose, bank rate hikes (market rate) – the new bonds will be issued at higher int rates then the old bonds bearing lower int rate will become worthless

   Suppose, bank rate lowers (market value) – the new bonds will be issued at lower price then the old bonds bearing old int rate becomes worthful

   In stock market – Higher dividend leads to higher market price – dividend and market price of the shares are directly proportional

   But in bond market the int rate and price of the bond are inversely proportional

3. Reinvestment rate risk – the int received must be reinvested. If there is a fall in the rate this will lower the yield
4. Counter party risk – The way how secondary market is there for equity
   Secondary market is there for debt instruments also
   You sold the debenture but the buyer has not paid for it – counter party risk

Part III :Suggested Readings (Students can refer the following for further learning)

Book References:

1	Title	Financial Markets and Services
	Authors	K. Natarajan, E. Gordon
	Edition	revised
	Publisher	Himalaya Publishing House, 2009
	ISBN	8184886462, 9788184886467
	Length	465 pages
2	Title	FINANCIAL MARKETS, INSTITUTIONS, AND FINANCIAL SERVICES
	Author	CLIFFORD GOMEZ
	Edition	illustrated
	Publisher	PHI Learning Pvt. Ltd., 2008
	ISBN	8120335376, 9788120335370
3	Financial Markets & Institutions by S Gurusamy (Author), Vijay Nicole Imprints Pvt Ltd (Publisher), ISBN-139788182093973	
4	Title	Financial Services and Markets
	Author	Pandian Punithavathy
	Publisher	Vikas Publishing House, 2009
	ISBN	8125931201, 9788125931201

Web References:

Official web sites of RBI, SEBI, NSE, BSE, DFHI, NSDL, CDSL, OTCEI, AMFI India, CRISIL, ICRA