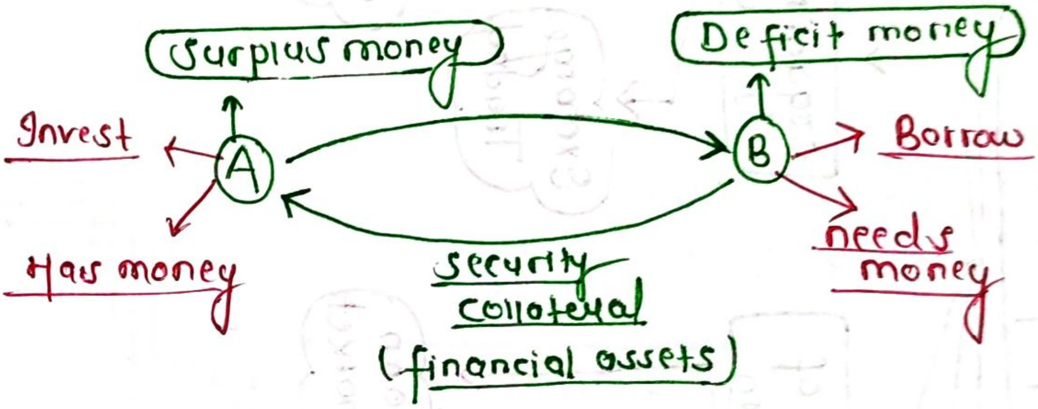
FINANCIAL MARKET

financial market: It is a place where two people meet togather, one who has excess money and wants to invest and earn interest, another one who has deficit money and wants to borrow

* In this market financial assets or securities are being traded b/w two parties



parties involved in financial market

→ Government of India
→ RBI
→ SEBI (Securities & Exchange Board of India)
→ Banks
→ NBFCs (Non Banking finance companies)

→ Indiviuals
→ Trusts
→ corporates (big businesses)
→ Insurance company

Types of financial market

- Financial Exchange
  - Organised
  - Unorganised
- Maturity
  - Money market
  - Capital market
- Nature of claim
  - Equity market
  - Loan market
- Organisational structure
  - Exchange Traded
  - Over the counter
- Basis of Settelment
  - Spot market
  - Future market

financial market

- **Organised**
  - where the financial transcation are being taken place within rule and regulation.
  - Regulator (RBI, SEBI)
- **unorganised**
  - where no rules and regulations are there for financial transcation
  - No such regula-tor there
  - money can be taken by friend, rela-tives, Zamindars, Sahukars.

Organised financial market

- **money market**
  - It is a market where financial assets or securities are being buy and sell for short term. (Less than 1 year upto 364 days)
  - Regulator (RBI)
  - more liquid
  - Less risky
  - (over the counter)
- **capital market**
  - Buying and selling of long term securities (more than one year)
  - Regulator (SEBI)
  - Less liquid
  - High risk
  - (Exchange Traded)

Money market

- Deals with short term securities
- Less than 1 year i.e upto 364 days.
- Regulated by RBI

money market Instruments

1. Commercial paper
2. Treasury Bill (T-Bills)
3. Cash management Bill
4. ways and means advances (WMA)
5. Bills of exchange
6. Certificate of deposits
7. Repurchase Agreement
8. Collateralised Borrowings and lending obligations (CBLO)
9. Call money
10. Notice money
11. Term money

Commercial paper

- issued by
  1. Large corporations, (Net worth 4 crore or more) Large corporate
  2. primary dealers
  3. Those NBFCs who bought the liscence from RBI for buying and selling of government securities.

(iii) All-India financial institution
(NABARD, SIDBI, NHB, EXIM
NaBFID) etc.
(in 2021)

- Time period: minimum : 7 days; maximum : 364 days.
- Amount : 5 Lakh or its multiples.
- Started in 1990
- It is unsecured promissory note.
- Issued at discount but redeemed at par.
-

Short-term Instrument of government for borrowing money

- Treasury-Bill
- cash-management Bill
- ways and mean Advances

Treasury Bill

- Issued by RBI on behalf of government.
- It can be purchased by individual form, companies, trust, bank etc.
- Time period:
  - 91 days (Jan 1993)
  - 182 days (Nov 1986)
  - 364 days (April 1992)
- Not issued by state government.

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- Time period :
  91 days (Jan 1993)
  182 days (Nov 1986)
  364 days (April 1992)
- Not issued by state government.

- Issued at discount but redemed at par
- Amount : 25,000 and its multiple
- It can be maintained by banks in the form of SLR.
- Treasury - Bills are zero - coupon security
- T- Bills are also called gilt - edge security (highly safe and highly liquid)

Cash management Bill

- Started in 2010
- Issued by RBI on behalf of government
- They are issued for less than 91-days
- These are non - standard beacuse these do not have any fixed time period.
- Similar to T-Bill
- Issued at discount but redemed at par.
- They can be maintained in the form of SLR.

ways and mean Advances

- started in 1997.
- comes under RBI Act 1934 section-17(5).
- can be issued by both central and state government.
- when the government expenditure exceeds (government took loan from RBI)
- If it is for less than 90 days then the interest rate would be equal to Repo Rate.
- If it is for more than 90 days then ~~RBI char~~ Repo Rate + 2%.

Certificate of deposit (CDs)

- Issuer : Banks and RBI can permit some selected All India financial institution for issuing CD for 1 - 3 years.
- started in 1989.
- It is a negotiable and unsecured instrument.
- It can be issued by all commercial bank and RRBs. (Regional Rural Bank) from 4 june 2021

Amount : 5 Lakh and its multiple
(Before 1 Lakh)

Time period
- minimum : 7 days
- maximum : 364 days

- It is similar to FD but CD and FD have certain differences.

FD	CD
Non-negotiable	Negotiable. (can be transferred from one person to other)
can be used as a security for taking loan	can not borrow money by depositing as a security.
maximum : 10 year	maximum : 364 days

Bills of exchange / commercial Bill

- Started in 1990.
- with the help of bills of exchange one traders can purchase goods from another trader on credit.
- i.e, it is an order in writing by creditor to debtor.
- It is signed by creditor.

Negotiable Instrument Act (1881)

promisory notes	Bills of exchange
It is an unconditional promise to pay.	It is an unconditional order to pay.
promisery : Debtor	~~promisery~~ ordered by : creditor
~~ordered~~ by :	

Repurchase Agreement

- It is an agreement between two parties for repurchasing any deposited securities.
- Repo and Reverse Repo Rate.

Note : Repo + Reverse Repo combined called LAF

Inter Bank Borrowings

- Collateralised
  - ⇓ CBLO (collateralised Borrowings and Lending obligation)
  - ⇓ operated by CCIL (crediting Corporation of India Limited)
- Non-collateralised
  - Call money
    - for 1 day
  - Notice money
    - for 2-14 days
  - Term money
    - more than 14 days

Capital Market

- It is a market for raising long-term capital.
- The capital raised in this market is used for :-
  - (a) for government projects → Roads, Dams, Metros, Hospital etc.
  - (b) for companies → Land, building, machine etc.
- capital market is regulated by SEBI.

capital market instruments

- Equity (shares)
  - Equity shares
  - preference shares
- Debt
  - Debentures
  - Bond
- Derivatives
- mutual funds

Shares

- It is the smallest part of companies total capital.
- $\dfrac{10000000 \rightarrow (\text{Total capital})}{100000 \rightarrow (\text{No. of shares})}$

Share.

* companies issue their shares for raising the capital.

* All the shareholders are called owners of company.

Divident : It is that part of profit which a company shares equally among all shareholders.

Types of shares :-

Equity shares	preference shares
• They are not issued at any previously decided percent of divident	• Issued at previously decided percent of divident
• At the time of winding up of company they will get dividend after preference shares	• They will get the payment before Equity share holders.
• They participate in annual general meeting	• They do not participate in AGM.
• participate in losses	• Do not participate
• They have voting right	• They do not have voting right.

Types of capital :

Authorised capital : capital by which company get registered and a company can issue shares upto its authorised capital.

Issued capital : The capital upto which the shares are issued by the company.

- It is the part of authorised capital

Subscribed capital : The capital upto which the shareholders are willing to buy shares.

paid-up-capital : The capital which a company generate after selling its shares.

Types of company :

private Limited	public Limited
• Any company which is registered under Companies Act (1956)/ 2013.	• The company which sells its share to the public.
• members — minimum 2, maximum 200	• members — minimum 7, maximum No limit.
• No. of director minimum : 2	• minimum number of director 3

Capital market

primary market

- New issue market
- In this market companies issues new shares.
- Investers: Banks, other financial institution, insurance companies.
- companies only sell their shares.
- No geographical location is there
- company determines the price of the shares
- In this market ~~buy~~ ~~-ing~~ ~~and~~ the selling of shares take place with help of IPO and FPO.

Secondary market

- old issue market
- In this market the already issued shares are being traded between investers.
- Investers ~~Brokers~~ buy and sell the shares with the help of brokers
- Both buying and selling of shares take place.
- Geographical location is there.
- price of shares determined by market forces (demand and supply)
- Buying and sell -ing of shares with help of stock ~~ex~~ exchange -s like:
  - BSE
  - NSE

method of issuing shares in primary market :

IPO

* Initial public offerings.
* when a company registered itself in share market and issues its shares for first time.

FPO

* follow on public offerings
* when a company needs additional capital throughout its life.
* FPO includes

① private placement

⇒ when a companies issues a shares to already selected people, other company, bank etc.

② Right issue

⇒ when a company issues its shares to already existed shareholders.

③ Sweat Equity

⇒ when a company issues shares to the main people i.e. directors and promoters.

Investors

- Trading Account
  - (Brokers)
- Demat Account
  - (Depositories)
    - NSDL
    - CDSL

NSDL

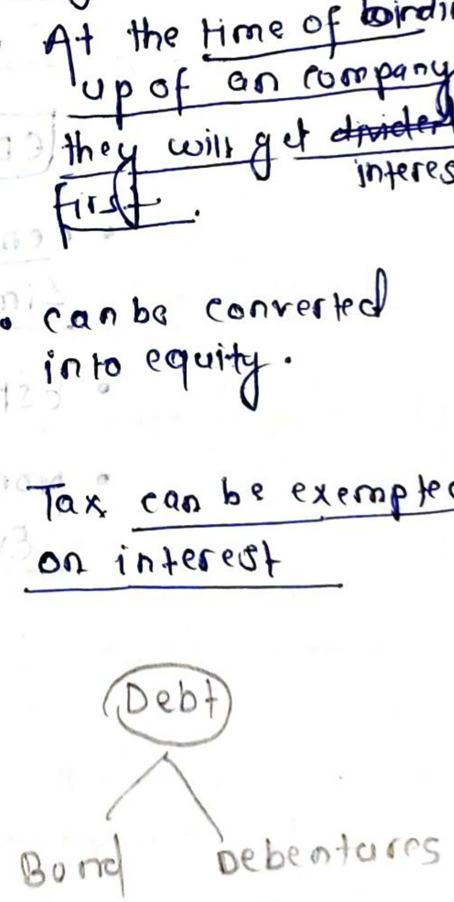
- National Securities Depositories Limited
- Established in 1996
- promoted by National Stock Exchange and IDBI Bank.

CDSL

- Central Depositories Services Limited
- Established in 1999
- promoted by Bombay Stock Exchange

Difference between Equity and Debt

Equity	Debt
It is the investment on companies share	It is a kind of loan given to a company
ownership on investment.	No ownership on investment.
High risk	Low risk
Dividend	Interest
No regulor / fixed return.	Return is fixed and regular.
At the time of binding of off on company, they will get their money after ~~after~~ debt investors.	At the time of binding up of an company they will get ~~divident~~ interest first.
cannot converted into debt.	can be converted into equity.
The tax is not exempted on dividend	Tax can be exempted on interest



If company collapse the order of getting money.

Bond — Debentures — preferential share — Equity share.

Difference between Bond and debentures :

All debentures holders are creditor.

Bond	Debentures
It is British word	It is American word
They can be issued by the private companies, Large corporations, financial institution etc.	They can be issued by private companies.
very-long term	Long term
Low-risk	High-risk
They are more secure as they are backed by collateral.	They are less secured as they are free from any collateral.
Lowered interest rate	Higher-interest rate.

Bonds

Zero coupon Bond
Issued at discount but redemed at par

coupon Bond
They are issued at fixed interest rate.

Bearer Bond.
They do not issue in the name of any particular person and it is transferrable from one to another.

Convertable bonds

- They can be converted into shares.

Different types of Bonds

Junk Bonds :

- This bond is a debt which is issued by a company with low credit ratings leverage that is, it is generally risky.

Redeemable Bonds :

- These are those bonds ~~mortgages~~ which pay regular interest and return the principal amount on maturity.

Non-Redeemable Bonds :

- pays only interest and does not return the principal amount

Inflation Indexed Bond :

- The principal amount changes at the rate of inflation and the interest rate remain the same.

Sovereign Gold Bond :

- It was launched in 2015.
- This expressed in grams of gold.
- for individual upto 1g - 4 kg.
- 1g - 20kg for institutions.
- The prices of these commodities are decided by the Mumbai - based Indian Bullion and jewe-llers Association.

A Municipality Bond :

- Started in 1997.
- In this the urban local body borrows money from public
- There is a tax exemption on investment amount and interest.

A Kangaroo Bond :

- from 2018
- Based on block - chain technology.
- This is also called Bond eye.
- It is sold in the Australia by using Ethereum Block - chain

BRICS - Bond

- In 2014.
- It was created by New Deve-lopment Bank
- Headquarter : Shanghai. (china)
- NDB issued BRICS-bond for infrastructural development.

Masala Bond

- These are ~~released~~ issued in foreign countries.
- They are denominated in Indian currency.
- The world first masala bond issued by world Bank Group i.e. IFC in 2014
- In 2015, the RBI agreed to issue masala bonds to Indian companies.
- In 2019 Kerala first released masala Bond

Other masala Bond :

- Dim sum Bond - Hon-kong
- Komudo Bond - Indonesia

- Samurai Bond : Japan
- panda Bond : china
- Maharaja Bond : India
- Kangaroo Bond : Australia

Green Bond

- fixed income bond.
- It is espically issued for clean transportation, sustinable water management, climate change, adaption, energy efficiency etc.
- Issued by world bank corporations and government.
- This bond was issued by world Bank in 2007
- first released in India by Yes Bank 2015.
- In 2016 by BRICS Bank (NBD) in Yuran.
- In 2018, Indian renewable energy development Agency released India's first masala green bond in London stock Exchange

Blue Bond

- for financing sea and ocean

based projects.

- It is done by government, de-velopment Bank etc.

- It is a sub-type of Green bond.

- Sychells issued the world's first Blue Bond in 2018 to expand its marine protected area and fisheries.

Elephant Bond

- It was suggested by a high-level consultative group on trade policy headed by Surjit Bhalla.

- Time period: 25 year

- It was started for the recovery of black money in India

- The amount received from these funds is used for funding infrastructural projects.

Cat Bond

- These are also called catastrophe Bond

- Generally issued by government and insurance companies.

It is issued for financial security in case of major natural clamities. (storms, earthquakes)

Social Impact Bond

* Issued to high-net-worth indivi-dual.
* Generally time period of 5 year
* In 2019, SIDBI issued RS 300 crore
* They are used to improve the livelihood of women.

Electoral Bond

* Announced in Budget - 2017
* It is issued by RBI for 15 days.

Relationship b/w Bond price, Bond Yield and Interest Rate.

- Relation b/w Bond price and Yield

$$\boxed{\text{Yield} = \frac{\text{Bond coupon}}{\text{price}} \times 100}$$

Ex

$$\text{Yield} = \frac{200}{1000} \times 100$$

$$\boxed{r = 20\%}$$

$$r' = \frac{200}{5000} \times 100$$

$$\boxed{r' = 4\%}$$

Hence, when bond price will increase i.e. from ₹1000 to ₹5000 then the bond yield will decrease from 20% to 4%.

Therefore, there is a negative relation between bond price and yield.

- Relationship between bond price and bond interest rate.

- when new bonds are issued of higher interest rate then the demand for existing bond will be less hence, there price start decreasing.
- so, there is a negative relation between bond price and interest rate.

Derivatives

- Derivatives
  - forward
  - future
  - options
    - call option (Buy)
    - put options (Sell)
  - swaps
    - Interest Rate swap
    - currency swap

- Derivatives market
  - over the countur derivatives market
    - forwards
    - swaps
  - Exchange traded derivatives market
    - futures
    - options

Derivatives

- These are future financial contract between two parties whose value derived from the underlying assets.
- underlying assets are as follow:
  - (a) shares
  - (b) Indices

(c) currency
(d) commodities

- Derivates help in reducing uncertainty in future.

Types of derivatives :

forwards

- It is a financial contract between two parties for buying or selling any particular commodities on a specified date at pre-determine prices.

- It is over the countour i.e. it is non-authorised

- These are related with hedging as they reduced the risk

- They are not regulated

future

- These are similar to forward.
- These are the future financial contract for buying any particular commodities at pre-determined price on specific date.

- They are standarized.

- These are exchange traded.

Options

- These are related with buyers.
- It is that financial contract with the help of which the investers can buy or sell the securities at strike price on future date.

- Options
  - Call options
    - To buy
  - Put options
    - To Sell

Swaps

- It is a future financial contract between two parties related to the flow of money with each other.
- It is over the countour

- Swaps
  - Interest Rate swap
  - Currency swap

Types of Investors in derivatives market :

Hedger

- Those who do not take risk and the process of reducing risk is called hedging.
- when people reduce the future market risk.

Speculator

- That investor who take risk.
- when we buy and sell any security for earning profit in future called speculation.

Speculator

Bull

- That investor who invest in the share when share price are increasing.

Bear

- That investor who invest in the share when share price are decreasing.

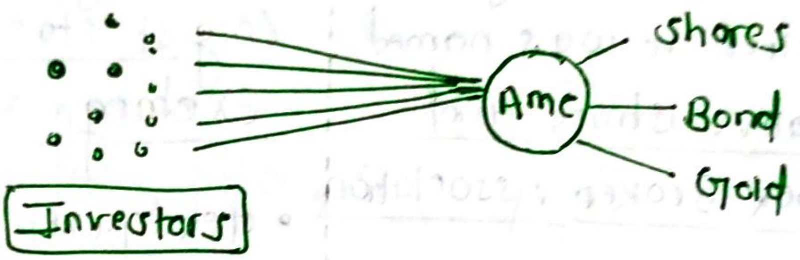
Arbitrageur

- The invastor who buy the security from one market in Lowered price and sell the same security in other market with higher prices.

Mutual funds

- It is the money that has been pulled by the investors and collected by Assets managment company (AMC).

- The AMC invest the pulled money onto different securities like share Bonds, gold etc.



Types of mutual funds

(i) Equity mutual funds → Shares

(ii) Debt / fixed Income mutual funds → Bonds

(iii) Hybrid mutual funds → Shares, Bonds

(iv) Solution oriented mutual funds →
It is an investment for specific purpose like investment for child education etc.

Stock Exchange

Bombay Stock Exchange

- Established: 1875
- Asia's oldest stock exchange
- Earlier it was named Native share and stock Broker Association
- Top listed companies: 30
- Index: SENSEX (Sensitive Index)
- Chairman: S S Mundra
- MD and CEO: Sundararaman Ramamurthi

National Stock Exchange

- Establishment: 1992
- Nowday's India's Largest stock Exchange
- Headquarter: Mumbai
- Top listed companies: 50
- Index: NIFTY
- Chairman: Girish Chandra Chaturvedi
- MD and CEO: Ashish Kumar Chauhan

SENSEX

- Started in January 1986.
- Base date: 1 April 1979
- Base price: ₹100

	1st April 1979	Base price	13 sep 2021
① Tata	₹ 20	100	5000 ⌒ 50,000
② Reliance	₹ 10	100	6000 ⌒ 60,000
③ wipro	₹ 15	100	65000
④ Infosis	₹ 30	100	7 5000
⋮			
(30)		3000	

NSE

* Base date: 3 Nov 1995
* Base price: $\boxed{1000}$

world's stock exchanges and their Indices:

- London ⟶ FTSE - 100
- BSE ⟶ SENSEX
- NSE ⟶ NIFTY
- NYSE ⟶ Dow Jones
- NASDAQ ⟶ NASD - 100
- china ⟶ composite Index
- Japan ⟶ Nikkie
- Singapore ⟶ Simex / Strait Timer
- france ⟶ CAC - 40
- Germany ⟶ DAX
- pakistan ⟶ KSE -100
- Russia ⟶ MOEX
- South korea ⟶ kospi
- Hong - kong ⟶ Hung - sung
- Europe ⟶ stoxx

Types of companies on the basis of market capitalisation:

Large cap companies:

* Those companies whose market capitalisation more than 20 thousand crore

Med cap companies:

* Those companies whose market capitalisation between 5000 crore -20,000 crore.

Small - cap companies:

* market capitalisation less than 5000 crore.

Blue - chip companies

* The companies which has good reputation in market. i.e. a large companies which are financially sound (profit making company.)

Angle Investors	Venture capitalist
• Investor who provide financial backing to entrepreneurs for 'starting their business'. • Angle investor usually found among an entrepreneur's family and friends but they may be from outside also • The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times in exchange they may like owing share in the business or provide capital as loan. • They are usually investing in the person rather than their viability of the business. • other than investible ~~income~~ capital. these investors provide technical advices.	• A venture capitalist is a private equity investor that provides capital to companies exhibiting high growth potential in exchange for an equity stake • This could be funding startup ventures or supporting small companies that wish to expand but do not have access to equities markets. • ventures capitalists are interested in profit of the company rather than in the person like angel investors. • ventures capitalist are willing to risk investing in such companies beacuse they can earn a massive return on their investments if these companies are a success.

• They are focused on helping the business succeed, rather than reaping a huge profit from their investment.	

Securities and Exchange Board of India (SEBI)

- It is a statutory organisation ~~for~~ established on 12 April 1988
- It got statutory status on 30 January 1992
- It works under Securities and Exchange Board of India's Act, 1992
- The Securities and Exchange Board of India's primary duties are to safeguard the interests of investors in securities and to promote and regulate the securities market.
- Headquarter : Mumbai
- 4 regional office : Delhi, Ahmedabad, Kolkata, Chennai

* SEBI Chairman : Ms Madhabi puri Buch

* **members of SEBI**

  - union government of India nominated the chairperson.

  - Two officers from the union finance ministry are members.

  - The RBI has one representative.

  - The union government of India appoints the remaining five members (3 of 5 member should work full-time)

* **power and function**

① SEBI also aims to check fraudulence by harmonising its statutory regulations and self-regulating business.

② It also enables a competitive professional market for intermediaries

③ SEBI provides a marketplace in which the issuers can increase finance properly.

④ It also ensure saftey and supply of precise and accurate information from the investors.

⑤ SEBI analyse the trading of stocks and saves the security market from the malapractices.

⑥ It controls the stockbrokers.

⑦ It provides education regarding the market to the investors to enhance their knowledge.

Securities Appellate Tribunal

- SAT is a statutory body established under the provisions of section 15K of the SEBI Act. 1992

- The securities Appellate Tribunal has only one bench which sits at mumbai

- It is under the juridiction of ministry of finance.

Composition

- SAT consist of a presiding officer and two other members.

- The presiding officer of SAT shall be appointed by the central government in consultation with the chief justice of India or his nominee

power and functions

① It has some powers as vested in a civil court. further if any person feels aggrieved by SAT's decision or order can appeal to the Supreme Court.

② To hear and dispose of appeals against orders passed by the SEBI or by an adjudicating officer under the SEBI Act, 1992.

③ To hear and dispose of appeals against orders passed by the pension fund Regulatory and Development Authority (PFRDA)

④ To hear and dispose of appeals against orders passed by the Insur-ance Regulatory Development Autho-rity of India (IRDAI)

financial Action Task Force

- Inter goverermental body establish-ed in 1989 during G7 summit.

- To set standards and promote implementation of legal, regula-tory and operational measures for combating money laundering, terrorist financing and others related threats to the integrity of the international finan-cial system.

Secretoriat : OCED headquarters in paris

- India became members in 2010
- FATF has 2 list

Grey list	Black list
Countries that are considered safe haven for supporting terror funding and money laundering.	Countries known for Non - cooperative Countries or Terrorist (NCCT) are put here. These countries sup-port terror funding and money laundering activities.
Ex :	Ex : North korea, Iran , Myanmmar

International financial services centre Authority :

- IFSCA is a statutory body establi-shed in 2020 under the internatio-nal Financial services centres Authori-ty Act, 2019 to ensure inter-regulatory coordination within the financial sector.

Headquarters : At GIFT city, Gandhi nagar in Gujarat.

* prior to the establishment of IFSCA, the domestic financial regulators, nam-ely, RBI, SEBI, PFRDA and IRDAI regulated the business in IFSC.

* The IFSC is a unified authority for the development and regulation of financial products, financial services and financial institutions in the Inter-national Financial Service centre (IFSC) in India.

* The main objective of IFSC is to develope a strong global connect and focus on the needs of the Indian economy as well as to serve as an International Financial platform for the entire region and the global econo-my as a whole.