MALLA REDDY COLLEGE OF ENGINEERING & TECHNOLOGY

(Autonomous Institution – UGC, Govt.of India)

(Affiliated to JNTUH, Hyderabad, Approved by AICTE –Accredited by NBA & NAAC-“A” Grade-ISO 9001:2015 Certified)

FINANCIAL INSTITUTIONS,MARKETS & SERVICES

B.Tech – I Year – II Semester

DEPARTMENT OF HUMANITIES AND SCIENCES

PREFACE

Economic growth and development of a country depends upon a well knit financial system. A financial system comprises, a set of sub-systems of financial institutions, financial markets, financial instruments and financial services which help in formation of capital by transforming the savings of the individuals into investments. Financial system is said to play a significant role in the economic growth of a country by mobilizing the surplus funds lying idle with the small savers and channelizing them into productive avenues which would overall increase the economic growth of the country. The existence of an efficient financial system facilitates economic activities and growth. In other words, financial markets, financial institutions and financial instruments are the prime movers of economic growth. Obviously financial system of a country diverts flow of funds towards more productive uses and it helps increase in the national output. It explains the role of financial system on economic development.

Various conceptual issues related to risk and return, the role of regulatory bodies like RBI, SEBI , mechanism of commercial banking, innovations in banking, operations of insurance companies and mutual funds are discussed elaborately. It also describes the importance of small savings, provident funds, pension funds. structure, Growth and current issues like innovations, competition and challenges of LIC, GIC, NBFC towards market led economy. The course provides a comprehensive overview and systematic evaluation of the mainstream markets of various financial instruments such as call money, bond, stock, derivatives and exchange rate. It allows understanding the risk and returns of capital market, Money market products and investment patterns of IPO's and related issues. And also their listing and settlement procedures for quality decisions of investment. Capital market is a significant segment of financial system playing a crucial role in the economic development of any country with the help of financial institutions, instruments, services and regulatory bodies.

The level and growth of savings, investments and capital formation in an economy are essential for economic growth in the country that depends upon a sound capital market which facilitates the mobilization of finance from surplus sectors to deficit sectors. This subject gives an overview of

Money markets, availability and the new instruments feature. It allows understanding range of various financial avenues available in Asset and Fund based financial services like Hire purchase, leasing, Venture Capital, Factoring and credit rating, stock broking agencies and this awareness help to understand the revenues for Investment and career settlement.

Learning Outcome:

1. The students will get enormous knowledge on Financial Institutions, Securities Markets, and Financial Services.
2. It allows clear understandings of Banking and Non-Banking Financial Institutions operations.
3. Adequate knowledge to indulgence in Investments of financial products and services.
4. Comprehend various policy reforms that impact Financial Markets and Investments.
5. Availability of various Fund based and Fee based financial services to get more exposure.

COURSE OBJECTIVES

1. To expose students towards a clear understanding of Financial Markets in India, their operations and relevant development.
2. To lay foundation and equip them with the knowledge of Financial Services, related institutions and their functions.
3. To provide awareness of operations of Financial Markets, Regulators and Shareholders
4. To allow them to understand Banking and Non-Banking Institutions operations and their services.
5. To Provide knowledge in Innovations and technologies of Financial Instruments, Financial Services and Investment Banking.

Unit-I: Introduction

Financial SystemandEconomic Development - Indicators of Financial Development - Concepts related to Financial Markets, Institutions and Services Regulatory & Promotional Institutions: Functions& Roles of RBI, IRDA, SEBI.

Unit II. Commercial Banks

Functions of Commercial Banks. Performance and Competition of Public and Private Sector banks- NPA'sNon-Banking Financial Institutions- Structure and Functions LIC - GIC &Mutual Funds.

Unit-III: Financial and Securities Markets

Structure and Functions of Call Money Market. Government Securities Market: T-bills Market - Commercial Bills Market. Securities Market: Organization and Structure - Listing - Trading and Settlement.

Unit-IV: Asset/Fund Based Financial Services

Lease Finance - Hire Purchase Finance- Bills Discounting - Housing Finance - Venture Capital Financing. Fee-based Advisory Services: Stock Broking - Credit Rating Agencies.

Unit-V: Investment Banking

Introduction, Functions and activities, underwriting, bankers to an issue, debenture trustees, portfolio managers.

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Unit-I: Introduction

Financial System and Economic Development - Indicators of Financial Development - Concepts related to Financial Markets, Institutions and Services

Regulatory & Promotional Institutions: Functions& Roles of RBI, IRDA, SEBI.

Indian Financial System:-

The financial system of any country consists of several ingredients. It includes financial institutions, markets, financial instruments, services, transactions, agents, claims and liabilities in the economy. An efficient financial system not only encourages savings and investments, it also efficiently allocates resources in different investment avenues and thus accelerates the rate of economic development..

Thus the financial system mainly stands on three factors -Money ,Credit ,Finance

Objectives

1. Accelerating the growth of economic development.

2. Encouraging rapid industrialization

3. Acting as an agent to various economic factors such as industry, agricultural Sector, Government etc.

4. Accelerating Rural Development

5. Providing necessary financial support to industry
6. Financing Housing and Small Scale Industries

7. Development of Backward areas, Infrastructure and livelihood

8. Imposing price control in need

FUNCTIONS

1. Allocates resources

2. Mobilizes savings

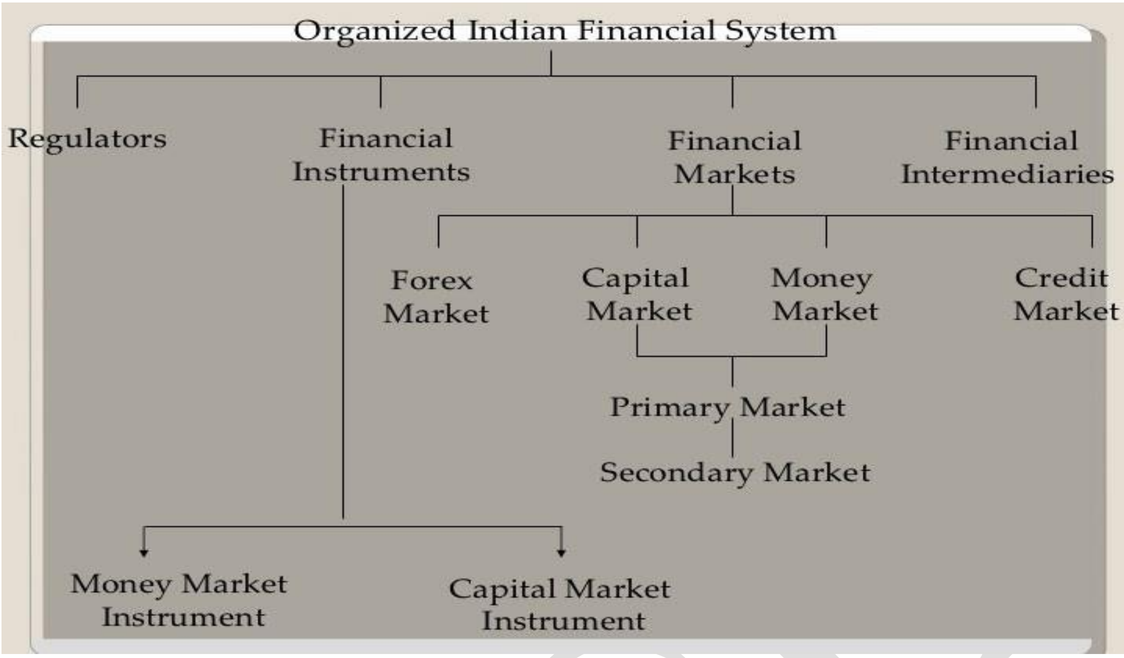
3.Facilitates distributing, Trading, Hedging, Diversifying, pooling, and reducing Risks.

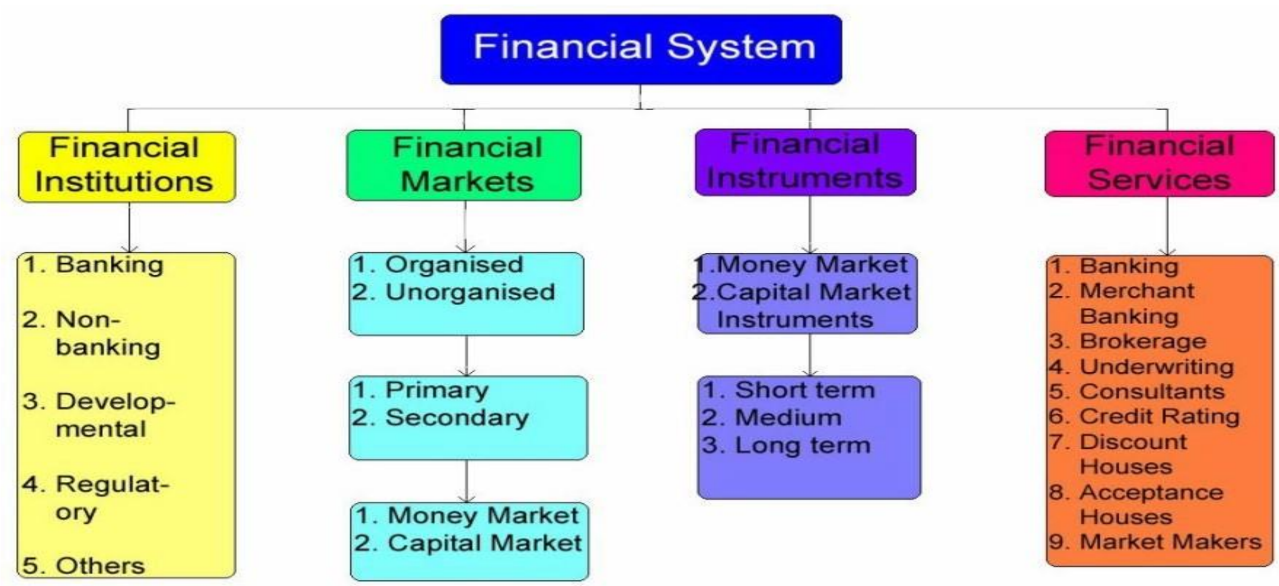
4. Facilitates exchange of goods and services

5. Enables economic units to exercise their time preferences

6. Enhances liquidity of financial claims through securities trading

7. Facilitate better Portfolio management.


Organized Indian Financial System
Regulators
Financial Instruments
Financial Markets
Financial Intermediaries
Forex Market
Capital Market
Money Market
Credit Market
Primary Market
Secondary Market
Money Market Instrument
Capital Market Instrument



<u>Financial System and Economic Development</u>

- The economic growth, poverty reduction, and economic stability depend upon an effective and efficient financial system.
- The financial system affects growth through the channels of increasing

  1. the rate of capital accumulation
  2. the rate of technological development in terms of products and services
  3. productivity.

- All kinds of economic projects brought, all kinds of purchase power to be met, all kinds of credit requirements come to this market.
- Enhances Economical and financial stability.
- Improved standards of living in terms of GDP, Per capital income.

First- The economic progress induces an expansion of the financial system; as the per capital income in the country increases, investor demand for diversified financial assets increases. At low levels of income,there is lack of demand for varied financial services. As the real economy grows, there is more and more demand for such services, which is met by the financial system rather passively. This can be called passive financial development.

Second- the Financial development proceeds economic development and it is brought about by deliberate policy by concern authorities. Newer and more financial institutions are established and promoted, newer and newer financial instruments and services are introduced by the authorities, and this helps to accelerate the rate of real growth. This has been designated as " supply leading" financial development.

Third- the direction of casualty between economic development and financial development does not remain the same in all stages of development. In the beginning of development process, the financial development may be undertaken or promoted by authorities which may induce innovations, capital formation, and growth, but as the growth proceeds, this supply leading financial development may be reinforced by demand -following development.

- Financial Development through Operational Efficiency, Allocation Efficiency.
- The well-functioning of financial system can be only one of the elements of a broader array of policies to encourage development.
- Financial sector reforms mainly entailed reforms of the banking system and the capital market since 1991.
- Deregulation of banking sector and Insurance industry- Leads to Private, Foreign Banking operations and competition in turn more customization of products and services, allows more credit flow and employment opportunities.
- In the banking sector, the focus was on imparting operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability, imparting strength to the system and ensuring accountability and financial soundness.
- Deregulation of the interest rate in Indian banking system has become more market-oriented that helps in efficient allocation of resources

- Reforms in financial markets focused on removal of structural bottlenecks, introduction of new players/instruments, free pricing of financial assets, relaxation of quantitative restrictions, improvement in trading, clearing and settlement practices, more transparency, etc.

Economic Development increases through various policies and procedures

- Economies of scale in the cost of pooling of savings and reduce information costs.
- The rate of capital accumulation- minimises risk and uncertainty.
- Risk transformation and maturity transformation.
- The rate of technological development- transactions swiftly and safely.
- Development of financial institutions.
- Liberalization and Privatization.
- Development of backward areas.
- Promotion of industrial finance.
- Promotion of export finance.
- Promotion of credit to weaker sections.
- Promotion of credit to priority sections including rural & agricultural sector.
- Productivity – confidence among investors in instruments.
- Allows more players in banking and financial markets, products and services.
- Economic growth through capital mobilisation to raise capital-labour ratio.
- Increase in Employment opportunities.

Indicators of Financial Development

- The financial development is generally understood by pointing out differences in the financial structures of the developed and developing countries.
- Based on the following measures or indicators to denote the extent, stage, degree of Financial Development.

1. Finance Ratio- the ratio of total issues of primary and secondary claims to

national income.

2. Financial Inter-relation Ratio - the ratio of financial assets to physical assets

in the economy.

3. New Issue Ratio - the ratio of primary issues to the physical capital formation which indicates how far investment has been financed by direct issues to the savers by the investing sectors.

4. Inter-mediation Ratio - the ratio of secondary issues to primary issues, which indicates extent of the development of financial institutions as moblisers of funds relative to real sectors as direct mobilisers of funds.

5. The ratio of money to national income; the higher this ratio the greater the financial development because it indicates the extent of monetisation and the size of exchange economy in the country.

6. The lower the transaction cost and information cost, the higher the financial development.

7. In a developed financial system private banking is stronger than public sector banking and little intervention of Government in allocation, and concentration of banking is absent.

8. Developed finance sector is fully integrated domestically as well as internationally. Means risk adjusted rate of return on any investment is same.

9. In a well - developed financial sector, there is a strong and effective system of supervision, inspection, auditing and regulation and regular collection of prudential information; and financial organization conform to international standards with regard to capital adequacy, non performing loans etc.

10. A developed financial structure is characterized by presence of strong, active, large-sized non-bank financial sector comprising stock market, debt market, insurance companies, pension funds, mutual funds, etc.

11. The functioning of well developed financial markets- primary and secondary markets charecterised by effective and quick enforcement of financial contracts, recovery of loans, and property rights also financial claims like insurance etc.

Concepts related to Financial Markets, Institutions and Services

Financial Markets- are the centres or arrangements that provide facilities for buying and selling of financial claims and services. The corporations, financial institutions, individuals, and governments trade in financial products on these markets directly or through brokers and dealers on organised exchanges.

- **Classification of Financial Markets**

(A) **Primary and Secondary Markets-** the Primary market deals with new financial claims or new securities and also called as new issue markets. This market mobilises savings and supply fresh or additional capital to business units.

Secondary Markets - deals with securities already issued or existing or outstanding through further sales and purchases.

(B) **Money and Capital Markets-** it is based on differences in the period of maturity of financial assets issued in these markets.

Money Market- deals with short-term claims or with a period of maturity of one year or less.

Capital Market- deals with long term i.e with maturity of claims more than 1 year.

Financial Institutions- they are business organisations that act as mobilisers and depositories of savings, and as creators of credit and finance. Also provide various financial services to the community. They differ from non-financial (industrial and commercial) business organisations. These institutions deals with deposits, loans, securities and so on.

- **Classification of Financial Institutions**

Banking and Non-Banking Institutions- differences are

Banking institutions- a) they participate in economy's payment mechanisms i.e they provide transactions services.

b) they can, as a whole, create deposits or credit, which is money.

c) Banks subject to legal reserve requirements, can advance credit by creating claims against themselves. -->commercial banks or co-operative banks.

Non - Banking- can lend only out of resources put at their disposal by their savers can be called as purveyors or suppliers. Ex- LIC, IDBI, IFCI, SFC.

- **<u>Intermediaries and Non-intermediaries</u>**

Intermediaries intermediate between savers and investors. They lend money as well as mobilise savings. Their liabilities are towards ultimate savers, while their assets are from the investors or borrowers. All Banking institutions and LIC, GIC are non banking Intermediaries.

Non-Intermediaries- they do the loan business but their resources are not directly obtained from the savers. Like IDBI, IFC and NABARD as government efforts to provide assistance for specific purposes, sectors, and regions for regional, under developed and backward area development -NBSFO- non banking statutory financial organisations.

Financial Instruments and Services- these services and products are many and varied in character.

Financial claims or products like Investments in Banks, LIC, GIC, Stock markets, Debentures, Mutual Funds, Money market instruments.

Financial Services like Fund based services- Lease Finance - Hire Purchase Finance- Bills Discounting - Factoring - Housing Finance - Venture Capital Financing.

Fee-based Advisory Services: Stock Broking - Credit Rating Agencies, Investment Banking.

<u>Regulatory & Promotional Institutions</u>

This is the **apex** monetary Institution of India and is also called the **central bank** of the country. The Reserve Bank of India regulates and supervises the major part of India's financial system. The RBI plays a supervisory role in commercial banks, urban cooperative banks (UCBs), some financial institutions and non-banking finance companies (NBFCs). The Banking Regulation Act, 1949, has given the RBI the power to regulate the banking system.

- **Role of the RBI as a Regulator of the Indian Banking System**

i. Issue of License: grant licenses to commence new banking operations and also grants licenses to open new branches of existing banks.

ii. KYC Norms: To curb money laundering and prevent the use of the banking system for financial crimes, The RBI has issued "Know Your Customer" guidelines to open an account.

iii.Audit and Inspection: On-site and off-site inspection is done by the RBI on the basis of "CAMELS" (Capital adequacy; Asset quality; Management; Earning; Liquidity; System and control).

iv. Foreign Exchange Control: every foreign transaction, including the inflow and outflow of foreign exchange. It takes steps to stop the decrease in the value of the Indian Rupee.

<u>Other roles-</u>

Role of RBI in Economic Development

1. Development of banking system

2. Development of financial institutions

3. Development of backward areas

4. Economic stability

5. Economic growth

6. Proper interest rate structure

7. Promotion of industrial finance

8. Promotion of export finance

9. Promotion of credit to weaker section

12. Promotion of credit to priority sections including rural & agricultural sector

<u>Functions-</u>

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

2. **The issuer of currency**: It has the sole authority in India to issue currency. It also takes action to control the circulation of fake currency.

3. **The issuer of Banking License:** every bank has to obtain a Banking license from RBI to conduct banking business in India.

4. **Banker's to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit and helps to market for government's securities.

5. **Banker's Bank:** as it provides the loan to banks/bankers, accept the deposit of banks, and re-discount the bills of banks.

6. **Act as clearinghouse:** For settlement of banking transactions, It facilitates the exchange of instruments and processing of payment instruction.

7.**Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

8. **Regulator and Supervisor of Payment and Settlement systems**: RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

IRDA- INSURANACE REGULATORY DEVELOPMENT AUTHORITY

IRDA is an autonomousapex statutory body that regulates and develops the insurance industry in India. Itwas constituted by a Parliament of India Act called Insurance Regulatory and Development Authority Act, 1999, and duly passed by the Government of India.

It protects the interests of the policyholders, regulates,promotes and ensures orderly growth of the insurance business and re-insurancebusiness.

IRDA monitors the development of the insurance industry and other related activities.

FUNCTIONS

- IRDA issues a certificate of registration to the life insurance company and also renews,modifies, withdraws, suspends and cancels the registration.

- The regulatory body secures the interests of the policyholders in areas like assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of the policy and other terms and conditions applicable to an insurance contract.
- It specifies the requisite qualifications, code of conduct and the practical training required for insurance intermediaries and agents.
- IRDA makes certain that the code of conduct is followed by surveyors and loss assessors.
- The autonomous body promotes efficiency in the conduct of insurance business
- It also promotes and regulates professional organizations connected with the insurance and reinsurance business.
- IRDA carries out functions like inspection, conducting inquiries and investigations including an audit of the insurers, insurance intermediaries and other organizations involved with the insurancebusiness.
- The rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business are controlled and regulated by the regulatory body.
- It also judges the disputes between insurers and intermediaries or insurance intermediaries
- IRDA specifies the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f)

Role

- Ensures and encourages the systematic growth of the insurance industry just to benefit the common people who invest in policies to look for safety.
- Promote high standards of integrity and fair dealings in the market.
- Resolve disputes of all kinds and speed up claim settlement.
- Set standards and conduct vigilance to check for scams or frauds.
- To protect the interest of policyholders at the time of claims, issuance of the policy, and cancellation of the policy is the ultimate motive.
- IRDA clearly states the code of conduct for all insurance companies, surveyors, and loss assessors.
- To prevent any misdeed, it calls for both annual or need-based audit, conduct investigation, call for information from either the insurance companies or intermediaries.
- Keeping in mind the development of both the urban and the rural sector, IRDA bounds the insurers with a minimum percentage to carry both life and non -life business.

SEBI-SECURITY EXCHANGE BOARD OF INDIA

1. In 1988 the Securities and Exchange Board of India (SEBI) was established by the Government of India and upgraded as a fully autonomous body (a statutory Board) in the year 1992 with the SEBI Act on 30th January 1992.

   Organization's Structure , namely:- a ChairmanTwo members, One from the officials of the Ministry of the Central Government dealing with Finance and second from administration of the Companies Act, 1956. One member from the officials of the Reserve Bank of India. Five other members of whom at least three shall be the whole-time members to be appointed by the central Government.

<u>Functions of SEBI</u>

<u>Regulatory Functions</u>

1.Regulation of stock exchange and self regulatory organizations.

2.Registration and regulation of stock brokers, sub-brokers, Registrars to all issues, merchant bankers, underwriters, portfolio managers etc.

3.Registration and regulation of the working of collective investment schemes including mutual funds. Prohibition of fraudulent and unfair trade practices relating to securities market. 3.Prohibition of insider trading Regulating substantial acquisition of shares and takeover of companies.

<u>Developmental Functions</u>

1.Promoting investor's education Training of intermediaries Conducting research and publishing information useful to all market participants.

2.Promotion of fair practices Promotion of self regulatory organizations

<u>Role of SEBI</u>:

- **<u>Primary Markets</u>**: SEBI has regulated the primary market through

❖ The regulation of issuers' access to market.

❖ Regulation of information production at the time of issue.

❖ Regulation of processes and procedures relating to issuance of securities.

❖ Disclosure:Disclosure standards are not limited to accounting information but was extended to other issue related communications such as advertisements.

❖ Corporate Governance:SEBI has made a constant effort to improve the standards of Corporate Governance in India.

❖ Settlement Systems

❖ D-materialization of securities.

❖ Institutionalization of Trading and ownership of securities .

❖ Market Integrity and Insider Trading .

❖ To help in developing the capital market so that the business activities doesn't get hampered.

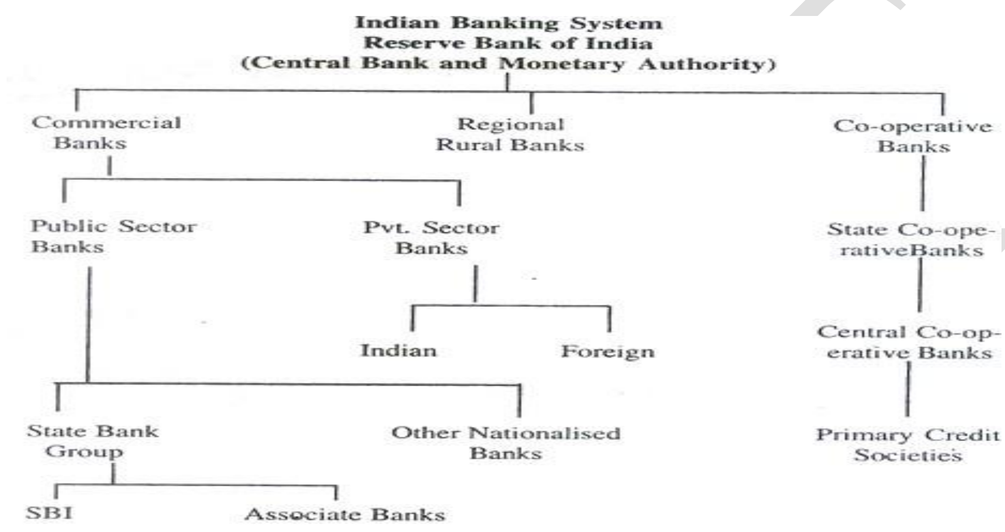
- To bring companies and organizations under its regulation, so that the interests of investors are not harmed .
- To curtail unethical trading which includes insider trading also.
- To get done the registration of Mutual Funds and Systematic Investment Plans(SIPs) and all such funds comply with laid down rules and regulations of Mutual funds and SIPs .
- To impart training to market participants on regular basis .
- control and regulate stock exchanges.
- grant registration to market intermediaries.
- in any State or area, to grant licenses to dealers in securities

Unit II. Commercial Banks:

Functions of Commercial Banks. Performance and Competition of Public and Private Sector banks- NPA's.

Non-Banking Financial Institutions- Structure and Functions LIC - GIC &Mutual Funds.

STRUCTURE OF BANKING INTSTITUTIONS



STRUCTURE OF INDIAN BANKING SYSTEM

Commercial Banks:

A scheduled bank is a bank that is listed under the second schedule of the RBI Act, 1934. Scheduled banks are further classified into commercial and cooperative banks.

Commercial banks are an important part of financial system of a country. These banks have substantial financial resources & hence are dominant players in all segments of financial markets like credit, money, securities, foreign exchange and derivatives. They mobilize funds mainly in the form of deposits including demand deposits. Banks use deposits and borrowings mainly for giving loans & investing funds in various financial assets.

- ***Functions of Commercial Banks-*** **Main Functions :**

  1) Acceptance of deposits and borrowings of funds from various markets

  2) Giving advance or loan either upon or without security

  3) Granting & issuing of letter of credits, guarantees and travelers cheques etc.

4) Buying and selling of commodities like gold

5) Buying and selling of foreign exchange or currencies

6) Acquiring, holding and dealing in shares, bonds, debentures other types of financial assets.

7) To undertake the administration of estates as executors or trustees.

8) To provide safe deposit vaults.

9) To undertake leasing, hire purchase & factoring business as a part of fund based business.

10) To undertake merchant banking and investment banking business including corporate advisory services, portfolio management services etc.

<u>Agency Functions</u> : Banks act as an agent on behalf its customers and accordingly undertake following functions:

- Collection of account receivables, bills of exchange, promissory notes, cheques etc.
- Purchase and sale of shares, bonds, debentures etc. on behalf of customers.
- Buying and selling of foreign exchange on behalf of customers
- Selling of third party products like insurance policies and mutual funds schemes on behalf of insurance companies and mutual funds respectivelyCollection of direct and indirect taxes on behalf of the Government.

<u>Performance and Competition of Public and Private Sector banks</u>

<u>DIFFERENCES IN PUBLIC & PRIVATE SECTOR BANKS</u>

DIFFERENCES IN PUBLIC & PRIVATE SECTOR BANKS

- **<u>Public sector banks</u>** are those where majority of the stake in the bank is held by government. Where as in private sector bank, majority is held by share holders of the bank. Ex - SBI is a public sector bank and ICICI is a private sector bank.

1. Public sector banks are classified into two categories further- 1. Nationalised Banks 2. State Bank and its Associates.

2. In nationalized banks the government control and regulates the functioning of the banking entity.

3. Number of banks and shier branches are more as compared to private sector

- **<u>Private Sector Banks:</u>**

In these banks, most of the equity is owned by private bodies, corporations, institutions or individuals rather than government. These banks are managed and controlled by private promoters.

- Of the total banking industry in India, Public sector banks constitute 72.9% share while the rest is covered by private players.
- In terms of the number of banks, there are 27 public sector banks whereas 22 private sector banks.

- **Shareholders**

a) In a public sector bank more than fifty percentage of the stake is held by the Government.

b) In a private sector majority of the stake owned to private shareholders, including corporations and individuals.

- **Interest Rate**

Deposit interest rates offered by public sector banks are almost the same when compared to private sector banks. However new-age banks such as the Bandhan Bank, Airtel Bank are offering marginally better interest rates when compared with their counterparts

In case of loans, interest rates are marginally lower as for example SBI introduced a new home loan offering for its women customers with an interest rate of 8.35% for a ticket size of upto Rs. 30 lakhs.

- **Fees & Service**

Private Sector Banks have made names in providing better service, however, they charge for the extra services provided by them.

Public sector banks fees and charges are less such as on balance maintenance. A lot of public sector banks are still picking up in their service offerings.

- **Customer Base:**Mostly public sector accounts are opened for government employees for their salaries, fixed deposits, lockers etc. Their customer base is also relatively large when compared with their peers in the private sector as they have been in the domain for long and have managed to gain customer's confidence.

Whereas private sector bank in India target company employees,for their salary accounts, credit cards and net banking.

➢Financial performance

In terms of financial performance, PSU banks lag behind. When comparing most of the parameters like non performing assets or NPA and net interest margins, private sector banks tend to be much better placed.

For example, some of the private sector banks like HDFC Bank and IndusInd Bank have very low level of non performing assets, as compared to Bank of Baroda have reported record losses.

Another important factor is that in terms of **capital adequacy** as well, public sector banks are lagging behind, their private sector banking peers.

➢Examples of private and public sector banks

public and government sector banks include State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India - Some of the larger private sector banks ICICI Bank, HDFC Bank, Yes Yank, IndusInd Bank, Kotak Mahindra Bank.

➢**Opportunity, Job Security and Other Benefits**

Public sector banks offer lesser opportunities but job prospects are bright here with promotions with seniority, job security as well as pension benefits that are gained post-retirement.

Growth opportunity is lower in public sector where as higher in private sector.

Promotions with seniority in public sector, in private sector promotions with performance

job security is high in public sector, private sector is less

pension is available in public sector where as no pension in private sector

NON PERFORMING ASSETS (NPA's)

NPA expands to non-performing assets (NPA). Reserve Bank of India defines NPA as any advance or loan that is overdue for more than 90 days. "An asset becomes non-performing when it ceases to generate income for the bank," said RBI in a circular form 2007.

Categories of NPA

There are different types of non-performing assets depending on how long they remain in the NPA category.

- **a) Sub-Standard Assets**

An asset is classified as a sub-standard asset if it remains as an NPA for a period **less than or equal to 12 months**.

- **b) Doubtful Assets**

An asset is classified as a doubtful asset if it remained as an NPA for **more than 12 months.**

- **c) Loss Assets**

An asset is considered as a loss asset when it is "**uncollectible"** (such as a bad debt, that cannot be collected) or has such little value that its continuance as a bankable asset is not suggested. However, there may be some recovery value left in it as the asset has not been written off wholly or in parts.

❖ Although the most common nonperforming assets are term loans, there are other forms of nonperforming assets as well.

❖ Overdraft and cash credit (OD/CC) accounts left out-of-order for more than 90 days

❖ Agricultural advances whose interest or principal installment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops

- ❖ Expected payment on any other type of account is overdue for more than 90 days

NON BANKING FINANCAIL INSTUTIONS

The Reserve Bank Of India has defined NBFC as the Companies which are registered under the Companies Act, 1956 and are engaged in the business of loans and advances, acquisition of shares/ stocks/ bonds/ debentures/ securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but they does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services related to it and sale/purchase/construction of immovable property are known as Non-Banking Financial Company.

- A nonbank financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public.
- Examples of nonbank financial institutions include insurance firms, venture capitalists, currency exchanges, some microloan organizations, and pawn shops.

Functions of NBFC

- **Hire Purchase Services**

Hire purchase service is a way through which the seller delivers the goods to the buyer without transferring the ownership of the goods. The payment of the goods is made in instalments. Once the buyer pays all the instalments of the goods, the ownership of the good is automatically transferred to the buyer.

- **Retail Financing**

Companies that Provides short term funds for Loan against shares, gold, property, primarily for consumption purposes.

- **Trade finance**

Companies dealing in Dealer/distributor finance so that they can for working capital requirements, vendor finance, and other business loans.

- **Infrastructural Funding**
- This is the largest section where major NBFCs deal in. A lot of portion of this segment alone makes up a major portion of funds lent, amongst the different segments. This majority includes Real Estate, railways or Metros, flyovers, ports, airports, etc.
- **Asset Management Company:**

Assest managment companies are those companies consists of fund managers (who invest in equity shares to gain handsome gains) who invest the funds pooled by small investors and actively manage it.

- **Leasing Services**

The companies that deals in leasing or for a better understanding of this word we can understand it in such a way that the way we rent property or flat for living similary these companies provide property to small businesses or sometime even larger ones who cannot afford it for whatsoever reason. The only difference between renting and leasing is that in leasing contracts are made for fixed period of time.

- **Venture Capital Services**

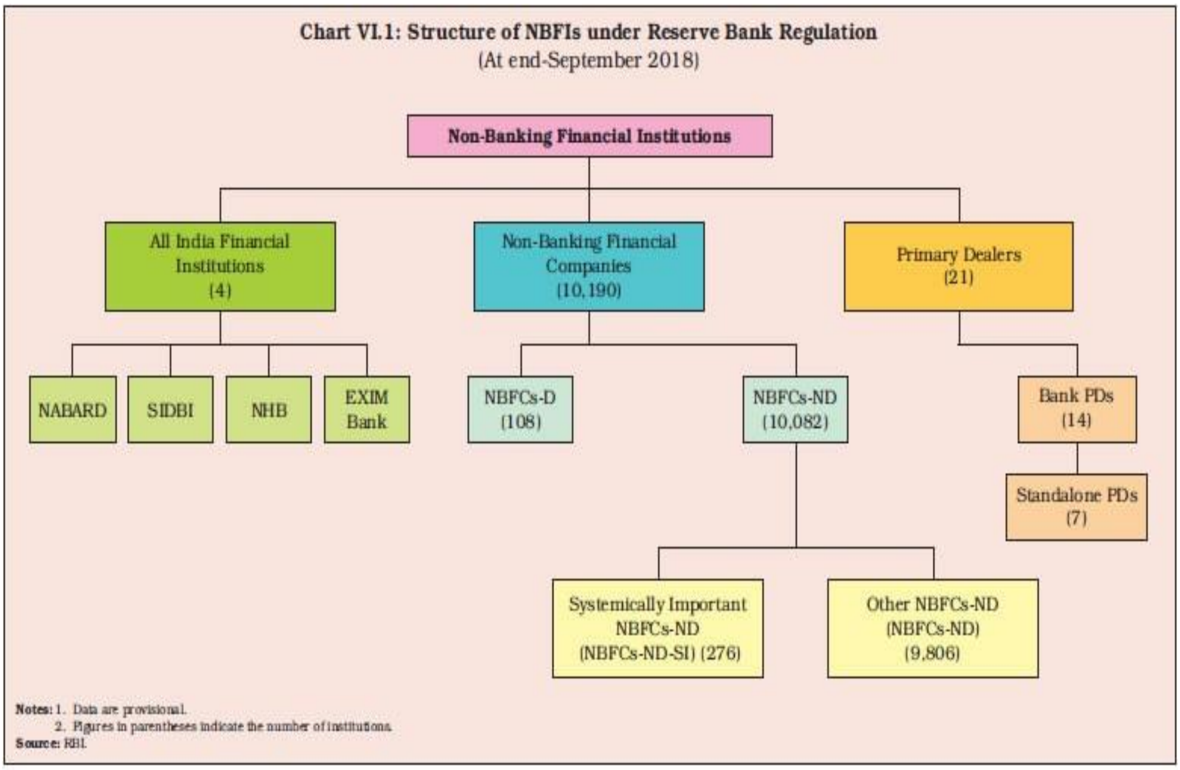
The companies that invest in the small businesses which are at their initial stage but their success rate is high and are promising enough of sufficient return in coming time. Eg: Projects.

- **Micro Small Medium Enterprise (MSME) Financing**

MSME is one of the roots of our economy and millions of livelihood depends on this sector that is why government announced such luring schemes for MSME sector to promote its growth.

STRUCTURE:

- VI.1 Non-banking financial institutions (NBFIs) comprise a heterogeneous group of financial intermediaries.
- Those under the regulatory purview of the Reserve Bank consist of all-India financial institutions (AIFIs), non-banking financial companies (NBFCs)[1] and primary dealers (PDs) (Chart VI.1).
- AIFIs are apex institutions established during the development planning era to provide long-term financing/refinancing to specific sectors such as (i) agriculture and rural development; (ii) trade; (iii) small industries; and (iv) housing.
- NBFCs are dominated by joint stock companies, catering to niche areas ranging from personal loans to infrastructure financing.
- PDs play an important role as market makers for government securities.
- The Reserve Bank regulated NBFI sector grew by 15.8 per cent in 2017-18; by the end of March 2018, it was 19.8 per cent of the scheduled commercial banks (SCBs) taken together in terms of balance sheet size.
- Within the NBFI sector, AIFIs constituted 23 per cent of total assets, while NBFCs represented 75 per cent and standalone PDs accounted for 2 per cent.



From the FY 2011-12, Ministry of Finance, Government of India has designated **National Housing Bank** (**NHB**) as the Common Nodal Agency for both Schedule Commercial Banks (SCBs) and Housing Finance Companies (HFCs) for implementation & disbursement of subsidy under the Scheme.

Export-Import Bank of India (**EXIM** Bank) is a specialized financial institution, wholly owned by Government of India, set up in 1982, for financing, facilitating and promoting foreign trade of India.

The standalone **primary dealers** are either subsidiaries of scheduled commercial **banks** Indian subsidiaries of entities incorporated abroad or companies incorporated under companies act 1956 and are registered as **Non-Banking Financial** Company (**NBFC**).

A **primary dealer (PD)** is an RBI registered entity that is authorized in buying and selling government securities. There are two types of primary dealers in India. Standalone primary dealers and bank primary dealers. The standalone primary dealers are either subsidiaries of scheduled commercial banks Indian subsidiaries of entities incorporated abroad or companies incorporated under companies act 1956 and are registered as Non-Banking Financial Company (NBFC)

In terms **of** liability structure, **NBFCs** are classified into two categories – deposit-taking **NBFCs** or **NBFCs-D**, which accept and hold public deposits and non-deposit taking **NBFCs** or **NBFCs-ND**, which do not accept public deposits.

LIC

- **Life Insurance Corporation of India** (abbreviated as **LIC**) is an Indian state-owned insurance and investment corporation owned by the Government of India. The Life insurance Corporation of India was founded on **September 1**, **1956**, when the Parliament of India passed the Life Insurance of India Act that nationalized the insurance industry in India. Over **245** insurance companies and provident societies were **merged** to create the state-owned Life Insurance Corporation of India.

What are the benefits of LIC?

- Unlike any term plan, it also offers **Maturity Benefits** to the surviving policyholder.
- **Death Benefit**- In case of sudden death of the policyholder within the policy tenure, the nominee gets the assured sum.
- Maturity **Benefits**- A total of **110%** of the premium paid is paid to the live policyholder at the time of maturity.

Functions:

- The main function of LIC is to **collect the savings** of the people through a life insurance policy and **invest** that money in various financial markets.
- One of the main functions of LIC is **to invest fund into government securities** so as to protect the capital of the people who have given their money to **LIC**.

Objectives:

- Objectives of LIC of India
- The LIC was established with the following objectives:
- **Spread** life insurance widely and in particular to the rural areas, to the socially and economically backward claries with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
- Maximisation of mobilisation of people’s savings for nation building activities.
- Provide complete security and promote efficient service to the policy-holders at economic premium rates.
- Conduct business with utmost economy and with the full realisation that the money belong to the policy holders.

- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment
- Involve all people working in the corporation to the best of their capability in furthering the interest of the insured public by providing efficient service with courtesy.

Types of plans:

1. Children plans :-Children's life goals

2. Retirement plans:- Retire grace fully

3.Term insurance plans: Pure risk cover

4. Endowment plans: Insurance + savings

5. Money back plans: periodic returns

6. Whole life insurance:- life coverage to the life assured to the whole life

7.U LIP plans: Insurance + Investment opportunity

GIC

General insurance industry in India was nationalised and a government company known as General Insurance Corporation of India was formed by the central government in November, 1972. General insurance companies have willingly catered to these increasing demands and have offered a plethora (a large excess amount of something) of insurance covers that almost cover anything under the GIC.

Objective of the GIC:

- To carry on the general insurance business other than life, such as accident, fire etc.
- To aid and achieve the subsidiaries to conduct the insurance business and
- To help the conduct of investment strategies of the subsidiaries in an efficient and productive manner.

Role and Functions of GIC

- Carrying on of any part of the general insurance, if it thinks it is desirable to do so.
- Aiding, assisting and advising the acquiring companies in the matter of setting up of standards of conduct and sound practice in general insurance business.
- Rendering efficient services to policy holders of general insurance.
- Advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses.

- Advising the acquiring companies in the matter of investing their fund.
- Issuing directions and encouraging competition among the acquiring companies in order to render their services more efficiently.

Classification of Indian General Insurance Industry

- General Insurance is also known as Non-Life Insurance in India. There are totally 16 General Insurance (Non-Life) Companies in India. These 16 General Insurance companies have been classified into two broad categories namely: PSUs (Public Sector Undertakings),Private Insurance Companies.

Public Sector :

- These insurance companies are wholly owned by the Government of India(subsidiaries of GIC). There are totally 4 PSUs in India namely:
- National Insurance Company Ltd-Head Office-Kolkata
- Oriental Insurance Company Ltd- Head Office- New Delhi
- The New India Assurance Company Ltd- Head Office-Mumbai
- United India Insurance Company Ltd- Head Office-Chennai
- **Private Insurance Companies**
- There are mainly 12 private General Insurance companies in India namely
- Apollo DKV Health Insurance Ltd
- Bajaj Allianz General Insurance Co. Ltd
- Cholamandalam MS General Insurance Co. Ltd
- Future General Insurance Company Ltd
- HDFC Ergo General Insurance Co Ltd
- ICICI Lombard General Insurance Ltd
- Iffco Tokio General Insurance Pvt Ltd
- Reliance General Insurance Ltd
- Royal Sundaram General Insurance Co Ltd
- Star Health and Allied Insurance
- Tata AIG General Insurance Co Ltd
- Universal Sompo General Insurance Pvt Ltd

MUTUAL FUNDS

Definition:

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets.

Functions of Mutual Funds:

- Mutual funds pool assets and let you invest in different industries and different types of stocks and bonds with the help of investment professionals.
- These funds have multiple functions, such as saving you time and money, as well precisely tailoring your portfolio to reach your financial objectives.
- Their primary role is to assist investors in earning an income or building their wealth, by participating in the opportunities available in various securities and markets.

Features:

- Professional Management.
- Diversification or "Don't put all your eggs in one basket." Mutual funds typically invest in a range of companies and industries.
- Affordability.
- Liquidity.

Types:

- Equity funds: Equity mutual funds buy stocks of a collection of publicly traded companies. Most mutual funds on the market (55%) are some type of equity fund, according to the Investment Company Institute.

a)Large-cap fund: Companies with a market value of $10 billion or greater.

b)Mid-cap fund: Companies worth $2 billion to $10 billion.

c)Small-cap fund: Companies worth $300 million to $2 billion

- Industry or sector funds: These mutual funds focus on a particular industry, such as technology, oil and gas, aviation or health care. For example, investors who want exposure to gains by companies like Google and Apple could put money in a technology fund.
- Growth and value funds: The investment style of the fund is another mutual fund differentiator. Growth funds, as the name suggests, seek stocks that fund managers believe will have better than average returns.

- International, global and emerging market funds: Geographic location can also determine how mutual funds are built. International funds invest in companies doing business outside the U.S., while global funds invest in companies doing business both in the U.S. and abroad. Emerging market funds target countries with small but growing markets.
- **Bond funds:** Bond funds are the most common type of fixed-income mutual funds, where investors are paid a fixed amount back on their initial investment.
- **Money market funds:** These are the fixed-income mutual funds that invest in high-quality, short-term debt from governments, banks or corporations. Examples: certificates of deposit and commercial paper.
- **Balanced funds:** Also known as asset allocation funds, these investments are a combination of equity and fixed-income funds with a fixed ratio of investments such as 60% stocks and 40% bonds.
- **Other mutual funds:** An index fund is a type of mutual fund whose holdings match or track a particular market index. Index funds have exploded in popularity in recent years, Like equity funds, index funds can vary by company size, sector and location.

Unit-III: Financial and Securities Markets

Money Market Instruments

- Money market is a market where near money assets and not currency are traded. Near money assets are characterised by their liquidity, high marketability and low risk.
- Money market is distinct from other financial markets because of the short-term maturity of money market
- Instruments, large denomination of transactions, low default risk, innovation and flexibility. Money market typically trades in short-term securities having an original maturity of one year or less.
- Because of short-term maturity, adverse price movements resulting from interest rate fluctuations are smaller in money market securities which, in turn, lead to low risk.
- Another redeeming characteristic of money market is that money market instruments are generally sold in large denominations.
- The size of these transactions prevents most individual investors from participating directly in the money markets. Instead, dealers and brokers operating in the trading rooms of large banks and brokerage houses, bring customers together. Individuals generally invest in money market securities indirectly, with the help of financial intermediaries.
- Low default risk is another feature of money market securities.
- The risk of late or non-payment of principal and/or interest is generally small. As cash lent in money markets must be available for quick repayment to the lender, money market instruments are usually issued by high- quality borrowers having low default risk.
- Innovation and flexibility are the hallmark of the money market. Despite the wholesale nature of the money market, innovative securities and trading methods have been developed to provide
  opportunity to small savers to access to money market securities.

Functions of Money Market

Primary objective of money market is to facilitate the flow of short-term funds.

1. The most important function of money market is to establish linkage between supplies of short-term surplus funds and demanders of funds for meeting their short-term requirements.

2.It provides convenient access to both providers and borrowers of short- term funds to satisfy their lending and investment requirements. In this process, money market provides an equilibrating mechanism to even out short-term liquidity.

3. Money market provides an ideal place for a firm or financial intermediary to 'warehouse excessive holdings of cash balances until they are needed.

4. Further, corporations' daily patterns of receipts from sales do not match the pattern of their day-to-day expenses. Hence use the money market as an interim investment that provides a higher return than holding cash or money in banks.

5. Money market provides an effective low cost source of temporary funds. Banks may issue certificate of deposits and other short-term securities in the money market to overcome the problem of reserve requirements shortages. Likewise, the government issues treasury bills to fund a large portion of its debt.

Money Market Instruments & Participants

1. Call/Notice Money	1. Banks
2. Term Money Market	2. Primary Dealers
3. Treasury Bills	3. Financial Institutions
4. Repo (Repurchase)	4. Mutual Funds
5. Insurance Companies	5. Non-Banking Finance Agreement
6. Commercial Bills, Certificate of Deposits	6. Companies and other Companies
7. Commercial Papers	7. Inter-Bank Participation

Types/Composition of Indian Money Market

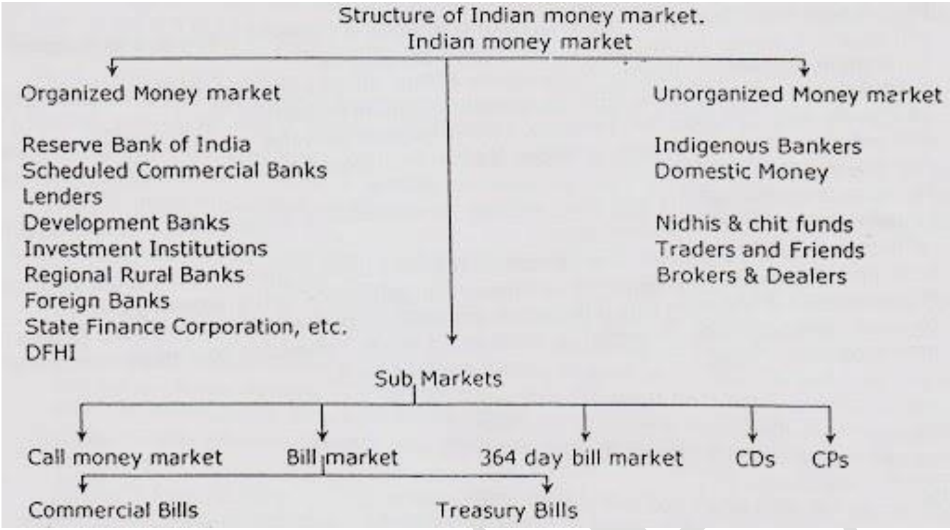
Organised money market in India is composed of call/notice money market, term money market, treasury bill market, discount market and bill market.

The various participants of the organized sector of the money market.

- Player Role
- Central Bank Intermediary
- Government Borrower/Issuer
- Banks Borrowers/Issuers
- Discount Houses Market Makers
- Acceptance Houses Borrowers/Issuers
- FIs Lenders/Inventors
- MFs Investors
- FIIs Intermediaries

- Dealers Intermediaries

Corporate Issuers



Call/Notice Money Market

- Call/Notice money market, as a part of national money market, is a market where the day-to-day surplus funds, mostly of banks are traded. The loans are made in this market are of a short term nature, their maturity varying from one day to fortnight. These loans are repayable on demand and at the option of either the lender or borrower.
- Call loans in India are provided; (i) to the bill market, (ii) for the purpose of dealing in the bullion markets and stock exchanges, (iii) between banks, and (iv) frequently to individuals of high financial status in Mumbai for ordinary trade purposes in order to save interest on cash credits and overdrafts.
- Among these uses, interbank loan has been the most predominant. Banks borrow from other banks to meet a sudden demand for funds, make large payments, large remittances, and to maintain cash with the RBI.
- Call loans are unsecured in India, unlike in other countries. Further, trading on the call money market is seasonal in character as is reflected in the volume of money at call and short notice.
- In the call money market, the money is borrowed or lent for a day. It is also called as interbank market or known as overnight money market.
- When money is borrowed or lent for more than a day but up to 14 days it is called “notice money”.
- No collateral security is involved in such type of transactions. Participants use call money market to manage their day to day surpluses or deficits in their daily cash inflows and cash outflows.
- No collateral security is involved in such type of transactions. Participants use call money market to manage their day to day surpluses or deficits in their daily cash inflows and cash outflows.

- Thus, demand of money at call market is less during slack season as compared to that during busy season in a year. Borrowings from call market tend to be highest around March every year ostensibly due to withdrawals of deposits in March to meet year-end tax payments and withdrawals of funds by financial institutions to meet their statutory obligations.
- Call money markets are located mainly in high industrial and commercial centres like Mumbai, Kolkata, Chennai, Delhi and Ahmadabad. Among these, the Mumbai call market is the biggest both in terms of size and Transactions.
- In addition to the above, there exists a large number of local call markets developed and operated by indigenous local bankers.
- State Co-operative Banks (SCBs) and District Central Co-operative Banks (DCCBs) have been permitted to borrow from call and notice money market upto 2.0 per cent of their aggregate deposits as at the end of March of the previous financial year.
- The transactions done by the banks and primary dealers in call and notice money markets are being monitored on a daily basis by the RBI.
- The introduction of screen based negotiated quote driven system (NDS-Call) was in respect of dealings in call and notice money market. It does not require separate reporting.
- The interest rates in call and notice money market are determined by the market participants based on demand and supply of funds.
-
- • Call money market is that part of the national money market where the day-to-day surplus funds, mostly of banks, are traded in.
- • Mostly the call money market helps the banks to borrow the money without collateral from other banks to maintain the cash reserve ratio (CRR) with RBI.
- • The loans made in this market are of a short-term nature, their maturity varying between one day to a fortnight
-

Participants in India

The participants in the market include RBI, SBI, Commercial banks, State district, urban cooperative banks, DFHI, STCI, other financial institutions such as LIC, UTI, GIC, NABARD, IDBI, IFCI, ICICI, LIC Mutual Fund, etc., corporate entities and foreign institutional investors.

Size of the Call Money Market

The size of the market for these funds in India is between Rs 60,000 million to Rs 70,000 million of which public sector banks account for 80% of borrowings and remaining is of foreign banks/private banks.

Call rates – the rate of interest paid on call loan is known as the call rate. The call rate is highly variable from day to day; and often from hour to hour. It varies from centre to centre also. It is very sensitive to changes in demand for and supply of call loans.

Call rates in India –

	This week	Month ago	Year ago
Call Money	4.00	3.75	3.00

Recent Developments in Call Money Market

- ➢ The non Bank institutions access to call money market further reduced to 15% points to 60% average daily call lending.
- ➢ Primary dealers allowed borrowing on average up to 200 % of their net owned funds.
- ➢ To limit un collateralised exposure of banks to call money market the limit of maximum daily borrowings applicable to UCB extended to SCB and DCCB.
- ➢ Prudential limits introduced for commercial banks for the integrity of Indian Financial system and development of REPO market.
- ➢ To improve transparency and strengthen market efficiency, mandatory reporting of all Negotiated Quoted Driven deals.

Call Money Market in India

• That part of national money market where the day-to-day surplus funds, mostly of banks are traded in

• Banks borrow from other banks in order to meet a sudden demand for funds, large payments, large remittances, and to maintain cash or liquidity with the RBI.

Major Participants in the call money market :

- Scheduled Commercial Banks
- Non-Scheduled Commercial Banks
- Foreign Banks
- State, District and Urban Co-operative Banks
- Discount and Finance House of India(DFHI)
- Securities Trading Corporation of India(STCI)

Reasons for Call Rate Volatility

- Requirement for CRR needs create excess demand for liquidity in call money market
- Over extended credit position of Banks

- Occasional market disruptions
- Heavy withdrawal by Institutional investors
- Liquidity crisis in money market
- Sluggish demand in bank deposit with heavy pressure for non-food credit in the banking sector crating asset liability mismatch
- Causality in foreign exchange market and call money market
- Structural deficiencies in the Banking Sector

Measures to Reduce Call Rate Volatility

• Intervention by the DFHI, has increased

• More funds have been channelized by the RBI through the DFHI

• Funds are channelized by certain financial institutions with surplus funds

• Penalties on CRR shortfalls are softened

• Liquidity adjustment facility was introduced from June 2000 onwards to manage short-term liquidity under different financial market conditions and to maintain stability in the money market

• Interbank liabilities were freed from reserve requirements in 1997.

Government Securities Market

TREASURY BILL

Nature of Treasury Bill

A Particular type of Finance Bill or Promissory note put out by the Govt. of the country to meet the needs of supplementary short-term Finance

Treasury bills are zero coupon securities and pay no interest.

Issued at discount and redeemed at par

Characteristics

- High Liquidity Money Market Instrument
- Absence of Risk of Default
- Ready availability on Tap
- Assured Yield
- Low transaction Cost
- Eligibility for Inclusion in SLR
- Negligible Capital Depreciation

Types of Treasury Bills

• **Ordinary TBs**: Issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government

• **Ad-hoc TBs**: Issued in favour of the RBI only. They are not sold through tender or auction. They are purchased by the RBI and the RBI is authorised to issue currency notes against them. They aren't marketable in India.

• **91-Day, 182-Day and 364-Day Treasury Bills**

• **14-Day Treasury Bills**

• It is sold only to state governments, foreign central banks, and other specified bodies in order to provide them with an alternate arrangement in place of 91-day tap TBs for investment of their temporary cash surpluses Investors and Sale of T-bills

• Banks, Primary Dealers, State Governments, Provident Funds, Financial Institutions, Insurance Companies, NBFCs, FIIs (as per prescribed norms), NRIs & OCBs can invest in T-Bills

• Treasury bills are available for a minimum amount of Rs.25,000 and in multiples of Rs. 25,000

• T- bills are sold through auction

Auction Process

• Auction is a process of calling of bids with an objective of arriving at the market price

• A yield based auction is generally conducted when a new Government security is issued.

• Investors bid in yield terms up to two decimal places (for example, 7.49 per cent, 8.21 per cent, etc.).

• Bids are arranged in ascending order and the cut-off yield is arrived at the yield corresponding to the notified amount of the auction.

• The cut-off yield is taken as the coupon rate for the security.

• Successful bidders are those who have bid at or below the cut-off yield. Bids which are higher than the cut-off yield are rejected.

A price based auction is conducted when Government of India re-issues securities issued earlier.

• Bidders quote in terms of price per Rs.100 of face value of the security (e.g., Rs.102.00, Rs.101.00, Rs.100.00, Rs.99.00, etc., per Rs.100/-).

Uniform Price Vs. Multiple Price based Auction

• In a Uniform Price auction, all the successful bidders are required to pay for the allotted quantity of securities at the same rate, i.e., at the auction cut-off rate, irrespective of the rate quoted by them

• Multiple Price auction, the successful bidders are required to pay for the allotted quantity of securities at the respective price / yield at which they have bid Competitive Vs. Non-Competitive Bidding

• Competitive bids

• Made by well informed investors such as banks, financial institutions, primary dealers, mutual funds, and insurance companies.

• The minimum bid amount is Rs.10, 000 and in multiples of Rs.10, 000 thereafter.

• Multiple bidding is also allowed, i.e., an investor may put in several bids at various price/ yield levels.

• Non-competitive bidding

• Open to individuals, HUFs, RRBs, co-operative banks, firms, companies, corporate bodies, institutions, provident funds, and trusts.

• Under the scheme, eligible investors apply for a certain amount of securities in an auction without mentioning a specific price / yield. Such bidders are allotted securities at the weighted average price / yield of the auction

Trading Platform

• T-bills auctions are held on the Negotiated Dealing System (NDS)

• The 91 day T-bills are auctioned on every Wednesday.

• The Treasury bills of 182 days and 364 days tenure are auctioned on alternate Wednesdays.

Treasury bill rate is the rate of interest at which treasury bills are sold by the RBI.

• The effective return on treasury bills is the discount at which they are sold, and is based on the difference between the price at which they are sold and their redemption value.

• **Yield of the T-bill**

$$\text{Yield} = \frac{100 - P}{P} \times \frac{365}{D} \times 100$$

where P = purchase price, D = days to maturity

Day Count: For treasury bills, D = (actual number of days to maturity/365)

ill Yield

Calculation

Example:

Example Assuming that the price of a 91-day treasury bill at issue is ₹98.20, the yield on the same would be as follows:

$$\text{Yield} = \frac{100 - 98.20}{98.20} \times \frac{365}{91} \times 100 = 7.3521\%$$

After say, 41 days, if the same Treasury bill is trading at a price of ₹99, the yield would then be

$$\text{Yield} = \frac{100 - 99}{99} \times \frac{365}{50} \times 100 = 7.3737\%$$

Note that the remaining maturity of the treasury bill is 50 days (91 – 41).

Treasury bill market deals with instruments of short-term borrowing of the government. It plays a vital role in cash management of the government. Treasury Bills market has been most preferred by central banks for market interventions to influence liquidity and short-term interest rates, generally combined with repos/reverse repos.

- There was an active Treasury Bills market in India's bank's history before the 1960s when 91- days Treasury Bills were auctioned weekly and the bills were widely held in the market. The Central Government's cash balance with the RBI to restore to its minimum require level which opened up the era of uncontrolled monetization of the central government's deficit.

- However, the interest in development of Treasury Bills market came up with the introduction of **182-days Treasury Bill** on auction basis in November, 1986 and the constitution of Discount and Finance House of India (DFHI) as a money market institutions in March 1988.
    - At present, the Treasury bill market in India deals in the Treasury bill issues of weekly, 14-day and 91-day bill auctions and 364-day bill auctions on a fortnightly basis combined with 14-day intermediate bills available for state governments and foreign central banks. Treasury Bills: Treasury bills constitute an important instrument of short-term borrowing of the government.
    - At present, the Treasury issues consist of weekly 14-day and 91-day bill auctions and 364-day bill auctions on a fortnightly basis combined bills available for state governments and foreign central banks & interest rates on all types are determined by the market forces.
- **The 91-day Treasury bills are** purchased by the RBI, commercial banks, state governments and other approved bodies and financial institutions like the LIC, UTI. The RBI and banks together account for about 90% of the sales of this bill every year. Other types of treasury bills are purchased by foreign banks, Indian scheduled banks, cooperative banks, financial institutions, companies, DFHI and others.

Bill Market/Commercial Bills

Commercial bill is an instrument used in the Indian money market to finance the movement and storage of agricultural and industrial goods in domestic and foreign trade.

It is used for financing a transaction in goods that takes some time to complete. It shows the liability to make the payment on a fixed date when goods are bought on credit.

• It is an asset which is "shiftable", and which carries a low degree of risk of loss

• Bills of exchange are known as Bankers' Acceptances in the US

• There is no single fixed maturity period for bills in general Classification of Bills

• Demand bill--• A bill in which no time for payment is specified

• Usance or time bill--• It is payable at a specified later date

• Inland bill --• Must (a) be drawn or made in India, and must be payable in India, or (b) be drawn upon any person resident in India

• Foreign bill-- Drawn outside India and may be payable in and by a party outside India, or may be payable in India or drawn on a party resident in India, or (b) drawn in India and made payable outside India

Bill market is a market where short-term papers or bills are traded. The RBI launched Bill Market Scheme in 1952. According to this scheme, the RBI provided advances to scheduled banks by way of demand loans against the security of eligible usance bills or promissory notes of their constituents.

In July 1954, all licensed scheduled banks became eligible for the facility. Initially, the minimum limit of advance was fixed at ` 25 lakhs and the minimum amount of each individual bill was fixed at ` 1 lakh. These minimum limits were subsequently in 1957 reduced to ` 5 lakhs and ` 50,000 respectively.

Initially, refinance facility under the Scheme was granted at a concessional interest rate, i.e., at a rate half a per cent below the bank rate. The RBI also agreed to bear half the cost of stamp duty incurred in converting demand bills into time bills.

A number of reasons are ascribed to its failure. These are:

1. Borrowers' preference for cash credits to discounting of bills.

2. High stamp duty.

3. Absence of specialised institutions for discharging the functions of acceptance and discount houses.

4. Inadequate volume of usance bills.

5. Continuance of the old practice of drawing exports and import bills in foreign currency, restricting the scope for negotiation such bills in the country.

6. Lack of bill discounting practice with banks having excess liquidity.

7. Inadequate mechanism for evaluating the creditworthiness of traders so as to avoid risk of defaults of redemption on maturity of the bills.

8. Cumbersome procedures of discounting and rediscounting.

9. Loss of banks' interest in bill finance once the RBI granted refinancing against bills.

10. Growth of competing money market instruments such as interbank participants.

Under Bill Market Scheme, 1970, the RBI provided facility of rediscounting of the bills to the eligible banks including scheduled commercial banks, selected urban cooperative banks, Export- Import Bank of India, LIC, Mutual fund, and SIDBI were also eligible to rediscount bills under the scheme.

The scheme covered only genuine trade bills.

The following categories of bills were treated eligible for rediscounting purpose:

1. Bills arising out of the genuine trade transactions.

2. Bills drawn and accepted by the buyer under an irrevocable letter of credit and certified by the buyer's bank (which has opened the letter of credit) to the effect that such bill was drawn for supply of goods and that the terms and conditions of the letter of credit have been fully complied with by the seller.

3. Bills accepted by a licensed scheduled bank for a purchaser and discounted for a seller, if both are clients of the same bank.

4. Bills of exchange arising out of sale of goods to government departments or semi government bodies provided they satisfy other requirements of the same and bills of exchange drawn on and accepted by ICICI on behalf of its purchaser constituents.

The banks seeking rediscounting facility were authorised to keep with them, on behalf of their discounting institutions, individual bills up to ` 10 lakhs.

The bills for rediscounting purpose should have usance of 90 days but in exceptional cases, it may have usance up to 120 days,

Initially, the minimum amount of a single bill was fixed at ` 5000 and the maximum limit of an advance was fixed at ` 50,000.

The RBI made access to the bill rediscounting market less restrictive and increased the number of participants in the scheme by permitting a large number of financial institutions including select urban cooperative banks eligible to rediscount bills.

The RBI set up jointly with banks and financial institutions, the DFHI as a major financial institution for the development of the money market including the market for commercial bills.

Government Securities Market

The government securities market is at the core of financial market in most countries. It deals with tradable debt instruments issued by the government for meeting its financing requirements.

The development of the primary segment of this market enables the managers of public debt to garner funds from the market in a cost effective manner with due recognition to associated risks.

A vibrant secondary segment of the government securities market helps in the effective operation of monetary policy through application of indirect instruments such as open market operations, for which government securities act as collateral.

Features of Government Securities Market

The government securities (g-securities) market is distinct from other constituents of financial market because of the following characteristics:

1. The g-securities market represents the most significant segment of financial market all over the world in as much as funds garnered through the issue of these securities account for major portion of the total funds mobilized on the stock exchanges. Since the 1970s, the g-securities market witnessed phenomenal growth. However, fiscal consolidation exercised by many countries in the 1990s led to sharp shrinking of the bond markets, especially the US. In contrast, the bond market in Japan soared by 150 percent of GDP by 2005. During the period 2000-2005, the size of the g-securities market in different countries including India surged.

2. The g-securities market deals in securities that are highly liquid and risk free. The g-securities are liquid because they are marketable debt instruments. These securities (especially central government bonds) are absolutely secured financial instruments, guaranteeing certainty of income and capital. This is why such securities are also called 'gilt-edged' securities. The interest rate on government securities is the risk-free rate against which all other interest rates are measured.

It is interesting to note that the g-securities markets in different countries have, except the US, been least liquid. That is why; these countries have focused on improving trading liquidity of the market through various measures.

3.The primary objective of the government securities market in various countries has been to reduce the cost of government borrowings. However, in recent years, the focus is on managing risks inherent in the debt portfolio. Many countries have, of late, pursued a strategy of managing the cost of government borrowing in the medium to long-term with a view to reducing the roll over risk and other market risks in the debt stock, although this may entail higher debt service costs in the short run.

4. The supply of government securities in the government securities market is generally exogenous to the market, determined essentially by the fiscal policy of the government.

The demand for government securities from banks, insurance companies, pension funds and other is fragmented into several components implying that the demand curve is not uniformly downward slopping but is rather kinked. For instance, the demand by investors such as insurance companies and superannuation funds is in the nature of "buy and hold" as the revenue streams from government securities generally match with their liability payment stream. These investors may have very few substitutes and hence, their demand is less price-sensitive. Mandated investments in government securities by banks and other institutions would also fall into the category of "buy and hold". The demand from other investors in government securities is more for active trading and portfolio management.

These investors may have many substitutes for government securities and hence, their demand is generally more price elastic. The overall demand elasticity is, therefore, determined by the balance between these groups of investors. Increased volume of government securities may increase concerns of a default by the government which may affect the risk characteristics of the instrument. This may result in a fall in prices as yields steepen. At the other end of the spectrum, very limited supply of government securities may generate concerns over liquidity. Illiquidity premium can then drive down the prices, although there could be some resistance to the downward bias, if "buy and hold" investors dominate the market.

5. The government securities market in India deals in government securities of three kinds, viz., inscribed stock, or stock certificate, promissory note and bearer bond. In inscribed stock, the holder of stock is issued a certificate to the effect that he/she is registered in the books of Public Deposit Office of the RBI. This certificate is sent to the applicant directly by registered post by the PDO. The inscribed stock is not transferable by mere endorsement as the execution of a transfer deed is necessary for its transfer. Stock can be held jointly by more than one person but these will have to be transferred by all the surviving joint holders. These certificates are the only form of government security which can be held by trustees of specified trusts or holders of offices other than public offices.

Through Promissory Note Form (PN) of government securities, the government-central/

state-promises to a person named therein to pay a specified amount at a specified date and to pay interest at a fixed rate at periodical intervals at a particular office of the RBI. The PN is a negotiable instrument payable to the order of a specified person. The title of the PN is transferable by endorsement and delivery.

A bearer bond is that kind of government bond that certifies that the bearer is entitled to specified sum stipulated in rupees on the date indicated in accordance with the terms of a particular loan to which the bond relates. Printed coupons for interest payable to the bearer are attached to the bond. The interest is paid to the holder of the coupon and the bond is discharged on the due date of the debt to which it relates by physical presentation of the bearer. A change of ownership is effected by simple delivery of bonds by the transferor to the transferee.

Among the three forms of government securities, the stock certificates are most advantageous from the point of view of security and convenience of bid holders of government debt. As between PN and bearer bonds, the former is more secure while the latter is more convenient to transfer and getting interest and repayment with the least difficulty. problems involved in respect of transferability and negotiability. Stock certificates are generally bought by investors like LIC, PF, etc., while banks prefer PNs.

As regards mode of distribution of g-securities, these securities are distributed through competitive public auctions. The conventional auctions of g-securities follow multiple price auction system for issuance of conventional securities and uniform price auction system for securities with special features such as inflation-indexed bonds where there is market uncertainty.

Most countries adopt a system of Primary Dealers (PDs) to ensure that auctions are well-bid. PDs also act as a regular source of liquidity in the secondary market and provide useful information to public debt managers on market developments and debt management issues. Further, competition among PDs facilitates efficient price discovery in the g-securities market.

7. Regarding the maturity structure of g-securities traded in the market, it has been observed that depending on the funds requirements of the government, securities of different maturities ranging from short-term to long-term are issued. Governments issue securities with maturities spanning from less than a year to a very long-term stretching up to 50 years. Typically, securities of short-term maturities up to one year, viz., Treasury Bills, form a part of the money market and facilitate the government's cash management operations. Bonds having maturities of more than one year facilitate the government's medium to long-term financial requirements.

8. The government securities in India are ordinarily issued in the denominations of ` 100 and ` 1000. Earlier, the face value of the security was ` 100. But after 1985, the denomination was raised to ` 1, 000.

9. As for interest on government securities, it is payable half-yearly and is exempt from income tax subject to a limit. The value of investments in these securities and other investment specified in the Wealth Tax Act is exempt from wealth tax up to a limit.

10. As regards participants in the government securities market, central government, state governments, semi-government authorities, e.g., city governments and municipalities, autonomous institutions such as metropolitan authorities, port trusts, improvement of developments trusts, state electricity boards, PSUs and other government agencies like IFCI, NABARD, SIDCs, housing boards, etc., represent suppliers of the market while the

demand essentially comes from banks, financial institutions and other investors, joint stock companies, individuals and non-residents.

Notes Banks are required by law to invest a proportion of their deposits as determined by statutory liquidity ratio.

11. Like other countries where central banks as managers of public debt play crucial role in developing the government securities market, the RBI plays an important role in management of the government securities market for the purpose of keeping the cost of financing to the minimum consistent with the offer of market-related interest rates on government securities, maintaining the market stable and smooth for meeting the portfolio requirements of all investors to the extent possible and for maintaining a minimum level of activity in the market with a view to providing liquidity to the securities in the market so as to develop the market. For this purpose, the RBI acts as consultant to the government, manager, underwriter, and custodian.

As a banker to the government, the RBI tenders advise on the matters relating to the amount of issues to be floated, timing and terms of new issues and facilitates such issuances through its various market infrastructure.

Table 40.1. The Structure of Securities Market

Industrial Securities Market:

The Industrial securities market refers to the market for shares and bonds of the existing companies, as well as those of new companies.

This market is further divided into New Issue Market (NIM) and Old Issue Market. The New Issue Market is also called Primary Market. Likewise, the Old Issue Market is also called Secondary Market or Stock Exchange.

However, it is important to emphasize that the New Issue Market and Stock Exchange are inter-linked and work in conjunction with each other. Although they differ from each other in the sense that the New Issue Market deals with 'new securities' issued for the first time to the public and Stock Exchange deals with those securities which have already been issued once to the public.

(i) Primary Market:

The primary market is concerned with the floatation of new issues of shares or bonds. The firms floating new issues to raise funds may be new companies or existing companies planning expansions. The Merchant Banking Division of a commercial bank is asked by the company to advise on the viability Of floatation of an issue before an issue is actually floated in the market.

The stock issuing company also approaches the institutional underwriters like LIC, UTI, ICICI and IDBI, to ensure the marketability of an issue. The underwriters like LIC and UTI purchase securities from the New Issue Market to hold these in their own asset portfolio.

In Indian capital market, there are two main ways of floating new issues:

(a) Public issues, and

(b) Rights issues.

A) Public Issues:

The most popular method for floating securities in the New Issue Market is through a legal document called the "Prospectus". It is an open invitation to the public to subscribe to the issue at par or at premium.

B)Rights issues: This method of the sale of stock is normally used by existing companies whose shares are already listed in the Stock Exchange. Right issue represents an invitation to the existing shareholders to subscribe to a part or the whole of the new issue in a fixed proportion to their shareholding.

Initial Public Offer (IPO):

As is seen from Table 40.2, the equity capital may be raised through IPO. IPO or Initial public offer is the first issue of shares by a corporate company to the general public to raise capital for expansion of its business. IPO is followed by a listing of its shares in the stock market. The issue of IPO by the Indian companies and the price of share that is fixed is regulated by SEBI.

Private Placement:

It will be seen from Table 40.2 that a lot of capital is raised through the private placement. An unlisted company which wants to raise equity funds but is not yet prepared to make an IPO may place privately its equity or equity related instruments with one or more sophisticated investors such as financial institutions, mutual funds, venture capital funds, banks etc.

ii) Secondary Market:

The Secondary Market deals in existing securities. This market provides both liquidity and marketability to such securities. It implies that it is a market where a security can be bought or sold at small transaction cost. Although the Secondary Market deals with the purchase and sale of old securities, the firms issuing new securities get themselves registered on a Stock Exchange by applying for listing of shares. Listing offers the investor a 'market' for the sale of his stock.

The Secondary Market of Securities in India functions through its following two segments:

(a) Stock Exchange;

(b) Over-the-Counter Market.

Stock Exchange:

Stock Exchange is an organised market for the purchase and sale of second hand listed industrials and financial {i.e., shares and debentures of corporate companies). Listed securities are those securities which appear on the approved list of a Stock Exchange. Only listed securities are traded on the floor of the Stock Exchange. It is to be noted that an organised Stock Exchange is an 'auction' type of market, where the prices of traded securities are settled by open bids and offers on the floor of the exchange.

classified into two types:

nvestment transactions; and

(b) Speculative transactions.

Investment Transactions:

An investment transaction in securities is that transaction which is concerned with the purchase of securities, with a view to investing funds to get an income as annual dividends from these securities and gain from the sale of these securities. The basic feature of an investment transaction is that it involves the actual delivery of the security and payment of its full price. An investment transaction is motivated by the considerations of safety of investment and security of income.

Speculative Transactions:

The speculative transaction in securities is that transaction which is concerned with the purchase or sale of securities for the sake of capital appreciation. The basic feature of a speculative transaction is that the delivery of securities or the payment of the full price are rare.

TRADING AND SETTLEMENT

The trading and settlement process in a secondary market begins with the selection of a broker or sub-broker and ends with settlement of shares. For secondary-market trading, you need first to open a dematerialised (DEMAT) account with a broking house or bank. Once your account is active, you can buy or sell securities. Once your order is executed, and you get a contract note, that's when your trade is settled

What is trade settlement?

Trade settlement is a two-way process which comes in the final stage of the transaction. Once the buyer receives the securities and the seller gets the payment for the same, the trade is said to be settled. While the official deal happens on the transaction date, the settlement date is when the final ownership is transferred. The transaction date never changes and is represented with the letter 'T'. The final settlement does not necessarily occur on the same day. The settlement day is generally T+2.

Earlier, when securities were held in physical format, it took five days to settle a trade after the actual transaction. Investors made payment in cheques after receiving the securities which came in the form of certificates and were delivered by post. The delay caused differences in prices, posed risks and incurred a high cost. To control transaction delay, market regulators decided to set a date within which the transaction had to be completed. Due to paperwork, earlier the settlement date used to be T+5, which has now been reduced to T+2 post computerisation.

Types of settlements in the stock market:

Trade settlements in the stock market have been broadly categorised into two:

1. Spot settlement – This is when the settlement is done immediately following the rolling settlement principle of T+2.

2. Forward settlement – This happens when you agree to settle the trade at a future date which could be T+5 or T+7.

What is rolling settlement?

A rolling settlement is one in which the settlement is made in the successive days of the trade. In a rolling settlement, trades are settled in T+2 days, which means deals are settled by the second working day. This excludes Saturday and Sunday, bank holidays and exchange holidays. So, if a trade is conducted on a Wednesday, it will be settled by Friday. Similarly, if you buy a stock on Friday, the broker immediately deducts the total cost of investment from your account the same day, but you receive the shares on Tuesday. The settlement day is also the day you become the shareholder of record.

The settlement day is essential for those investors who are looking to earn dividends. If the buyer wishes to receive a dividend from the company, then he must settle the trade before the record date for a profit.

➢Functions of the Stock Exchange

- ***Liquidity and Marketability***: One of the main drawing factors of the stock exchange is that it enables high liquidity. The securities can be sold at a moment's notice and be converted to cash. It is a continuous market and the investors can divest and reinvest with ease as per their wishes.
- ***Price Determination***: In a secondary market, the only way to determine the price of securities in via the rules of supply and demand. A stock exchange enables this process via constant valuation of all the securities. Such prices of shares of various companies can be tracked via the index we call the Sensex.
- ***Safety***: The government strictly governs and regulates the stock exchanges. In the case of the BSE, the Securities Board of India is the governing body. All transactions occur within the legal framework. This provides the investor with assurances and a safe place to transact in securities.
- ***Contribution to the Economy***: As we know the stock exchange deals in already-issued securities. But these securities are continuously sold and resold and so on. This allows the funds to be mobilized and channelized instead of sitting idle. This boosts the economy.
- ***Spreading of Equity***: The stock exchange ensures wider ownership of securities. It actually educates the public about the safety and the benefits of investing in the stock market. It ensures a better quality of transactions and smooth functioning. The idea is to get more public investors and spread the ownership of securities for the benefit of everyone.
- ***Speculation***: One often hears that the stock exchange is a speculative market. And while this is true, the speculation is kept within the legal framework. For the stake of liquidity and price determination, a healthy dose of speculative trading is necessary, and the stock exchange provides us with such a platform.

➢Trading and Settlement Procedure

1] Selecting a Broker or Sub-broker

When a person wishes to trade in the stock market, it cannot do so in his/her individual capacity. The transactions can only occur through a broker or a sub-broker. So according to one's requirement, a broker must be appointed.

Now such a broker can be an individual or a partnership or a company or a financial institution (like banks). They must be registered under SEBI. Once such a broker is appointed you can buy/sell shares on the stock exchange.

2] Opening a Demat Account

Since the reforms, all securities are now in electronic format. There are no issues of physical shares/securities anymore. So an investor must open a dematerialized account, i.e. a Demat account to hold and trade in such electronic securities.

So you or your broker will open a Demat account with the depository participant. Currently, in India, there are two depository participants, namely Central Depository Services Ltd. (CDSL) and National Depository Services Ltd. (NDSL).

3] Placing Orders

And then the investor will actually place an order to buy or sell shares. The order will be placed with his broker, or the individual can transact online if the broker provides such services. One thing of essential importance is that the order /instructions should be very clear. Example: Buy 100 shares of XYZ Co. for a price of Rs. 140/- or less.

Then the broker will act according to your transactions and place an order for the shares at the price mentioned or an even better price if available. The broker will issue an order confirmation slip to the investor.

4] Execution of the Order

Once the broker receives the order from the investor, he executes it. Within 24 hours of this, the broker must issue a Contract Note. This document contains all the information about the transactions, like the number of shares transacted, the price, date and time of the transaction, brokerage amount, etc.

Contract Note is an important document. In the case of a legal dispute, it is evidence of the transaction. It also contains the Unique Order Code assigned to it by the stock exchange.

5] Settlement

Here the actual securities are transferred from the buyer to the seller. And the funds will also be transferred. Here too the broker will deal with the transfer. There are two types of settlements,

- On the Spot settlement: Here we exchange the funds immediately and the settlement follows the T+2 pattern. So a transaction occurring on Monday will be settled by Wednesday (by the second working day)
- Forward Settlement: Simply means both parties have decided the settlement will take place on some future date. It can be T+% or T+9 etc.

Unit-IV: Asset/Fund Based Financial Services

Lease Finance

Lease financing is a contractual agreement between the owner of the assets (lessor) and user of the assets (lessee), whereby the owner permits the user to economically use the asset on the payment of periodical amount which is in the form of lease rent for a specific period of time. The title of goods remains with the owner (lessor) of the asset. It is the most important source of long term financing.

Different Types of Lease:

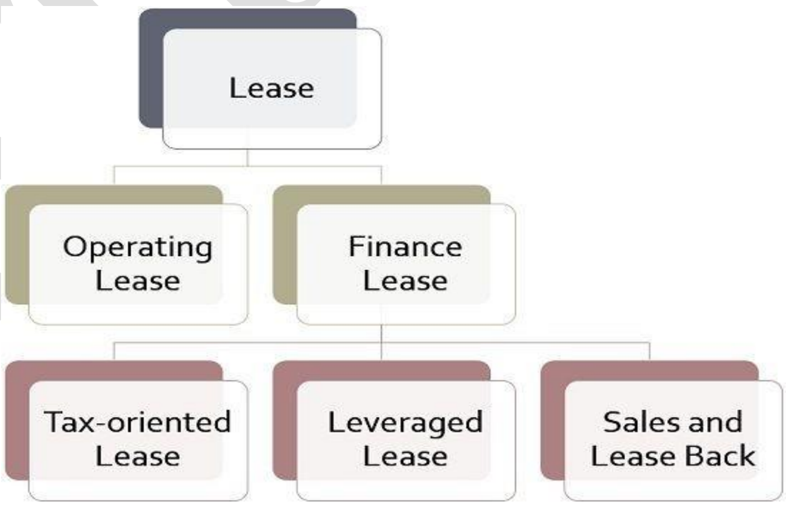
Depending upon the transfer of risk and rewards to the lessee, the period of lease and the number of parties to the transaction, lease financing can be classified into two categories. Finance lease and operating lease.

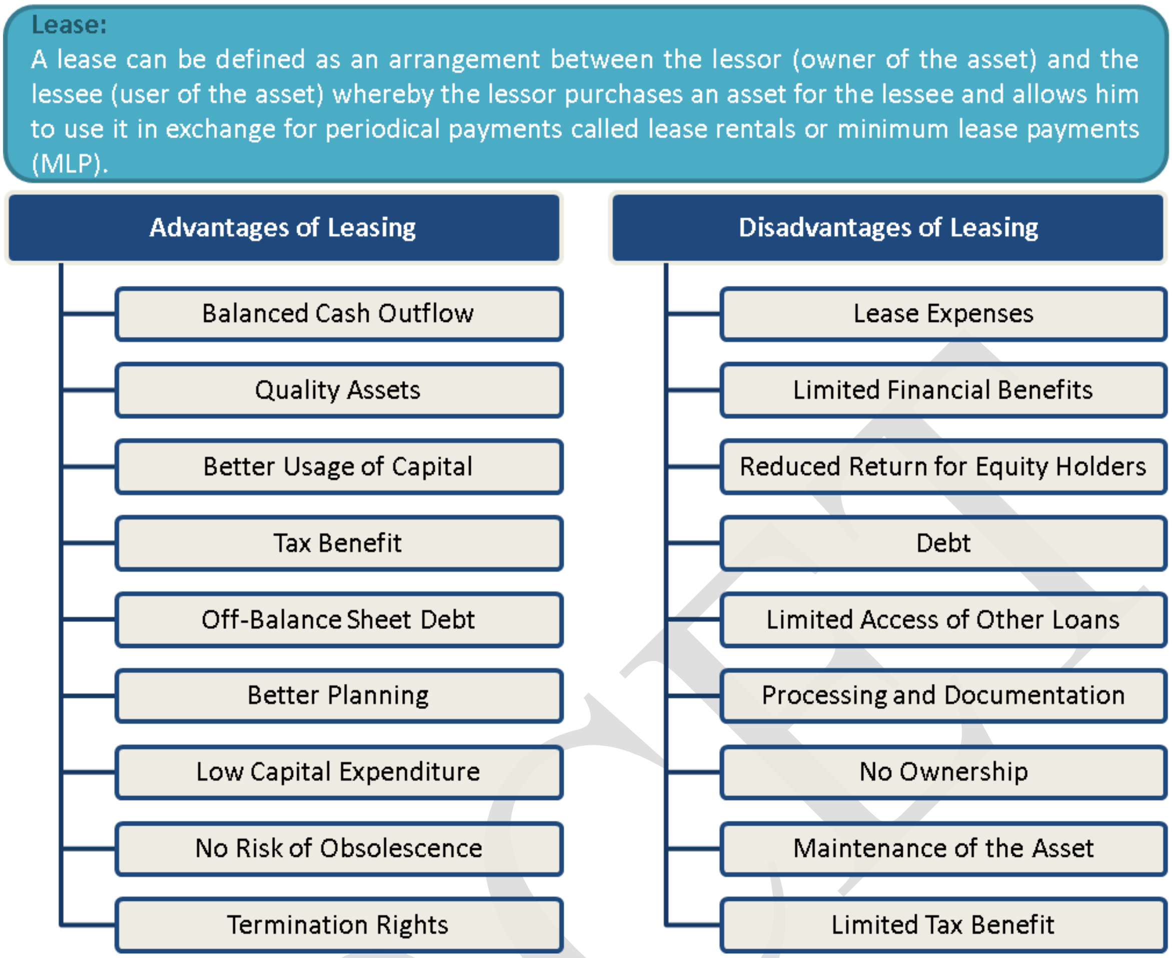
i. Finance Lease:

It is the lease where the lessor transfers substantially all the risks and rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. Finance lease has two phases: The first one is called primary period. This is non-cancellable period and in this period, the lessor recovers his total investment through lease rental.

ii)Operating Lease:

Lease other than finance lease is called operating lease. Here risks and rewards incidental to the ownership of asset are not transferred by the lessor to the lessee. The term of such lease is much less than the economic life of the asset and thus the total investment of the lessor is not recovered through lease rental during the primary period of lease.





HIRE PURCHASE

Hire purchase is a method of selling goods. In a hire purchase transaction the goods are let out on hire by a finance company(creditor) to the hire purchase customer(hirer). The buyer is required to pay an agreed amount in periodical installments during a given period. The ownership of the property remains with creditor and passes on to hirer on the payment of last installment.

Features of Hire Purchase Agreement

1. Under hire purchase system, the buyer takes possession of goods immediately and agrees to pay the total hire purchase price in installments.

2. Each installment is treated as hire charges.:

3. The ownership of the goods passes on the hirer on the payment of last installment.

4. In case the buyer makes any default in the payment of any installment the seller has right to repossess the goods from the buyer and forfeit the amount already received treating it as hire charge.

5. The hirer has the right to terminate the agreement any time before the property passes. He has the option to return the goods in which case he need not pay installments falling due thereafter. However, he can not recover the sums already paid as such sums legally represent hire charge on the goods in question.

Legal Position

The Hire Purchase Act, 1972 defines a hire purchase agreement as, 'an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of agreement under which :

1. Payment is to be made in installments over a specified period.

2. The possession is delivered to the purchaser at the time of entering into a contract.

3. The property in the goods passes to the purpose on payment of the last installment.

4. Each installment is treated as hire charge so that if default is made in payment of any one installment, the seller is entitled to take away the goods.

5. The hirer / purchaser is free to return the goods without being required to pay any further instalments falling due after the return

Hire Purchase Agreement

There is no prescribed form for a hire purchase agreement, but it has to be in writing and signed by both parties to the agreement.

A hire purchase agreement must contain the following particulars:

(i) The description of goods in a manner sufficient to identity them.

(ii) The hire purchase price of the goods.

(iii) The date of commencement of the agreement.

(iv) The number of instalments in which hire purchase price is to be paid, the amount, and due date.

Hire Purchase and Credit Sale

Higher purchase transaction is different from credit sale. In case of actual sale, the title in the property i.e, ownership and possession is transferred to the purchaser simultaneously, in hire purchase the ownership remains with the seller until last instalment is paid.

Hire Purchase and Instalment Sale

Hire purchase transaction is different from instalment system. In case of instalment system it is not only the possession but also the ownership of goods which is transferred to the buyer immediately at the time of agreement. Further, when the buyer stops payment of dues, the seller, has no right to repossess the goods. He has the only right to sue the buyer for the non payment by returning the goods but has the right of disposing of the goods in any manner as he likes. Any loss of goods should be borne only by the buyer as risk lies with the ownership.

Hire Purchase and Leasing

Hire Purchase is also different from leasing on following grounds :

1. Ownership - In a contract of lease, the ownership rests with the lessor throughout and the lessee (hirer) has no option purchase the goods.

2. Method of Financing: Leasing is a method of financing business assets whereas hire purchase is a method of financing both business assets and consumers articles.

3. Depreciation: In leasing depreciation and investment allowance can not be claimed by the leasee. In hire purchase, deprecation and investment allowance can be claimed by the hirer.

4. Tax Benefits: The entire lease rental is tax deductible expense. Only the interest component of the hire purchase installment is tax deductible.

5. Slavage Value : The lessee, not being the owner of the asset, does not enjoy the salvage value of the asset. The hirer, in purchase, being the owner of the asset, enjoys salvage value of the asset.

6. Deposit : Le ssee is not required to make any deposit whereas 20% deposit is required in hire purchase.

7.Rent-Purchase - With lease, we rent and with hire purchase we buy the goods.

8. Extent of Finance : Lease Financing is invariably 100 per cent financing. It requires no immediate down payment or margin money by the lessee. In hire purchase, a margin equal to 20-25 per cent of the cost of the asset is to be paid by the hirer.

9. Maintenance : The cost of maintenance of the hired asset is to be borne by the hirer himself. In case of finance lease only, the maintenance of leased asset is the responsibility of the lessee.

10. Reporting - The asset on hire purchase is shown in the balance sheet of the hirer. The leased assets are shown by way of foot note only.

Bank Credit for Hire Purchase Business

The subsidiary of commercial banks lend to the dealer or to finance intermediary who has already financed articles sold by the dealer to the hirer under a hire purchase contract. While considering proposals from dealers or hire purchase financing companies, the bank subsidiary has to take extra precautions, looking to the particular nature of transaction under hire purchase contract.

When offered this type of business, the bank subsidiary would make an assessment of the standing and financial position of the dealer or of the hire purchase company, and take into consideration the principles of good lending and carry out the procedure below :

1. Customer - When approached for hire purchase facility the subsidiary should take care to make the assessment of the standing and financial position of the business customer.

2. Purpose - The type of goods being used to finance in the hire purchase transaction is of great importance. In the event of default the bank may reconsider repossessing the goods and selling them to clear the advance. Thus, if the goods can be readily sold elsewhere (e.g. a relatively new car), then these agreements are better security than those for (say} cameras. which will have a lower resale value.

3. Amount- Bank subsidiaries taking up hire purchase business would do well to discourage small individual loans. In order to ensure proper servicing and monitoring, it is also essential to a have floor limit in the amount of individual hire purchase transactions. While it may be about Rs. 50,000 for automobile sector, it may be about Rs. 10,000 for consumer durables.

4. Period- The facility will normally be extended over to three years.

5. Repayment - Repayment are spread evenly, or agreed, over the loan period. The repayment should be adaptable to the hirer's needs. The repayment can usually be tailor made to suit the income generated from the use of asset so that it is self-financing. Sometimes, repayment holidays can be allowed and repayment is delayed until the asset is operational or producing profit. To ensure timely recovery in the case or car two-wheeler, and consumer durable financing, it could be preferable to have institutional tie-ups with employers/employees' cooperative societies for the which eligibility criteria can be laid down.

6. Security -Technically hire purchase advance is against hypothecation of equipment/vehicles and pledge of hundis / pronotes and lodgements of hire purchase agreements. The bank subsidiary will ask the borrower to complete the bank's form of security to charge the security under an equitable/hypothecation charge. If the borrower is a limited company which is not of sufficient strength to allow equitable / hypothecation facility and if suitable security is not available it is normal to obtain a debenture over the assets of the company under which a floating charge is obtained.

If necessary the bank subsidiary will ask the hirer to furnish a guarantor of means and the bank would in such a case insist that the guarantor should also accept the hundies. It is a practice with some banks to insist for insurance policy to indemnify the bank against the default of the hirer. The premiums will be charged to the hirer. .

7.Monitoring and Control - The bank needs to exercise control over the on-going situation. A periodical certificate should be obtained from the finance company at the monthly intervals, stating the total amount of outstanding but excluding those hire purchase agreements which have become in arrears and are, therefore, suspect. One or two months in arrears may be acceptable but more than that suggest that the particular hirer is in permanent default. The bank will keep a running total of these amounts, returning agreements which have become lapsed to their customers.

BILLS DISCOUNTING

Bill or invoice discounting is a trade activity in which the seller gets amount in advance at discounted rates from the lender. This makes buyers contribute in the form of interest rate in increasing the revenue of the financial institutions, banks or NBFCs in form of interest paid and from monthly fee.

For example: You have sold goods to Mr. X, he has given you letter of credit from bank of 30 days, if you want to get money from bank before 30 days, the bank will charge some interest rate from you, which in return will be called as discount for the seller. Let's assume if the amount which you were supposed to get was Rs. 1 lakh on or after 30 days, by bank's discount or interest rate of Rs. 50,000 you now get Rs. 95,000 in return form the bank. The buyer will anyhow deposit Rs. 1 lakh to the respective bank on 30th day only.

FEATURES AND BENEFITS OF BILLS DISCOUNTING

- **Credit Evaluation**

Before sanctioning any invoice or bill discounting, the bank will surely consider the reputation of the seller by checking the past repayment history, financial stability and creditworthiness of the buyer as they do not want to be at risk if the buyer defaults to repay the amount.

- **Availability of Instant Cash**

Instant cash is available at disposal for enterprises or businesses that helps to improve the momentum of the businesses; moreover, it provides the option to entrepreneurs to do business without funds. It works the similar way as bank overdraft but it is not the same, as the customer is required to pay interest on the used amount.

- **Banking Partner Preferred**

A reputed bank is always the first preference before the bill discounting is offered to the buyer. This makes sure that the buyer's bank (paying entity) is reliable and trustworthy. Agreement between reputable companies or banks is required for discounting purpose.

- **Bill Usage**

Also known as 'Usance Period', bill usage is a period in which bill has to be valid within the date of time permitted by customers for the bill date and its payment. This time period can vary from 3 weeks to 3 months.

ADDITIONAL BENEFITS

- Effortless withdrawals
- Flexible repayment tenure
- Strengthened cash flow
- Interest to be paid only on used amount
- Easy authentication
- Quick processing with hassle free documentation
- In bill discounting process, the interest amount is charged in advance by the bank from the buyers. Being it an agreement between buyer and seller, the bill amount is paid as per the end of credit period.

HOUSING FINANCE

The Housing Finance Company is yet another form of non-banking financial company which is engaged in the principal business of financing of acquisition or construction of houses that includes the development of plots of lands for the construction of new houses.

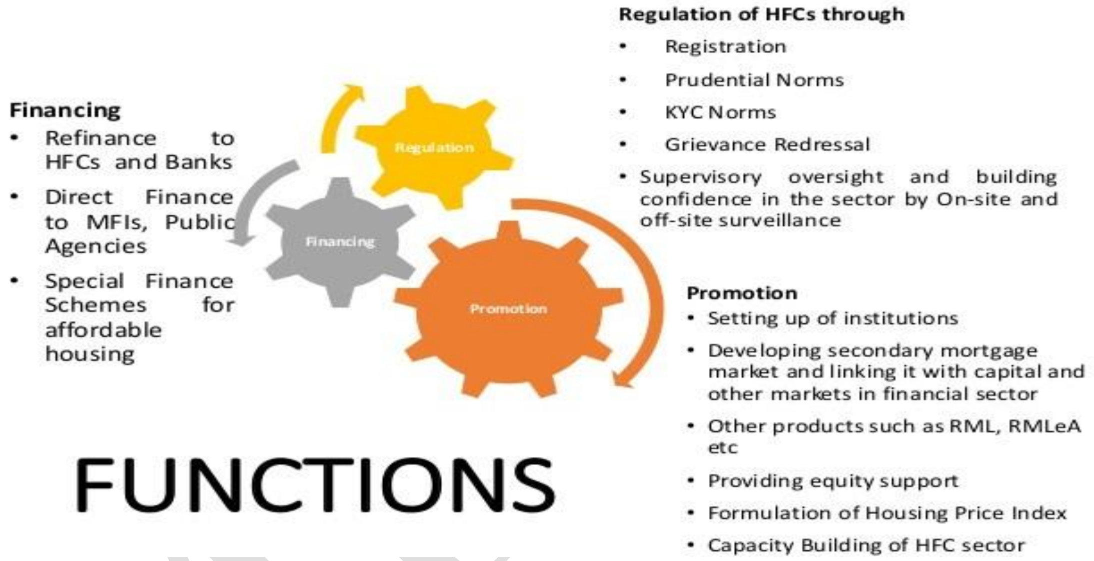
The Housing Finance Company is regulated by the **National Housing Bank.** Any non-banking finance company can operate as a housing finance company, subject to the fulfillment of basic requirements as specified in the Companies Act, 1956.

- The company should have its **primary business of providing finance for housing**, whether directly or indirectly.
- The company should **obtain a certificate of registration (COR)** from the National Housing Bank (NHB). The company conducting such business without a COR is an offense punishable under the provisions of the National Housing Bank Act, 1987, also the NHB can demand the winding up of such company.
- The company should have minimum **Net Owned Fund of Rs 10 Crore.**

Once these basic requirements are fulfilled, the company should comply with the following conditions to get registered as a Housing Finance Company:

- The company shall be in such a position that it is able to meet the full claims of its present as well as future depositors as and when these accrue.
- The affairs of the housing finance company should not be detrimental to the interest of the present and future depositors.
- The management of the company should not be prejudicial towards public interest or to the interest of its depositors.
- The Company should have an adequate capital structure and better income prospects.
- The certificate of registration shall not be prejudicial to the operation and growth of housing finance sector of the country.

so. all the above conditions must be met by the non-banking finance company to perform the business of financing of houses (construction and acquisition).



VENTURE CAPITAL FINANCING

Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear poised to continue to expand.

Features of Venture Capital investments

- High Risk

- Lack of Liquidity
- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the company

➢ **Methods of Venture capital financing**

- Equity
- participating debentures
- conditional loan

➢ **Types of Venture Capital funding**

The various types of venture capital are classified as per their applications at various stages of a business. The three principal types of venture capital are early stage financing, expansion financing and acquisition/buyout financing.

The venture capital funding procedure gets complete in six stages of financing corresponding to the periods of a company's development

- *Seed money: Low level financing for proving and fructifying a new idea*
- *Start-up: New firms needing funds for expenses related with marketingand product development*
- *First-Round: Manufacturing and early sales funding*
- *Second-Round: Operational capital given for early stage companies which are selling products, but not returning a profit*
- *Third-Round: Also known as Mezzanine financing, this is the money for expanding a newly beneficial company*
- *Fourth-Round: Also calledbridge financing, 4th round is proposed for financing the "going public" process*

➢ A) Early Stage Financing:

Early stage financing has three sub divisions seed financing, start up financing and first stage financing.

- Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a start up loan.
- Start up financing is given to companies for the purpose of finishing the development of products and services.
- First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.

➢ B) Expansion Financing:

Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing.

Second-stage financing is provided to companies for the purpose of beginning their expansion. It is also known as mezzanine financing. It is provided for the purpose of assisting a particular company to expand in a major way. Bridge financing may be provided as a short term interest only finance option as well as a form of monetary assistance to companies that employ the Initial Public Offers as a major business strategy.

➢ C) Acquisition or Buyout Financing:

Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing. Acquisition financing assists a company to acquire certain parts or an entire company. Management or leveraged buyout financing helps a particular management group to obtain a particular product of another company.

➢ Advantages of Venture Capital

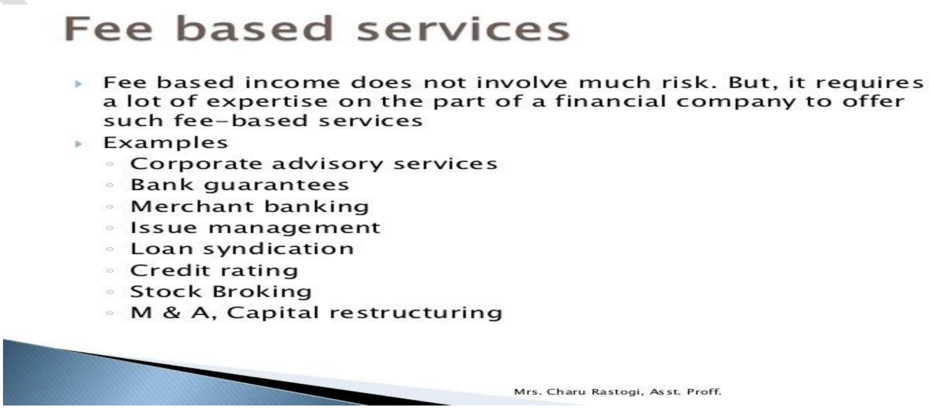
- They bring wealth and expertise to the company
- Large sum of equity finance can be provided
- The business does not stand the obligation to repay the money
- In addition to capital, it provides valuable information, resources, technical assistance to make a business successful

➢ Disadvantages of Venture Capital

- As the investors become part owners, the autonomy and control of the founder is lost
- It is a lengthy and complex process
- It is an uncertain form of financing
- Benefit from such financing can be realized in long run only

FEE BASED ADVISED SERVICES

Fee based advisory services are beneficial for clients because they remove conflicts where investments are recommended to clients because of the commissions they pay. With fee-based advice, the fees are transparently based on the assets in the account. When those assets grow, both the adviser and clients benefit.



STOCK BROKING

Stockbroking is a service which gives retail and institutional investors the opportunity to buy and sell equities. Stockbrokers will trade **shares** both on exchange and over-the-counter, dependent on where they can find the best price and liquidity.

If you are looking to compare top 10 stock brokers in India for your investment then you are in the right place & at the right time. Check the **Ratings of Top 10 Share Brokers in India:**

Rank	Broking House	Overall Rating
1	Zerodha	9.14 / 10
2	Angel Broking	8.88 / 10
3	IIFL / India Infoline	8.74 / 10
4	Motilal Oswal	8.60 / 10
5	Sharekhan	8.50 / 10
6	Upstox	8.48 / 10
7	ICICI Direct	8.44 / 10
8	Edelweiss	8.44 / 10
9	HDFC Securities	8.42 / 10
10	5Paisa	8.38 10

- **Buying:**

One of the most basic responsibilities of a stockbroker is to buy stocks on behalf of his client; he may do this in different ways, depending on the type of account the client has. In a discretionary account, the stockbroker buys stock for a client based on some prearranged guidelines. In an advisory account, however, the stockbroker only advises a client on what stock to buy, while in an execution account, the stockbroker only buys stock that the client has specifically indicated.

- Selling:

The other responsibility a stockbroker has is selling stock on behalf of a client. Just as in the case of buying stock, the stockbroker can only sell stocks of a client based on the account that a client signed up for. If a client has an execution-only account, the stockbroker can only sell a client's stock when asked to do so. If a client has an advisory account, a stockbroker can only advise the client to sell his stocks, while if a client has a discretionary account, a stockbroker has some leeway on selling the stocks based on a prearranged guideline.

- Research:

Competent stockbrokers research accounting, economic and technical analysis of different companies and stocks. Their findings form the basis of their feedback to a client. If a stockbroker believes a client’s stock's price will drop drastically, he'll advise him to sell when the price is still high. If, on the other hand, a stockbroker believes the price of a client's stock will rise significantly, he may advise him to retain the stock.

A stockbroker also advises a client about which stocks he should buy to add to his financial portfolio and looks for profitable companies' stocks.

- **Advantages of Discount Stock Broker:**

Benefits of Discount Stock Broker

- **Low Cost:** Discount Broker offer lowest brokerage charges compare to full service broker. Which help for trader or investor convert any trade in profit with low BEP.(Break Even Point)
- **Online Trading Terminal:** As you know discount broker mostly work centralised so for them online trading terminal is best way to manage client. They offer best Online Trading Terminal free of cost
- **Unbiased Offer:** Either you big player or small investor Discount Broker offer you same.
- **Low Transitional Cost**: Mostly Discount Broker offer lowest Transactional cost due to their high volume of trades.
- **Transparency:** Discount Broker offer 100% transparency in their cost – Brokerage Calculator , Margin Calculator , Charges Sheet , Trade Confirmation

- **Clients Education:** Discount Broker offer online educational video tutorial for their client so client can educate and trade with them for longer time. Mostly full service broker not provided this type of facilities.
- **No Misleading:** Discount broker doesn't give brokerage target or third product sales target to their employees.
- **Paperless Account Opening:** With help of Aadhar Number Discount Broker offer Paperless Account Opening – Open Online Trading account in 10 minsWhereas full service broker still process same way.
- **No Minimum Brokerage:** Unlike full service broker discount broker don't charge minimum brokerage for their client. Means if you want to buy or trade in panny stock then discount broker is best option for you.
- **Flat Brokerage Charges:** Discount Broker offer their client Flat brokerage charges irrespective of Trade volume means if you buy 1 lot or 100 lot of nifty they charges you flat Rs 20* (Zerodha Leading discount Brokerage Charges for F&O where Full service broker charges you as per % on volume you trade.

➢ **Disadvantages of Discount Stock Broker:**

- **No Branch Support:** Mostly Discount Broker worked centrally so if you required Branch Support for Paper work then Discount Stock Broker not for you. You should search Broker who offer Branch Support and offer discount brokerage like Zerodha.
- **No Relationship Manager:** Discount Broker don't offer relationship manager like Full service broker so if you service class people and don't have time to check online portfolio regularly and required a person who can manage your stocks and mutual fund portfolio then Discount stock broker is not you cup of tea.
- **All-in-one Roof:** Full service broker office all investment product in one roof where discount broker mostly offer stock investment and mutual fund investment option to their client
- **No advisory:** Discount Broker don't offer Advisory service where as full service broker offer their client advisory service free of cost.
- **PMS Service:** Discount Broker doesn't offer Portfolio management service to their client. If you are looking fund manager who can manage your fund then Full service broker is best option for you – Motilal Oswal is your choice.
- **3 – in – one:** Unlike Full service banking broker Discount broker don't offer 3-in-one (Banking + Trading + Demat) account opening. If you are looking for 3-in-one account then ICICIDirect, Kotak Sec or SBICAP Sec your best option to select.

Above comparison shows that Discount Broker is best option for who want to trade in stock market and don't required advisory.

What to watch out for Selection of Discount Broker.

- **Online Trading Terminal:** As you aware that Discount Broker works online you should check their Trading Terminal software what they offer to their client. And review of that Terminal. Currently Zerodha Kite and Upstox Pro is best Online Trading terminal offered by Discount Stock Broker.
- **Hidden Charges:** Discount Broker mostly show their charges sheet on their website. Compare their Transaction cost with other discount Broker. Someone you found that one discount broker brokerage charges is less than other discount brokers but they charge heavy on Transaction cost. Will end up more cost than others.

- **Broker Review:**Before Selecting Discount Broker Read Discount Broker review online. Clients reviews are the best way to understand where they are lacking.
- **Branch Network :** Discount broker also have branches in mostly major cities check before opening Trading account with Discount broker are they provide Branch service in your area.
- **Discount Broker Financial Strength:** Check broker financial strength before put all your investment amount broker. Best way to understand that check Broker Risk management system if broker don't allow more risk leverage to their client means they are under control.

CREDIT RATING AGENCY

credit rating is an opinion of a particular credit agency regarding the ability and willingness an entity (government, business, or individual) to fulfill its financial obligations in completeness and within the established due dates. A credit rating also signifies the likelihood a debtor will default. It is also representative of the credit risk carried by a debt instrument – whether a loan or a bond issuance.

Who Evaluates Credit Ratings?

A credit agency evaluates the credit rating of a debtor by analyzing the qualitative and quantitative attributes of the entity in question. The information may be sourced from internal information provided by the entity, such as audited financial statements, annual reports, as well as external information such as analyst reports, published news articles, overall industry analysis, and projections.

A credit agency is not involved in the transaction of the deal and, therefore, is deemed to provide an independent and impartial opinion of the credit risk carried by a particular entity seeking to raise money through loans or bond issuance.

Presently, there are three prominent credit agencies that control 85% of the overall ratings market: Moody's Investor Services Standard and Poor's (S&P), and Fitch Group. Each agency uses unique, but strikingly similar, rating styles to indicate credit ratings.

Types of Credit Ratings

Each credit agency uses its own terminology to determine credit ratings. That said, the notations are strikingly similar among the three credit agencies. Ratings are bracketed into two groups: investment grade and speculative grade.

- **Investment grade** ratings mean the investment is considered solid by the rating agency, and the issuer is likely to honor the terms of repayment. Such investments are typically less competitively priced in comparison to speculative grade investments.

- **Speculative grade** investments are high risk and, therefore, offer higher interest rates to reflect the quality of the investments.

Users of Credit Ratings

Credit ratings are used by investors, intermediaries such as investment banks, issuers of debt, and businesses and corporations.

Both **institutional and individual investors** use credit ratings to assess the risk related to investing in a specific issuance, ideally in the context of their entire portfolio.

Intermediaries such as investment bankers utilize credit ratings to evaluate credit risk and further derive pricing of debt issues.

Debt issuers such as corporations, governments, municipalities, etc., use credit ratings as an independent evaluation of their creditworthiness and credit risk associated with their debt issuance. The ratings can, to some extent, provide prospective investors with an idea of the quality of the instrument and what kind of interest rate they should be expecting from it.

Businesses and corporations that are looking to evaluate the risk involved with a certain counterparty transaction also use credit ratings. They can help entities that are looking to participate in partnerships or ventures with other businesses evaluate the viability of the proposition.

Credit Score

A credit rating is used to determine an entity's creditworthiness, wherein an entity could be an individual, a business, a corporation or a sovereign country. In case of a loan, the rating is used to establish whether a loan should be rendered in the first place. If the process goes further, it helps in deciding the term of the loan such as dates of repayment, interest rate, etc.

In the case of bond issuance, the credit rating indicates the worthiness of the corporation or sovereign country's ability to repay the bond payments in due time. It helps the investor evaluate whether to invest in the bond or not.

A credit score, however, is strictly for indicating an individual's personal credit health. It indicates the individual's ability to undertake a certain load and his or her ability to honor the terms and conditions of the loan, including the interest rate and dates of repayment. A credit score for individuals is used by banks, credit card companies, and other lending institutions that serve individuals.

Unit-V: Investment Banking

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Investment banking is a special segment of banking operation that helps individuals or organisations raise capital and provide financial consultancy services to them. They act as intermediaries between security issuers and investors and help new firms to go public.

Full-service banks offer the following services:

- Underwriting – Capital raising and underwriting groups work between investors and companies that want to raise money or go public via the IPO process. This function serves the primary market or "new capital".
- Mergers & Acquisitions (M&A) – Advisory roles for both buyers and sellers of businesses, managing the M&A process start to finish.
- Sales & Trading – Matching up buyers and sellers of securities in the secondary market. Sales and trading groups in investment banking act as agents for clients and also can trade the firm's own capital.
- Equity Research – The equity research group research, or "coverage", of securities helps investors make investment decisions and supports trading of stocks.
- Asset Management – Managing investments for a wide range of investors including institutions and individuals, across a wide range of investment styles.

Underwriting Services in Investment Banking

- Underwriting is the process of raising capital through selling stocks or bonds to investors (e.g., an initial public offering IPO) on behalf of corporations or other entities. Businesses need money to operate and grow their businesses, and the bankers help them get that money by marketing the company to investors.
- There are generally three types of underwriting:
- Firm Commitment – The underwriter agrees to buy the entire issue and assume full financial responsibility for any unsold shares.
- Best Efforts – Underwriter commits to selling as much of the issue as possible at the agreed-upon offering price but can return any unsold shares to the issuer without financial responsibility.
- All-or-None – If the entire issue cannot be sold at the offering price, the deal is called off and the issuing company receives nothing.

Investment bankers are financial middlemen in security offering process. They purchase securities from companies and governments and resell them to the general public. Thus, investment bankers bring together suppliers and users of long-term funds in a capital market and thereby play a key role in security offering process.

Functions of Investment Bankers

The traditional function of the investment bankers has been to act as middlemen in channeling individual's savings and funds into the purchase of business securities. But nowadays, they also provide advice and help in the distribution of securities. Thus, investment bankers perform four basic functions as follows:

- **Underwriting**

When underwriting a security issue, an investment banker guarantees the issuer that it will receive a specific amount from the issue. In this process, the investment banker buys the security at a lower price and then sells them at a higher price i.e. offer price to the public. Investment bankers take this risk for a specific amount of underwriting spread or commission. If an investment banker cannot sell securities at a specified price, the underwriter, not the company, suffers the loss. Underwriter's gain or loss is computed using the following equation.

Gain or loss to underwriter = Gross proceeds – proceed to the company- underwriter's expenses.

Where,

Gross proceeds = price to public X number of shares to be issued.

- **Distributing**

Once the investment banker owns new securities. it must get them into the hands of ultimate investors. Hence, the second function of an investment banker is marketing a new issue of securities. The investment banker is a specialist with a staff and organization to distribute securities.

- **Advising**

The investment banker, through experience, becomes an expert in the issuance and

marketing of new securities. Thus, they perform an advisory function by analyzing the firm's financial needs and recommending appropriate means of financing.

- **Making a Market**

In the case of a company going public for the first time, the investment banker may be obliged to maintain a market for the shares after the issue. The investment banker generally agrees to make a market in the stock and to keep it reasonably liquid. In making a market, the underwriter maintains an inventory in the stocks, quotes bid and asked prices, and stands ready to buy and sell it at those prices.

UNDERWRTING

Underwriting is the process through which an individual or institution takes on financial risk for a fee. This risk most typically involves loans, insurance, or investments.

An underwriter is any party that evaluates and assumes another party's risk for a fee. The fee paid to an underwriter often takes the form of a commission, premium, spread, or interest. Underwriters play a critical in many industries in the financial world, including the mortgage industry, insurance industry, equity markets, and some common types of debt security trading. An individual in the position of a lead underwriter is sometimes called a book runner.

Types of Underwriters

- **Mortgage Underwriters**

The most common type of underwriter is a mortgage loan underwriter. Mortgage loans are approved based on a combination of an applicant's income, credit history, debt ratios, and overall savings.

Mortgage loan underwriters ensure that a loan applicant meets all of these requirements, and they subsequently approve or deny a loan. Underwriters also review a property's appraisal to ensure that it is accurate and the home is worth the purchase price and loan amount.

Mortgage loan underwriters have final approval for all mortgage loans. Loans that are not approved can go through an appeal process, but the decision requires overwhelming evidence to be overturned.

- **Insurance Underwriters**

Insurance underwriters, much like mortgage underwriters, review applications for coverage and accept or reject an applicant based on risk analysis. Insurance brokers and other entities submit insurance applications on behalf of clients, and insurance underwriters review the application and decide whether or not to offer insurance coverage.

Additionally, insurance underwriters advise on risk management issues, determine available coverage for specific individuals, and review existing clients for continued coverage analysis.

- **Equity Underwriters**

In the equity markets, underwriters administer the public issuance and distribution of securities—in the form of common or preferred stock—from a corporation or other issuing body. Perhaps the most prominent role of an equity underwriter is in the IPO process.

IPO underwriters are financial specialists who work closely with the issuing body to determine the initial offering price of the securities, buy the securities from the issuer, and sell the securities to investors via the underwriter's distribution network.

- **Debt Security Underwriters**

Underwriters purchase debt securities—such as government bonds, corporate bonds, municipal bonds, or preferred stock—from the issuing body (usually a company or government agency) to resell them for a profit. This profit is known as the "underwriting spread."

Bankers to the issue

Bankers to the issue is the collection of activities which are performed by the banker to an issue such as submission of application, application with money from investors. To adhere to the rules a certificate has to be obtained by a person from SEBI which grants the registration on the basis of all the activities performed by the banker to an issue. The requirements are as follows:-

1) The application must be complete and the applicant must have the infrastructure, communication and data processing facilities to run those activities effectively.

2) Directors of applicant are not involved in any of this application and don't have any securities market.

3) Banker to an issue also has to take care of some information like number of issues which is coming to the banker, number of application with the money, dates on which the application is been received and date on which the refund is done to the investors.

Debenture Trustee

Debenture Trustee is a liaison between the issuer company and the debenture holders, who hold the secured property on behalf of the issuer company, which is mortgaged in favor of debenture trustee for protecting the interest of debenture holders.

Debenture Trustee is an entity that secures any issue of debentures of a body corporate for the benefit of investors.

Debenture Trustee plays a very important role in the NCD issue by safeguarding the interest of debenture holders and acting as an intermediary between the issuer company and the debenture holders.

As per the provisions of the companies act, the appointment of a debenture trustee is mandatory in case of debentures/bonds with maturity beyond 18 months, irrespective of whether debentures/bonds are secured or not. However, the issue of debentures/bonds with a maturity of 18 months or less are exempt from the requirement of debenture trustee.

➢ Debenture Trustee Regulations SEBI

The SEBI (Debenture Trustees) Regulation, 1993 governs the Debenture Trustee and provides for all the required details for Debenture Trustee from eligibility criteria to responsibilities of a Debenture Trustee along with the procedure for action in case of default.

➢ Debenture Trustee Appointment / Eligibility Criteria

To act as a debenture trustee, the entity should either be:

- A scheduled bank carrying on commercial activity; or
- A public financial institution; or
- An insurance company; or
- A body corporate.

The entity should be registered with SEBI to act as a debenture trustee.

The entity should be an independent body from the issuer company and should in no way be related to the company.

The *principal officer* overseeing the activities of the debenture trustee should **NOT** be:

- A beneficial share owner of the issuer company, or
- A promoter, director or key management personnel or employee of the issuer company or its holding, subsidiary or associate company.

➢ Debenture Trustee Role and Responsibilities

- To protect the interest of the debenture holders.

- To call for and keep a periodic check on the reports of the issuer company.

- To take possession of the trust property by provisions of the trust deed.
- To take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
- To ensure that the debentures have been converted or redeemed as per the provisions and conditions under which they are offered to debenture holders.
- To enforce security in the interest of the debenture holders in case of any default by moving to assets for collection of debt.
- To ensure at all times that the property charged to the debenture is free from any other claim except those specifically agreed with the debenture holder and that the property is available and adequate to discharge the interest and the principal amount payable in respect of the debentures.
- To exercise due diligence to ensure that the issuer entity is compliant with provisions of the Companies Act, the listing agreement of the stock exchange, or the trust deed.
- To inform the Board immediately in case of any breach of trust deed or provision of law.
- To appoint a nominee director on the board of issuer entity when required. A nominee director can be appointed in case of below happenings:
    - Two consecutive defaults in payment of interest to debenture holder or
    - Default in the creation of security for debentures or
    - Default in the redemption of debt.

With such an important role to play for the debenture trustee in NCD issue, SEBI is looking to strengthen the regulatory framework for them in view of better investor protection and reducing the events of defaults by financial institutions.

PORTFOLIO MANAGERS

A portfolio manager is a person or group of people responsible for investing a mutual, exchange traded or closed-end fund's assets, implementing its investment strategy, and managing day-to-day portfolio trading. A portfolio manager is one of the most important factors to consider when looking at fund investing.

Roles and Responsibilities of a Portfolio Manager:

A portfolio manager is one who helps an individual invest in the best available investment plans for guaranteed returns in the future.

- **A portfolio manager plays a pivotal role in deciding the best investment plan for an individual as per his income, age as well as ability to undertake risks**. Investment is essential for every earning individual. One must keep aside some amount of his/her income for tough times. Unavoidable circumstances might arise anytime and one needs to have sufficient funds to overcome the same.
- **A portfolio manager is responsible for making an individual aware of the various investment tools** available in the market and benefits associated with each plan. Make an individual realize why he actually needs to invest and which plan would be the best for him.
- **A portfolio manager is responsible for designing customized investment solutions for the clients**. No two individuals can have the same financial needs. It

is essential for the portfolio manager to first analyze the background of his client. Know an individual's earnings and his capacity to invest. Sit with your client and understand his financial needs and requirement.

- **A portfolio manager must keep himself abreast with the latest changes in the financial market**. Suggest the best plan for your client with minimum risks involved and maximum returns. Make him understand the investment plans and the risks involved with each plan in a jargon free language. A portfolio manager must be transparent with individuals. Read out the terms and conditions and never hide anything from any of your clients. Be honest to your client for a long term relationship.
- **A portfolio manager ought to be unbiased and a thorough professional**. Don't always look for your commissions or money. It is your responsibility to guide your client and help him choose the best investment plan. A portfolio manager must design tailor made investment solutions for individuals which guarantee maximum returns and benefits within a stipulated time frame. It is the portfolio manager's duty to suggest the individual where to invest and where not to invest? Keep a check on the market fluctuations and guide the individual accordingly.
- **A portfolio manager needs to be a good decision maker**. He should be prompt enough to finalize the best financial plan for an individual and invest on his behalf.
- Communicate with your client on a regular basis. A portfolio manager plays a major role in setting financial goal of an individual. Be accessible to your clients. Never ignore them. Remember you have the responsibility of putting their hard earned money into something which would benefit them in the long run.
- Be patient with your clients. You might need to meet them twice or even thrice to explain them all the investment plans, benefits, maturity period, terms and conditions, risks involved and so on. Don't ever get hyper with them.
- **Never sign any important document on your client's behalf**. Never pressurize your client for any plan. It is his money and he has all the rights to select the best plan for himself.