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| **HY/FMAK/1222/C 22-SEP-2022** | | | | | |
| **Subject: Financial Market Management**  **Grade: 12** | | Max. Marks: 60Time:3 Hrs | | | |
|  | **Part A Employability sills**  **Answer any 4 questions (1X4)** | |  | | |
| 1. Ram | Hearing is \_\_\_\_\_\_\_\_process.  a. Passive | | |  | |
|  | Which of the following is not advantages of the spreadsheet?  b. Large volumes of data cannot be manipulated. | | |  | |
|  | **Which of the following can be a barrier to active listening?** c. All of the above | | |  | |
|  | The correct order of steps for entering data in a spreadsheet is: b. click the cell, type the data and press Enter. | | |  | |
|  | Mona is helping her sister to overcome a personality disorder. What should she do? c. All of the above | | |  | |
|  | If you are aware of your own values, likes, dislikes, strengths, and shortcomings as an individual. It denotes the fact that you are \_\_\_\_\_\_\_\_\_\_\_\_. b. Self-Aware | | |  | |
|  | **Answer any three questions ( 2 X3)** | | |  | |
|  | Use passwords to log in to your computer: Use passwords that are difficult to guess. Passwords are difficult to hack if they are a mix of small (For example ‘a b c d’) and capital letters (For example, ‘H J E R’), numbers (For example ‘8 7 6 5’) and special characters (For example, ’% ^ # $’). This would prevent unauthorised people from using your computer. (b) Install Anti-virus and Firewall: Anti-viruses and Firewalls monitor the data coming in and out of a computer and prevent viruses from entering. Anti-viruses can also detect and clean viruses that may have entered a computer. (c) Encrypt Data: This is usually done by banks and companies in which important customer information is stored. They can encrypt their entire hard disk using the encryption feature in Windows (Bitlocker). This would force users to use a decryption password (or key) before starting the computer thus preventing unauthorised usage. | | |  | |
|  | The ability to motivate yourself—self-motivation—is an important skill. Self-motivation drives people to keep going even in the face of set-backs, to take up opportunities, and to show commitment to what they want to achieve. | | |  | |
|  | The main Impress window has three parts: the Slides pane, the Workspace, and the Tasks pane. | | |  | |
|  | Specific, Measurable, Achievable, Relevant, and Time-bound | | |  | |
|  | Text alignment is a feature that allows users to horizontally align text in the presentation. There are four different types of text alignment features, a. Right Alignment b. Left Alignment c. Center Alignment d. Justified Alignment | | |  | |
|  | **Part B - subject specific skills** | | | | |
|  | **Answer any 10 questions (1X10)** | | | |  |
|  | An index is **an indicator or measure of something**. | | | |  |
|  | OTC- over the counter exchange | | | |  |
|  | National Securities Clearing Corporation Limited | | | |  |
|  | The purpose of basket trading is to provide NEAT users with a facility to offline order entry file for a selected portfolio. | | | |  |
|  | Settling of trades at a fixed period of days after the execution occurred. T+2 day | | | |  |
|  | On the settlement day NSE Clearing accepts pay-in of securities made by members through depositories and identifies the shortages. The members are debited by an amount equivalent to the securities not delivered and valued at a valuation price. This is known as valuation debit. | | | |  |
|  | Ex - dividend | | | |  |
|  | National Securities Depositories Ltd (NSDL) and Central Securities Depositories Ltd (CDSL). | | | |  |
|  | For focused proprietary trading with limited clientele. | | | |  |
|  | A contract note is an account of the total trades made on a particular day and acts as legal /official proof of transactions in offline or on | | | |  |
|  | International Securities Identification Numbering (ISIN) system, uniquely identifies a security. The ISIN is an international standard formed by the International Organization for Standardization (ISO), for the purpose of numbering specific securities. | | | |  |
|  | Margins in the cash market segment comprise of the following three types: 1) Value at Risk (VaR) margin 2) Extreme loss margin 3) Mark to market Margin | | | |  |
|  | **Answer any five questions (2 x 5= 10 marks)** | | | |  |
|  | As an advance for buying the shares, investor is required to pay a portion of the total amount of to the broker at the time of placing the buy order. Stock exchange in turn collects similar amount from the broker upon execution of the order. This initial token payment is called margin. | | | |  |
|  | The Exchange may expel or suspend and/or fine under censure and/or warn and/or withdraw any of the membership rights of a Trading Member if it be guilty of contravention, non-compliance, disobedience, disregard or evasion of any of the Bye Laws, Rules and Regulations of the Exchange | | | |  |
|  | A custodian is an entity who is responsible for safeguarding the documentary evidence of the title to property like share certificates, etc. The title to the custodian‘s property remains vested with the original holder, or in their nominee(s), or custodian trustee, as the case may be. In NSCCL, custodian is a clearing member but not a trading member. The custodian settles trades assigned by trading members. The custodian is required to confirm whether it is going to settle a particular trade or not. If it is confirmed, the NSCCL assigns that obligation to that custodian and the custodian is required to settle it on the settlement day. If the custodian rejects the trade, the obligation is assigned back to the trading / clearing member. | | | |  |
|  | The NSCCL is responsible for post-trade activities of a stock exchange. Clearing and settlement of trades and risk management are its central functions. It clears all trades, determines obligations of members, arranges for pay-in of funds/securities, receives funds / securities, processes for shortages in funds/ securities, arranges for pay-out of funds/securities to members, guarantees settlement, and collects and maintains margins / collateral/ base capital / other funds. | | | |  |
|  | Secondary market refers to a market where securities are traded after being offered to the public in the primary market or listed on the Stock Exchange. Secondary market comprises of equity, derivatives and the debt markets. The secondary market is operated through two mediums, namely, the Over-the-Counter (OTC) market and the Exchange-Traded market. OTC markets are informal markets where trades are negotiated. | | | |  |
|  | Mr Sam sold 2000 shares of a scrip @Rs.100. what is the maximum brokerage that the client can be charged?  2.5 % x 200000= 5,000 | | | |  |
|  | Sub broker is an important intermediary between stock broker and client in capital market segment. The trading members of the Exchange may appoint sub-brokers to act as agents of the concerned trading member for assisting the investors in buying, selling or dealing in securities. The sub-brokers are affiliated to the trading members and are required to be registered with SEBI. A sub-broker is allowed to be associated with only one trading member of the Exchange. | | | |  |
|  | **Answer any five questions (3 x 5= 15 marks)** | | | |  |
|  | .2.1 Index An Index is used to give information about the price movements of products in the financial, commodities or any other markets. Stock market indices are meant to capture the overall behaviour of the equity markets. The stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. The bluechip index of NSE is CNX Nifty.  1.2.2 Market Capitalisation Market capitalisation is defined as value of all listed shares on the country‘s exchanges. It is computed on a daily basis. Market capitalisation of a particular company on a particular day 13 can be computed as product of the number of shares outstanding and the closing price of the share. Here the number of outstanding shares refers to the issue size of the stock. Market Capitalisation = Closing price of share \* Number of outstanding shares Similarly, to compute the market capitalization of all companies listed on an Exchange we aggregate the market capitalization of all the companies traded on the Exchange. 1.2.3 Market Capitalisation Ratio The market capitalization ratio is defined as market capitalization of stocks divided by GDP. It is used as a measure of stock market size. Turnover Turnover for a share is computed by multiplying the traded quantity with the price at which the trade takes place. Similarly, to compute the turnover of the companies listed at the Exchange we aggregate the traded value of all the companies traded on the Exchange.  1.2.5 Turnover Ratio The turnover ratio is defined as the total value of shares traded on a country‘s stock Exchange for a particular period divided by market capitalization at the end of the period. It is used as a measure of trading activity or liquidity in the stock markets. Turnover Ratio = Turnover at Exchange / Market Capitalisation at Exchange | | | |  |
|  | A short delivery/failed delivery takes place when a broker, a custodian or the clearing corporation delivers fewer securities than what were contracted for either to another broker, a custodian or the clearing corporation. On the securities payin day, clearing member communicate to the clearing corporation about the securities that he will be able to deliver and those securities which he will not be able to deliver | | | |  |
|  | It electronically matches orders on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency.  • It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets.  • It enables market participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market.  • It provides full anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody.  • It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety | | | |  |
|  | Special Features of Previous Trades  (a) Trade cancellation can be requested from the Previous Trade screen. This facility is available only for member‘s own trades. The Corporate Manager can request for trade cancellation for any branch or any dealer. The Branch Manager can request for trade cancellation for any dealer under that branch. The dealer can request for trade cancellation only for trades under that user id.  (b) The user can request the Exchange to modify only the client code field. Currently trade modification facility is not enabled on trading system. | | | |  |
|  | Investor complaints received against the trading members / companies in respect of claims/ disputes for transactions executed on the Exchange are handled by the Investor Service Cell (ISC). The complaints are forwarded to the trading members for resolution and seeking clarifications. The ISC follows-up with the trading members and makes efforts to resolve the complaint expeditiously. In certain cases, on account of conflicting claims made by the investor and the trading member, when it is not possible to administratively resolve the complaint, investors are advised to take recourse to the arbitration mechanism prescribed by the Exchange. | | | |  |
|  | Funds Pay-in: The process of transfer of funds to the clearing corporation to pay for purchase transactions.  Funds Pay-out: The process of transfers of funds from the clearing corporation to complete the funds settlement of a sale transaction | | | |  |
|  | Identify and match the different status displayed for an auction security.   |  |  | | --- | --- | | Column A | Column B | | S | Auction is in solicitor period | | M | System is matching the order | | F | Auction is over | | X | Auction is deleted | | P | Auction is pending and yet to begin. | | | | |  |
|  | **Answer two questions (5x3= 15 Marks)** | | | |  |
|  | A stock broker is an intermediary who arranges to buy and sell securities on the behalf of clients (the buyer and the seller). According to SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, a stockbroker is member of a stock exchange and requires to hold a certificate of registration from SEBI in order to buy, sell or deal in securities. SEBI grants a certificate to a stock broker subject to the conditions that the stock broker:  (a) holds the membership of any stock exchange;  (b) should abide by the rules, regulations and bye-laws of the stock exchange or stock exchanges of which he is a member;  (c) should obtain prior permission of SEBI to continue to buy, sell or deal in securities in any stock exchange in case of any change in the status and constitution;  (d) should pay the amount of fees for registration in the prescribed manner; and  (e) should take adequate steps for redress of grievances of the investors within one month of the date of the receipt of the complaint and keep SEBI informed about the number, nature and other particulars of the complaints. While considering the application of an entity for the grant of registration as a stock broker, SEBI checks out if the applicant: (a) is eligible to be admitted as a member of a stock exchange | | | |  |
|  | Steps in Transaction Cycle (a) A person holding assets (securities/funds), either to meet his liquidity needs or to reshuffle his holdings in response to changes in his perception about risk and return of the assets, decides to buy or sell the securities. (b) He selects a broker and instructs him to place buy/sell order on an exchange. (c) The order is converted to a trade as soon as it finds a matching sell/buy order. (d) At the end of the trade cycle, the trades are netted to determine the obligations of the trading members to deliver securities/funds as per settlement schedule. (e) Buyer (seller) delivers funds (securities) and receives securities (funds) and acquires ownership of the securities. A securities transaction cycle is presented | | | |  |
|  | Market SegMentS and theIr ProductS The Exchange (NSE) provides trading in four different segments - Wholesale Debt Market, Capital Market, Futures and Options and Currency Derivatives Segment as depicted in the Market Segments (i) Wholesale Debt Market (WDM) Segment: This segment at NSE commenced its operations in June 1994. It provides the trading platform for wide range of debt securities which includes State and Central Government securities, T-Bills, PSU Bonds, Corporate debentures, Commercial Papers, Certificate of Deposits etc. (ii) Capital Market (CM) Segment: This segment at NSE commenced its operations in November 1994. It offers a fully automated screen based trading system, known as the National Exchange for Automated Trading (NEAT) system. Various types of securities e.g. equity shares, warrants, debentures etc. are traded on this system. (iii) Futures & Options (F&O) Segment: This segment provides trading in derivatives instruments like index futures, index options, stock options, and stock futures, and commenced its operations at NSE in June 2000. (iv) Currency Derivatives Segment (CDS) Segment: This segment at NSE commenced its operations on August 29, 2008, with the launch of currency futures trading in US Dollar-Indian Rupee (USD-INR). Trading in other currency pairs like Euro-INR, Pound Sterling-INR and Japanese Yen-INR was further made available for trading in February 2010. ‗Interest rate futures‘ was another product made available for trading on this segment with effect from August 31, 2009 | | | |  |
|  | The following two kinds of risks are inherent in a settlement system: (i) Counterparty Risk: This arises if parties do not discharge their obligations fully when due or at any time thereafter. This has two components, namely replacement cost risk prior to settlement and principal risk during settlement. (a) Thereplacement cost riskarises fromthefailureofoneoftheparties totransaction. While the non-defaulting party tries to replace the original transaction at current prices, he loses the profit that has accrued on the transaction between the date of original transaction and date of replacement transaction. The seller/ buyer of the security loses this unrealised profit if the current price is below/ above the transaction price. Both parties encounter this risk as prices are uncertain. It has been reduced by reducing time gap between transaction and settlement and by legally binding netting systems. (b) The principal risk arises if a party discharges his obligations but the counterparty defaults. The seller/buyer of the security suffers this risk when he delivers/ makes payment, but does not receive payment/delivery. This risk can be eliminated by delivery vs. payment mechanism which ensures delivery only against payment. This has been reduced by having a central counterparty (NSCCL) which becomes the buyer to every seller and the seller to every buyer. A variant of counterparty risk is liquidity risk which arises if one of the parties to transaction does not settle on the settlement date, but later. The seller/buyer who does not receive payment/delivery when due, may have to borrow funds/securities to complete his payment/delivery obligations. Another variant is the third party risk which 118 arises if the parties to trade are permitted or required to use the services of a third party which fails to perform. For example, the failure of a clearing bank which helps in payment can disrupt settlement. This risk is reduced by allowing parties to have accounts with multiple banks. Similarly, the users of custodial services face risk if the concerned custodian becomes insolvent, acts negligently, etc. (ii) System Risk: This comprises of operational, legal and systemic risks. The operational risk arises from possible operational failures such as errors, fraud, outages etc. The legal risk arises if the laws or regulations do not support enforcement of settlement obligations or are uncertain. Systemic risk arises when failure of one of the parties to discharge his obligations leads to failure by other parties. The domino effect of successive failures can cause a failure of the settlement system. These risks have been contained by enforcement of an elaborate margining and capital adequacy standards to secure market integrity, settlement guarantee funds to provide counterparty guarantee, legal backing for settlement activities and business continuity plan, etc. | | | |  |
|  | Title bar: It displays trading system name i.e. NEAT, the trading member name the user id, user type, the date and the current time.  (ii) Ticker Window: The ticker displays information of all trades in the system as and when it takes place. The user has the option of selecting the securities that should appear in the ticker. Securities in ticker can be selected for each market type. On the extreme right hand of the ticker is the on-line index window that displays the current index value of NSE indices namely Nifty 50,. Index point change with reference o the previous close is displayed along with the current index value. The difference between the previous close index value and the current index value becomes zero when the Nifty closing index is computed for the day. The ticker window displays securities capital market segments. The ticker selection facility is confined to the securities of capital market segment only. The first ticker window, by default, displays all the derivatives contracts traded in the Futures and Options segment.  (iii) Tool Bar: The toolbar has functional buttons which can be used with the mouse for quick access to various functions such as Buy Order Entry, Sell Order Entry, Market By Price (MBP), Previous Trades (PT), Outstanding Order (OO), Activity Log (AL), Order Status (OS), Market Watch (MW), Snap Quote (SQ), Market Movement (MM), Market Inquiry (MI), Auction Inquiry (AI), Order Modification (OM), Order Cancellation (OCXL), Security List, Net Position, Online Backup, Supplementary Menu, Index Inquiry, Index Broadcast and Help. All these functions are also accessible through the keyboard. 58  (iv) Market Watch Window: The ‗Market Watch‘ window is the main area of focus for a trading member. This screen allows continuous monitoring of the securities that are of specific interest to the user. It displays trading information for the selected securities.  (v) Inquiry Window: This screen enables the user to view information such as Market by Order (MBO), Market By Price (MBP), Previous Trades (PT), Outstanding Orders (OO), Activity Log (AL), Order Status (OS), Market Movement (MM), Market Inquiry (MI), Net Position, Online Backup, Index Inquiry, Indices Broadcast, Most Active Securities and so on. Relevant information for the selected security can be viewed.  (vi) Snap Quote: The snap quote feature allows a trading member to get instantaneous market information on any desired security. This is normally used for securities that are not already set in the Market Watch window. The information presented is the same as that of the Marker Watch window.  (vii) Order/Trade Window: This window enables the user to enter/modify/cancel orders and to send request for trade cancellation and modification. (viii) Message Window: This enables the user to view messages broadcast by the exchange such as corporate actions, any market news, auctions related information etc. and other messages like order confirmation, order modification, order cancellation, orders which have resulted in quantity freezes/price freezes and the exchange action on them, trade confirmation, trade cancellation/modification requests and exchange action on them, name and time when the user logs in/logs off from the system, messages specific to the trading member, etc. These messages appear as and when the event takes place in a chronological order. | | | |  |

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