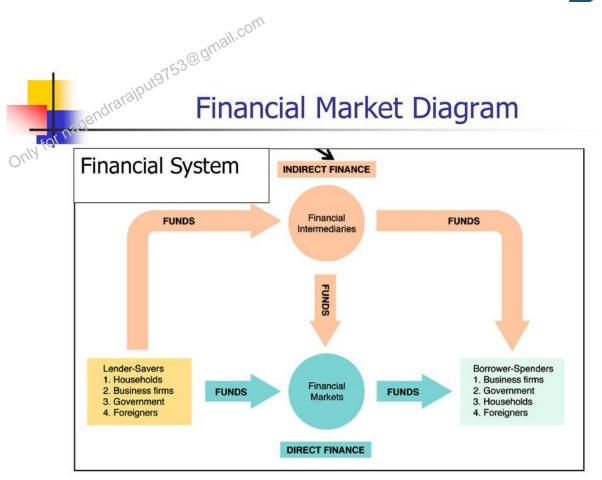


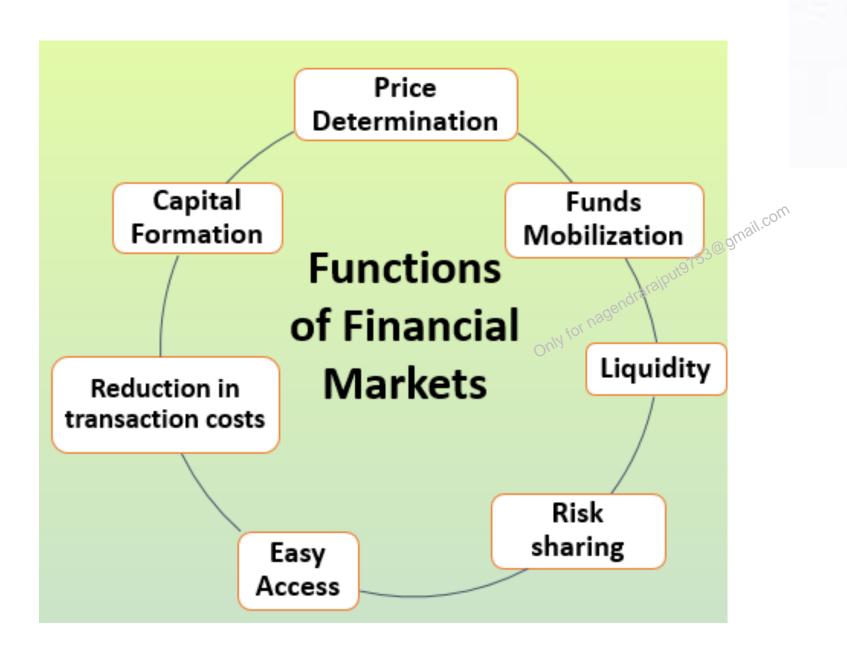
Ram Sudheer

Financial Market

Financial Market

- Brings buyers and sellers together to trade in financial assets.
- Purpose is to set prices for global trade, raise capital, and transfer liquidity and risk.



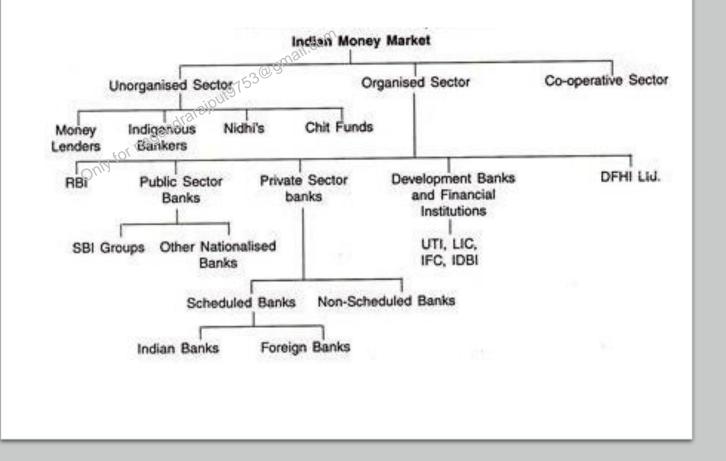




- Money market for borrowing and lending in the short term; up to a year.
- Capital market long-term assets;
 maturities of greater than one year.
- Derivatives market financial market for derivatives, which are derived from other forms of assets.
 - **Commodity market** trades in the primary economic sector rather than manufactured products.
- Forex market participants can buy, sell, exchange, and speculate on currencies.
- Spot market financial instruments or commodities are traded for immediate delivery.

Money Market

- Features of money market
- Borrowing and lending
- Instruments with high liquidity + short maturities
- Used by government and corporate entities
- Structure of money market
 - Organized
 - Unorganized
 - Cooperative sector



Money Market Instruments

Call money market

• Call money: 1 day

• Notice money: 2-14 days

• Term money: >14 days

• Government securities

- Dated securities
- silssued by GOI and state governments
- T-Bills: 91, 182, 364 days (<=1 year)
- Zero coupon instrument Issued at a discount and redeemed at par, so no interest rate

Cash management bills:

- Central government
- < 90 days

Certificate of deposits:

- Negotiable promissory notes
- By Scheduled Commercial Banks: >15days to 1 year
- By Financial institutions: 1-3 years

Inter corporate deposit market

- Unsecured loan
- One corporate to another

Commercial paper

- Unsecured promissory note
- Issued by top rated Corporate and Financial institutions
- 7days 1year

Commercial bill

- Trade bills
- Drawn by the seller of goods or services on the buyer of goods for the value of goods delivered

Money Market

Discount and Finance House of India

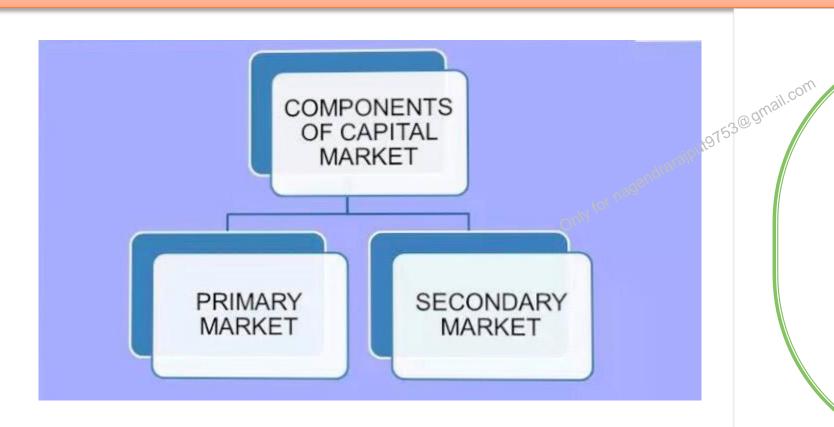
- Smoothening of short-term liquidity imbalances
- Developing active money market
- Integrating various segments of money market

LIBOR- London interbank offered

rate — average interest rate estimated by leading banks in London, which would be charged for what they borrow from other banks

MIBOR – Mumbai interbank offered rate – NSE- benchmark rates for majority of deals

Capital Markets



Maturity of 1 year or more

 Includes primary and secondary markets

Primary market issuance and sale of
 equity-backed
 securities directly to
 investors.

 Secondary market investors buy and sell securities they already own.

Instruments of Capital Markets

Shares

- · Units of ownership
- Equal distribution in any profits
- Main types
 - Common shares allows to make a profit through rising share prices and dividend payments.
 - Preferred shares pays a predetermined dividend.

Debentures

- Debt instrument
- Not secured by physical assets or collateral
- Main types
 - Convertible debentures can convert into equity shares after a specific period.
 - Nonconvertible debentures cannot be converted into equity of the issuing corporation.

Bond

• Loan secured by a specific physical asset

Derivatives

- Financial security
- Value derived from an underlying asset or group of assets

Types of derivatives

- **Futures** agreement <u>for purchase or delivery</u> of an asset <u>at an agreed price</u> <u>at a</u> future date
- **Forward** <u>contract between two parties</u> to <u>buy or to sell</u> an asset <u>at a specified</u> <u>future time</u> at a <u>price agreed today</u>
- **Swaps** used to swap <u>one kind of cash flow with another</u>
- **Options** <u>buyer is not obligated</u> to "exercise" the option; <u>seller is obligated</u> to either buy or sell <u>if the buyer chooses</u> to exercise the contract.

G-secs

- Tradable instrument (bond) issued by central/ state government.
- Centre can issue both short term(Treasury bills) and long term(G-secs).
- State government can issue only long term/ dated securities.

Terminologies

Private Placement

Raising capital by selling shares to a select group of investors

Public Issue

Open for all

Rights Issue

• Raising capital from the existing shareholders of a company

Primary market: deals with issuing of shares directly by the company through IPO

Secondary market: trading of securities of the listed companies

Stock exchanges

- 1. Bombay stock exchange
- 2. National stock exchange
- 3. United stock exchange
- 4. India international exchange
- 5. Metropolitan stock exchange of India

1. Commodity exchanges:

institutions which provide a platform for trading in commodity futures

2. Forward markets
commission: regulatory
authority to regulate
commodity derivatives

Players in Capital Market

Merchant banks

Manage and underwrite new issues

Mutual funds

- Financial vehicle made up of a pool of money collected from many investors to invest in securities
- Open-ended investor can buy or sell as and when they intend to
- Close-ended issue units to investors only once

ETF

- Mix of open-ended and close-ended schemes
- Listed and traded on a stock exchange on a daily basis
- Price is very close to its underlying asset

Hedge Funds

- Investment fund
- Pools capital from accredited or institutional investors
- Invests in a variety of assets

Venture capital

- Financing provided by firms or funds
- To small, early-stage, emerging firms
- Deemed to have high growth potential

Angel investors

 Affluent individual who provides capital for a business start-up

Alternative investment funds

 Pooled in fund from Indian and foreign investors for real estate, hedge funds, equity

Collective investment schemes

 Pools funds from investors for investment in particular asset @gmail.com

Real estate investment trusts:

pool in money from investors and issue units in exchange

Alternative investment Funds

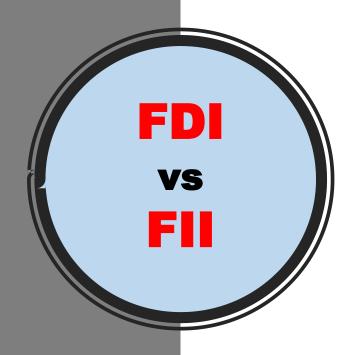
• Newly created investment vehicle for real estate, private equity and hedge funds

Foreign portfolio investor

- Participate through the stock markets
- FIIs, Sub-Accounts and QFI are merged together to form FPI
- Gets in and out of a particular stock at much faster frequencies
- Can't invest in unlisted shares and also in T-bills

Qualified Foreign Investor

- Individual group or association
- Resident in a foreign country
- Compliant with FATF standards



DIFFERENCE BETWEEN FDI AND FII

FDI	FII
It is long-term investment	is generally short-term investment
Investment in physical assets	Investment in financial assets
Aim is to increase enterprise capacity or productivity or change management control	Aim is to increase capital availability
Leads to technology transfer, access to markets and management inputs	FII results in only capital inflows

Institutions

SEBI

- Regulator for the securities market in India
- Statutory: setup under SEBI Act

FATF

- To combat money laundering

IOSCO

- Association of organizations
 Regulate world's securities and futures markets

 **xchange*

 'hysically existing setup

 struments of a

Stock exchange

- Physically existing setup
- Instruments of stock market are traded
- Stockbrokers and traders can buy and sell securities
- BSE S & P BSE SENSEX
- NSE S & P CNX Nifty
- International Stock exchange India's first international stock exchange

National securities depository limited (NSDL)

• Holds securities in depository accounts, just like funds in bank in accounts.

Commodity exchange

- Trading commodity futures
- FMC was merged into SEBI

Other Terms

External commercial borrowings

- Loans in India
- Made by non-resident lenders
- In foreign currency
- To Indian borrowers
- Ministry of Finance and RBI regulate the amount of money that can be raised

Global Depository Receipts

- Indian companies to raise equity capital in international market
- Designated in Foreign currency

American depository receipts

Non- US companies are not allowed to list in the US stock exchanges by issuing the shares.

Other Terms

- Participatory notes –
- -Offshore derivative instruments
- -high degree of anonymity

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Anchor investors –

- Institutional investors who are invited to subscribe for shares ahead of IPO to boost confidence

Other Terms

Bear/Bull

- Bear investor who believes that market will go down
- Bull investor who believes that market will go up

Gilt - bond issued by the government which carries less risk **Market capitalization** -price per share multiplied by the total number of shares outstanding

Retail investor – investor's subscription to securities is of value less than 2 lakh

Tobin Tax

- proposed tax on international financial transactions
- especially speculative currency exchange transactions

Blue chip - Most valuable shares of the companies

Previous year question

Debenture holders of a company are its

- a) Shareholders
- b) Creditors
- c) Debtors
- d) Directors

Previous year question

In the parlance of financial investments, the term 'bear' denotes

- a) An investor who feels that the price of a particular security is going to fall
- b) An investor who expects the price of particular shares to rise
- c) A shareholder or a bondholder who has an interest in a company, financial or otherwise
- d) Any lender whether by making a loan or buying a bond