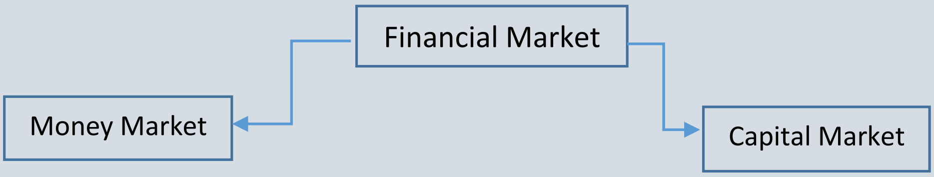
Financial Market

A financial market is engaged in collecting money from the surplus units and lending to the deficit units. It can be categorised into two:



Let us discuss them in detail.

MONEY MARKET:

- It refers to that part of broader financial markets in which highly liquid and short-term financial assets with maturity up to 1 year are traded.
- Money market caters to the short-term borrowing requirements such as working capital. Entities and individuals with short-term surplus invest in the money market instruments and lend money to those who need them. For long term funds, capital markets are tapped.
- There is no fixed place to buy and sell these securities and the transactions can take place over telephone calls.
- Participants in the organised money market are RBI, banks, non-banking financial companies (NBFCs), mutual funds, insurance companies, financial institutions (FIs), insurance companies, etc.
- Also, there is a huge unorganised money market in India since ancient times, which includes local moneylenders, chit funds, etc. They give short-term funds to businesses and individuals. They are unregulated by the Government.

Terms relating to Money Market:

Call Money	Money lent or borrowed for 1 day.
Notice Money	Money lent or borrowed for a period of 2-14 days.
Term Money	Money lent or borrowed for 15 days to 1 year.
Yield to Maturity	Expected rate of return on an existing security purchased for the market.
Coupon Rate	Specified interest rate on a fixed maturity security fixed at the time of issue.

Common Money Market Instruments

- Call Money
- Treasury Bill (T-Bill)
- Cash Management Bill (CMB)
- Ways and Means Advances (WMAs)
- Certificate of Deposit (CD)
- Commercial Paper (CP)
- Commercial Bill (CB)

Call Money

It is an inter-bank market (i.e. between commercial banks, cooperative banks, primary dealers, etc.). If the money is borrowed or lent for 1 day then it is called call money. The rate of interest is termed as call money rate and it keeps changing on hourly basis, depending on the demand and supply. And, if it is for more than 1 day, i.e. from 2 days to 14 days, it is called notice money.

RAMSUDHIR

Financial Market

Treasury Bill:

These are money market instruments to finance short-term requirements of the Government of India.

Generally, receipts of Government revenues through direct and indirect taxes are periodical and seasonal in nature. Government receives revenues towards the end of due dates of tax assessment (GST returns, quarterly advance tax filings, etc.), whereas the spending takes place on a daily basis, for which there is requirement of funds for the short term. Therefore, RBI sells T-Bills on behalf of Central Government as it is banker to the Government.

Features of T-Bills:

- These are discounted securities, i.e. they are issued at discount and redeemed at par or face value.
- These bills are considered risk free. They are highly liquid.
- These bills are issued by the Central Government and the bills are sold by RBI on behalf of the Government. State Government does not issue the T-Bills.
- Buyers of T-Bills include RBI itself, Commercial Banks, NBFCs, LIC, UTI (Unit Trust of India) and GIC (General Insurance Company).
- There are three types of T-Bills:
    - 91-day T-Bill.
    - 182-day T-Bill.
    - 364-day T-Bill.
- Banks can keep T-Bills as a part of SLR requirements and they also give T-Bills to RBI to receive loan under Repo.
- T-Bills are available for a minimum amount of Rs.25,000 or in multiples of Rs.25,000.

Cash Management Bill

- CMB was introduced in 2010.
- It is a short-term security sold by RBI on behalf of Government of India to raise money for temporary needs of the Central Government.
- It is similar to T-Bills, but the tenure is less than 91 days
- It is issued at discount to the face value through auctions as in the case of the T-Bills, to meet the short-term cash flow mismatches of the Government.
- Banks are allowed to keep CMBs as part of their SLR requirements.

Ways and Means Advances

WMAs was introduced as per an agreement between RBI and Government of India. WMAs are temporary loans/overdrafts by RBI to Government (both Central and States) under Section 17(5) of RBI Act. WMAs replaced the ad hoc T-Bills system.
The objective of WMAs is to bridge the time interval of mismatch between Government expenditure and receipts. These are not a source of finance. Duration of advance is 10 and 14 consecutive working days for Central Government and State Governments, respectively.

Certificate of Deposit

- Certificates of Deposit (CDs) are issued by Scheduled Commercial Banks (SCBs) and selected FIs that have been permitted by RBI to raise short-term funds. It is used by banks to meet its own short-term funds requirement.
- Minimum amount of a CD should be Rs.1 lakh, and in multiples of Rs.1 lakh thereafter.

- The maturity period of CDs issued by banks is more than 7 days and less than 1 year. Withdrawal of CD before the due date results in a penalty.
- CDs are issued at a discount on face value. Deposits can be done by individuals, corporates, mutual fund companies, insurance companies, etc.
- Cooperative Banks and Regional Rural Banks cannot Banks cannot issue CD.
- Banks cannot provide loans against the CD.

On 31 March 2020, Yes Bank issued CDs to two PSU Banks worth 3.500 crore for 6 months to meet its short-term requirements.

Commercial Paper

- Commercial Paper(CP) introduced during 1990, is a short-term money market instrument issued as an unsecured promissory note and is privately placed.
- Companies, Primary Dealers (PDs) and FIs can issue CPs to meet their short-term funds requirement.
- Maturity is minimum 7 days and maximum up to 1 year and amount is minimum Rs.5 lakh or multiples thereof. It is necessary for the issuers to get their credit rating done.
- Only institutions with good credit rating are allowed to issue CP, to protect the investors from financially stressed companies.

Commercial Bill

- Bills are negotiable instruments drawn by the seller or buyer of goods for the value of goods delivered. These are called trade bills.
- The trade bills become CBs when they are accepted by Commercial Banks. The maximum allowed period is 90 days.
- These bills are discounted by the Commercial Banks first and then it is further re-discounted by RBI.
- It is not popular in India and the market for CBs is under-developed in India.

Money Market Reforms

On the recommendations of the Sukhamoy Chakravarty Committee (1985) and the Narasimham Committee (1991):

- Interest Rate was deregulated.
- Electronic transactions were promoted to impart more transparency.
- Money Market Mutual Funds (MMMFs) allowed to sell units to corporates and individuals.
- Discount and Finance House of India (DFHI) was set up jointly by the RBI, Public Sector Banks and Financial Institutions.
- Liquidity Adjustment Facility (LAF) introduced. LAF adjusts liquidity in the market through absorption and or injection of financial resources by the RBI.
- Development of New Market Instruments like Market Stabilisation Scheme (MSS), etc.

Capital Market:

In a broader context, it is a place where savings and capital from investors are channelized to those companies or entities that require money for their business or operations

The Capital Market can be of two types:

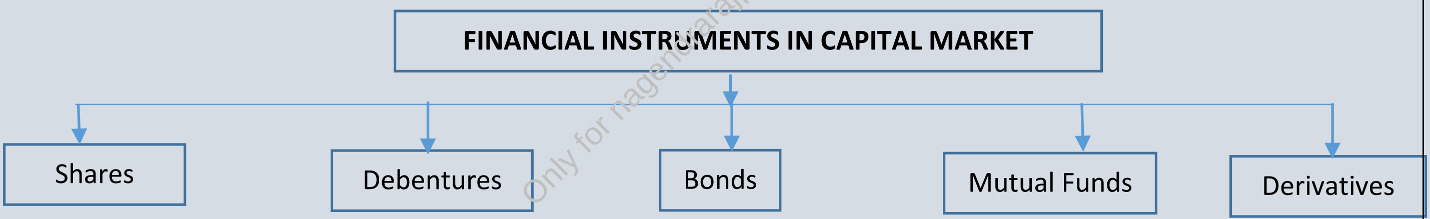
Financial Market

- **Primary Markets** are those where fresh capital or funds are raised, generally, for the first time, such as through Initial Public Offer (IPO), Follow-on Public Offer (FPO), etc. It is also called new issue market. Individuals (called retail investors), financial institutions, mutual funds and insurance companies can subscribe to new issue of a company. Prior permission from Securities and Exchange Board of India (SEBI) is required for IPOs.
- **Secondary Markets** are where existing securities of companies are traded through stock exchanges like Bombay stock Exchange (BSE) and National Stock Exchange (NSE). Here, publicly traded companies can raise additional funds. It is suitable for investors who are looking to invest in well-established companies. Investors need a demat account with a depository like Central Depositories Services Limited (CDSL) or National Securities Depository Limited (NSDL) and a trading account with a stock broker to purchase/sell securities.
- Secondary markets are very important and are regulated by SEBI. It is the place where constant buying and selling of securities take place.

Primary Markets VS Secondary Markets

Primary Markets	Secondary Markets
Securities are sold by new companies.	Only existing shares are traded.
Only buying of securities takes place	Both buying and selling of securities take place.
The price of securities is decided by the management of the company with due compliance with SEBI's requirement.	The price of the securities is determined by the demand and supply of the market.
There is no fixed geographical location for new issue market	They are located at specified places, e.g. NSE is situated in Mumbai.
Major intermediaries in primary market are merchant banks, underwriters, debenture trustees, portfolio managers etc.	Major intermediaries in secondary market are brokers, jobbers etc.

FINANCIAL INSTRUMENTS IN CAPITAL MARKET:



Shares:

- The capital of a company is divided into shares. Each share forms a unit of ownership of the company and is offered for sale so as to raise capital for the company.
- The shareholders receive dividends (not interest) as return from the company. They also enjoy/suffer capital gains/losses at the time of sale of shares.
- Shares can broadly be divided into two categories:

  1. **Equity shares** 2 **Preference shares**
- **Equity shares** give their holders the power to share the earnings/profits in the company as Well as a vote in the AGMs of the company. Such a shareholder has to share the profits and also bear the losses incurred by the company.
- **Equity shareholders** are regarded as the real owners of the company

- On the other hand, **Preference Shares** earn their holders only dividends, which are fixed, giving no voting rights. Preference share has sub-types such as:
  a. Cumulative Preference Shares - Preference Shares whose dividend (if not paid in a particular year by company due to loss) gets accumulated and is paid in the year of profit.
  b. Non-cumulative Preference Shares - Preference Shares whose dividend does not get accumulated if not paid by the company due to losses incurred in that year

Debentures:

These are the debt instruments with a fixed rate of interest issued by a company and are generally unsecured. It can be for medium or long term and is fully repayable on the maturity date. Many investors prefer debentures because it offers higher rate of interest than fixed deposits (FDs)
Interest rates also depend upon the credit rating given by the Credit Rating Agencies (CRAs) Such as CARE, ICRA, etc. A lower rated debenture will carry a higher rate of interest because the risk involved is considered high.

Features of Debentures:

- It is for medium to long-term tenure.
- The company is liable to pay the debenture holders a specified amount with interest.
- Although debentures form part of a company's capital structure, it is not considered as share/equity capital.
- Debentures are generally transferable.
- The holder does not get any right to vote in the company's general meetings unlike equity shareholders.
- The interest paid on debentures is a charge against profits of the company and it reduces the gross profit.

Common types of Debentures include

- Convertible Debentures - which can be converted into shares;
- Non-Convertible Debentures (NCDs) - which cannot be converted into shares;
- Redeemable Debentures which are redeemed by the issuer after maturity;
- Irredeemable Debentures which are not redeemed by the issuer.

Bonds

- A bond is a debt instrument through which Government, Government agencies or large corporations borrow funds for a defined period of time at a floating or fixed interest rate
- Government uses bonds as a means to raise funds to meet its expenditure requirements which are generally capital in nature. Bodies like NHAl issue bonds frequently to fund the creation of infrastructure.
- Bonds are also similar to debentures but the term 'bond is generally used when such security is issued by Government or Governmental body like municipalities. However, in India, bonds and debentures are often used interchangeably.

The Bond Yield:

- In simple words, the yield of a bond is the effective return that it earns.
- Every bond has a face value and a coupon payment (interest to be paid on face value).
- However, the bonds can be purchased in the market at a value which is lower or higher than the face value, this is called higher actual purchase price of bond.
- Now, the important question is that what are the factors which affect the actual price of bond to fall or rise.

- Imagine a situation, where the interest rate in the broader economy is different from the initial coupon payment promised by a bond. For example, interest rate on savings is only 4 per cent, whereas, the bond is giving 5 per cent interest rate. Then, more and more people will go to buy the bond. This will increase the price of the bond. Opposite to it, if interest rate on savings is 6 per cent, then less and less people will go to buy the bond thus, fall in its price.
- Other factors which can affect the actual price of the bond and the bond yield, in a similar manner, are:
  a. Inflation.
  b. Open Market Operations by RBI - sell or purchase of bonds.
  c. Fiscal policy of the Government.
  d. Position of domestic economy as well as global economy - investors will look tor safer economies.
  e. Yield from competitive instruments like bonds in USA.

NEGATIVE YIELD BONDS

- A negative bond yield is when an investor receives less money at the bond's maturity than the original purchase price of the bond.
- They are issued by the Central Banks during times of stress and uncertainty, as investors Iook to protect their capital from significant erosion.
- During Covid-19 pandemic, Negative Yield Bonds were in high demand in European d and many other countries.

Some Major Bonds in India

Zero Coupon Bond:

A regular bond (coupon bond) pays interest to bondholders over the life of the bond and repays the principal at the time of maturity. But a zero-coupon bond does not pay interest. The face value of the bond is received by the bondholders after it reaches maturity.

Inflation Indexed Bond

- Inflation Indexed Bond (11B) provides a constant return irrespective of the level of inflation and protects the investor against macroeconomic risks.
- Initially, IIBs were issued in the name of Capital Indexed Bonds (CIBs) during 1997. The CIBs provided inflation protection only to principal and not to interest payment. However, IlBs provide inflation protection to both principal and interest payments.
- IIBs are G-Secs and are issued as part of the Government market borrowing programme. They are eligible for maintaining Statutory Liquidity Ratio (SLR) by banks.

Municipal Bond

- Municipal bonds are fixed income instruments, i.e. debt securities issued by the Government or semi-Government institutions who need funding for civic projects.
- There are two types of municipal bonds - General Obligation Bonds and Revenue Bonds.
  - **General Obligation Bonds** are issued for enhancing civic amenities such as water, sanitation, garbage disposal, etc.
  - **Revenue Bonds** are issued for a specific purpose such as construction of a toll road or a toll bridge.
- Municipal bonds have been in the market since 1997.
  - Bangalore Municipal Corporation is the first urban local body to issue municipal bonds in India.
  - The Ahmedabad Municipal Corporation, in 1998, was the first to make a public offering

   - In 2017, the Pune Municipal Corporation (PMC) became the first local body in the country to issue these in nearly 15 years, raising 200 crores for the Smart city project.
   - Indore recently became the first city to list municipal bonds on the National stock Exchange (NSE) in 2018.
- SEBI circulated detailed guidelines for Urban Local Bodies (ULBs) in 2015 to raise funds by issuing municipal bonds.

- **Eligibility for issue:**
   - The municipality must not have a negative net worth in each of the three previous years.
   - The issuer (municipal corporations) should get the bonds rated by credit rating agencies.
   - There should be no default in any kind of loan in the past one year and it must maintain full collateral/asset cover to repay the principal amount.
   - For revenue bond, the revenue generated from the project should be kept in a separate escrow account and financial institutions would monitor their accounts regularly.
- **Present status:**
   - In India, the share of municipal bonds in the total debt market is nonetheless insignificant; only 1 per cent of urban bodies financial needs are met through municipal bonds as opposed to 10 per cent in the US.
   - This is because the municipal bonds in the debt market have poor ratings.
   - The RBI in 2019 further eased the norms for Foreign Portfolio Investors (FPIs) by allowing them to invest in municipal bonds under prescribed limits to broaden access of non-resident investors to debt instruments in India.
   - As per the new rules, municipal bonds will now be offered not only to financial institutions but also to the public, which will be listed on stock exchanges.

MASALA BOND:

Before the introduction of Masala Bonds, companies and financial institutions borrowed through issuing bonds in the overseas markets such as the US, the UK, Singapore, etc., in foreign currencies because of the easy availability of funds and at lower interest rates. This exposed the Indian borrowers to foreign currency exchange risks. Depreciation in rupee led to increase in their cost of capital.

Thus, Masala Bonds are the rupee-denominated bonds which can be issued by the entities Such as Governmental bodies, NBFCs and eligible corporates to raise money from overseas markets. In Masala Bonds, the foreign currency exchange rate risks are borne by the international lenders and not the Indian borrowers.

The first Masala Bond was issued by International Finance Corporation (IFC) in 2014 to raise 1,000 crores to fund infrastructure projects in India. The word "Masala was used by IFC (arm of World Bank group) to symbolise culture of India for specifically distinguishing Indian rupee-denominated bonds from other bonds. Similarly, 'Dim Sum Bonds' are used for bonds issued in Hong Kong, denominated in Chinese Renminbi and Komodo Bonds for Indonesia.

Issue of Masala Bonds creates demand for rupee and thus helps in preventing depreciation of currency.

Masala Bonds cannot be used for investing in capital markets, purchasing land, etc.

Maturity	Minimum maturity period is 3 years. • Up to $50 million per financial year- 3-year maturity. • Above $50 million per financial year -5-year maturity.
Who can issue?	Any corporate, Real Estate Investment Trusts (REITS) and Infrastructure Investment Trusts (InvITs). Indian banks can also issue these bonds in the form of: • Perpetual Debt Instruments (PDIs) qualifying for inclusion as Additional Tier 1 capital and Debt Capital Instruments qualifying for inclusion as Tier 2 capital, and • For financing infrastructure and affordable housing
Where can these bonds be issued?	The rupee-denominated bonds can only be issued in a country and can only be subscribed by a resident of a country which: • is a member of Financial Action Task Force (FATF) or whose Securities market regulator (SEBI in our case) is a member of International Organisation of Securities Commission. • has Multilateral Memorandum of Understanding or is a signatory to Bilateral Memorandum of Understanding with SEBI for information sharing arrangements.

The Concept of Government Securities (G-Secs):

- Context: The RBI has introduced the 'RBI Retail Direct' system, which allows small retail investors to invest in Government Securities (G-Secs) by creating gilt accounts with the Central Bank.
- Some features of G-Secs and Gilt Accounts:
    - A G-Sec is a tradable instrument issued by the Central Government or the State Government.
    - It acknowledges the Government's debt obligation.
    - G-Secs are mainly of 2 types:
        - Short Term with maturity of less than one year (like Treasury Bills).
        - Long Term with maturity of more than one year (like Government Bonds)
- Central Government can issue both treasury bills and bonds or dated securities whereas State Governments can issue only bonds or dated securities (not Treasury bills), which are called the State Development Loans (SDLs).
- These are called risk-free gilt-edged instruments.
- An account formed and maintained by an entity or a person permitted by the RBI for the purpose of holding Government securities, is referred as a 'Gilt Account'.
- The Foreign Exchange Management Act, 1999 governs the operations/maintenance of Gilt Account in the case of a 'Person living outside India'.
- Operational Mechanism:
    - The RBI, in consultation with the Government of India, issues an indicative half-yearly auction calendar which contains information about the amount of borrowing, the range of the tenor of securities and the period, during which the auctions will be held.
    - G-Securities are issued through RBI auction. Auctions are held on the E-Kuber, the RBI's Core Banking Solution (CBS) platform (electronic platform).

Financial Market

Sovereign Gold Bond Scheme:

- Sovereign Gold Bond (SGB) is a substitute for holding physical gold. The bonds are issued by RBI on behalf of the Central Government and are denominated in gold.
- The Government issues such bonds in tranches at a fixed price that investors can buy through banks, post offices and also in the secondary markets through the stock exchange platform.
- SGB has a fixed tenure of 08 years, though early redemption is allowed after the fifth year from issuance.
- Since the bonds are listed on exchange, these can be transferred to other investors as well.
- The bonds are priced in rupees based on the simple average of closing price of gold of 999 purity, published by the India Bullion and Jewellers Association for the last three business days of the week preceding the subscription period.
- At the time of redemption, cash equivalent to the number of units multiplied by the then prevailing price would be credited to the bank account of the investor.
- Those who apply online for the latest tranche are eligible for a discount of 50 per gram.
- Everyone except Non-Resident Indians (NRIs) can invest.
- Investment in these bonds can be made through cash (up to R20,000), cheque or demand draft.
- The bonds are issued in denominations of 1 gram and in multiples thereof.
- Maximum investment in a year is capped at 4 kg for individuals. Minimum investment is 1 gram of gold.
- The RBI fixes the price of the bond.

- **Benefits of buying SGB:**
  - These bonds are backed by a sovereign guarantee and can also be held in demat form
  - They are priced as per the underlying spot gold prices.
  - Hence, investors who want to invest in gold can buy the bonds without worrying about safekeeping of physical gold along with locker charges, making charges or purity issues.
  - These bonds offer an interest @ 2.5 per cent per annum on the principal investment amount.
  - While the interest on bond is taxable, the capital gain at the time of redemption is exempt from tax.
  - These bonds can also be used as collateral for availing loans from banks and NBFCs.
- **Risk in investing in SGB**-Capital loss is a risk since the bond prices would reflect any change in gold prices. If gold prices fall, the principal investment would fall proportionately.

SOVEREIGN BLUE BOND: The Republic of Seychelles has launched the world's first sovereign blue bond to support sustainable marine and fisheries projects. The World Bank supported Seychelles in reaching out to investors and advised how to structure the use of proceeds from the bond.

Mutual Funds:

A mutual fund is a financial instrument in which money is collected from many investors to form a pool of money which is then invested in financial assets like stocks, Government and PSU bonds, corporate bonds, etc., by professional managers for income and capital increment.
Each investor owns 'units', which represents a portion of the holdings in the fund. The income or dividends generated from this pool of money are distributed among the investors after deducting the management expenses of the fund managers.

Net Asset Value' or NAV represents the current market value of the mutual fund.

There are Various types of mutual funds such as:

1. **Equity funds:** These funds or schemes invest their entire money in the shares/equities of companies listed in the stock exchanges. There are varieties in equity depending on the market capitalisation of the company like multi-cap, large cap, mid cap and small cap funds.
2. **Debt or fixed income funds:** These funds invest in bonds issued by the Central Government, State Governments, PSUs, corporates, NBFCs, etc.
3. **Hybrid or balanced funds:** These schemes/funds invest in both bonds and equities in some ratio depending on the nature of the scheme (e.g. 65% in equities and 35% in debt)
4. **Money market or short-term funds:** They primarily invest in T-Bills issued by the Central Government. The returns are less, but they are considered safe. Companies and individuals use this to park their excess cash. They offer 1-2 per cent higher returns than Savings Bank Account.
5. **International funds:** They invest in shares/equities of international markets, primarily the US.
6. **Equity-Linked Savings Scheme (ELSS):** It is a unique fund specific to India that invests in equities. Investment in ELSS in a financial year allows an individual to claim a deduction up to 1.5 lakh from total income under Section 80C of the Income Tax Act, 1961. It is a tax-saving instrument brought to promote savings and investment in equities.

Advantages of Mutual Funds:

1. Mutual funds are managed by professionals. Also, the investor doesn't have to engage in research and keep himself abreast of the developments.
2. Low cost is involved and even small investment may be done
3. It offers diversification which lowers the risk associated with investments.
4. Large varieties of mutual funds are available which can be chosen as per needs and requirements of the investor.
5. Liquidity is high as the mutual funds can be sold easily.

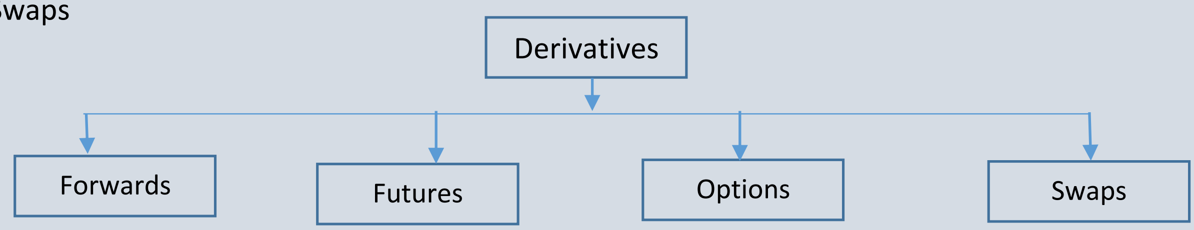
TOTAL EXPENSE RATIO (TER)

It is a measure of the total costs associated with managing and operating a mutual fund. Mutual fund companies charge a cost to their investors for managing their schemes which is the TER. The maximum TER that can be charged to its investors is prescribed by SEBI

Derivatives

- A derivative is a financial instrument whose value is derived from one or more underlying assets or securities. The underlying assets could be shares, bonds, indexes, currencies or commodities like gold, silver, sugar, coffee, etc.
- The derivative itself is a contract between two or more parties based upon the asset or assets.
- Its value is determined by fluctuations in the underlying asset.
- Derivatives protect from the future price fluctuations and uncertainties. It is commonly used by importers/exporters, farmers and dealers in agricultural commodities.
- It leads to hedging of risk and is an established risk management practice.
- SEBI regulates the derivatives market in India.
- Derivatives can either be traded Over-The-Counter (OTC) or at an excharnge. OTC derivatives constitute the greater proportion of derivatives in existence and are unregulated, whereas derivatives traded at exchanges are standardised.
- OTC derivatives generally have greater risk for the counterparty than standardised derivatives.
- Some common forms of derivatives are:
    - Forward contracts
    - Future contracts

- Options
- Swaps



Forwards: It is an agreement or contract between two parties to buy or sell a particular asset at a certain price and date. They are unregulated and are traded OTC. They can be customised as per the needs of the parties involved.

Futures: It is similar to Forwards but these are regulated and traded on the stock exchanges and the parties are under an obligation to perform the contract.

In other words, it is a standard contract between two parties to buy or sell a particular asset at an agreed price and a certain date.

Options: It is a contract where the buyer has a right to buy/sell the underlying asset at a certain price (called as strike price) during a certain period of time. There is no obligation on the buyer **to** perform the contract.

Options are also traded on the stock exchanges. Types of options include:

Call option: It gives a right to the buyer to ‘buy' the underlying asset at a certain price and time. It is purchased when the prices are expected to rise.

Put Option: It gives a right to the buyer to 'sell' the underlying asset at a certain price and time. It is purchased when there is pessimism about the price of the asset.

Swaps: Swaps are derivatives which are used to manage risks of various kinds. These are generally used to manage interest rate risk and currency risk.

It is a contract between two parties for exchange of pre-agreed cash flows of two different financial instruments. The cash flows are usually determined using the notional principal amount (loan or bond)

REAL ESTATE INVESTMENT TRUST (REIT)

Its functioning is similar to that of a mutual fund, where a trust or Asset Management Company(AMC) pools a sum of money from investors to invest in physical real estate assets. The rent accrued is distributed to the unit holders (investors). Any appreciation in value of assets is reflected in the NAVs of the Real Estate Investment Trust (REIT). Recently, Embassy Group and Blackstone launched the first REIT of India.

REITs can be publicly traded on major exchanges, publicly registered but non-listed, or private. The two main types of REITs are: Equity REITs and Mortgage REITs.

INFRASTRUCTURE INVESTMENT TRUST (InvIT): It is similar to REIT and the mutual funds, but the investment goes towards infrastructure Projects. It helps in infrastructure funding and diversification of investment avenues for investors.

Financial Market

Exchange Traded Fund (ETF):

- ETF is similar to Mutual Fund as it also involves a basket of securities except that ETFs are bought and sold throughout the day on stock exchanges while mutual funds are bought and sold based on their price at day's end.
- ETF share price fluctuates throughout the day.
- An ETF may contain all type of investments such as shares, debentures, bonds or even commodities.
- ETFs offer low expense ratio and less broker commissions as compared to individually buying stocks
- Examples of ETFs include Bond ETFs, Industry ETFs, Commodity ETFs, Currency ETFs, Gold ETFs, etc.
- Government of India presently has two ETFs -CPSE ETF and Bharat-22 ETF.

CPSE-ETF comprises shares of 11 Central Public Sector Enterprises. Bharat-22 ETF covers share of 16 CPSEs, 03 Public Sector Banks and 03 Private Sector Companies. A new Debt ETF was also announced in the Budget 2020-21

Mutual Fund (MF)	Exchange Traded Fund (ETF)
MFs can be purchased only at the end of each trading day based on a calculated price	ETFs can be traded like stocks throughout the day on stock exchanges.
MFs typically come with a higher minimum investment requirement than ETFs.	Investment requirement is less in case of ETE as compared to MFs.
MFs are actively managed. Thus, higher fees and higher expense ratios are involved.	ETFs are passively managed.

GOLD ETF VS SOVEREIGN GOLD BOND:

Total returns on investment through gold ETFs is lower than actual return on gold (*Actual return (per gram) is assumed as = Price of gold per gram on trading exchange on date of sale - Cost of purchase of that gram of gold] whereas it is higher than actual return on gold in case of Sovereign Gold Bonds (due to the interest paid on the bond during holding period).

Unlike Sovereign Gold Bonds, gold ETFs can't be used as collateral for loan.

Sovereign Wealth Fund

- A Sovereign Wealth Fund (SWF) is primarily owned by the National Government or an entity that is commonly established from balance of payments surpluses or official foreign currency operations or the proceeds of privatisations, etc.
- These funds generally invest in financial instruments such as bonds, stocks, gold and real estates.
- An SWF's primary objective is to generate good returns over a long-term duration rather than providing liquidity.
- Singapore's Government Investment Corporation (GIC) is known to be the first SWF.
- Santiago Principles are laid down which dictates that an SWF must compulsorily invest for good returns and has a transparent structure. However, these rules apply only to those countries that volunteer to follow.
- The National Investment and Infrastructure Fund (NIIF) is India's first Sovereign Wealth Fund (SWF).

ESG FUNDS:

- ESG (Environment, Social and Governance) investing is used synonymously with sustainable investing or socially responsible investing.

Financial Market

- While selecting a stock for investment, the ESG fund shortlists companies that score high on environment, social responsibility and corporate governance, and then looks into financial factors.
- As ESG funds have started gaining momentum in India, fund managers say that companies will be forced to follow better governance, ethical practices, environment- friendly measures and social responsibility
- Industry insiders say that tobacco companies and companies in the coal business may find it tough to make the cut; so will companies that generate hazardous waste and do not manage them properly.
- Some ESG mutual funds available to the investor in India are -Aditya Birla Sun Life ESG Fund, Axis ESG Fund, SBI Magnum Equity ESG Fund, etc.

Basis	**Money Market**	**Capital Market**
Duration	It deals with short-term funds (having maturity of 1 year or less).	It deals with long-term funds (having maturity of more than 1 year).
Nature of Funds	Funds are raised for short-term needs like working capital requirement or cash flow mismatches.	Funds are raised for long-term commitments and needs.
Instruments	T-Bills, Commercial Papers, Certificates of Deposit, etc	Equity shares, preference shares, debentures, bonds, etc
Amount of Instrument	Each single instrument is generally of large amount	Each single instrument is generally of small amount
Related Institutions	RBI, Commercial Banks, NBFCs, primary dealers, bill brokers, etc	Stock Exchanges, Commercial Banks, NBFCs, insurance, Pension funds, Individuals, Merchant Banks, Underwritten etc.
Risk	Lesser risk due to lesser maturity.	Default risk or market risk is higher
Transactions	Transactions are done over phone and there is no formal place.	Transactions are held at a formal place
Broker	Transactions take place without the help of broker.	Transactions are done with the help pf a broker.
Basic Role	Liquidity adjustment between borrowers and lenders	Employment of capital for long-term needs, investment and productive employment
Relation with Central Bank	Closely linked with central bank of the country which is RBI in our case.	Indirect influence of RBI and it is through the liquidity in the money market
Market Regulator	RBI	SEBI

SEBI

- SEBI was established on 12 April 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992.
- The basic function of SEBI is to regulate the securities market in India and to protect the interest of investors.
- Controller of Capital Issues (CCI) was the predecessor to SEBI which used to regulate the capital markets in India prior to SEBI.
- In 2015, Forward Markets Commission (FMC) was merged with SEBI. SEBI is now responsible for regulation of even commodity derivatives market.

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- SEBI is governed by a board which is headed by a Chairman. There are eight other members (two from Ministry of Finance, one from RBI, five other members of which at least three are whole-time members).

Functions of SEBI:

- SEBI is entrusted with regulation of stock exchanges and their efficient functioning.
- SEBI is responsible for regulation of Mutual Fund industry in India.
- SEBI performs the task of registration and regulation of market participants like brokers and sub-brokers, underwriters, FIIs, advisors, merchant bankers.
- SEBI strives to prevent malpractices in the financial services sector prohibiting fraudulent and unfair trade practices relating to securities markets such as insider trading and manipulation of stock prices.
- SEBI is also responsible for managing the Investor Protection Fund and using it for greater awareness.

SEBI and Capital Market Reforms

- SEBI came up with “Issue of Capital and Disclosure Requirements Regulations, 2018” (ICDR Regulations, 2018) which updates many SEBI regulations with the Companies Act, 2013 and new developments in financial sector
- SEBI now keeps a tab on utilisation of funds by a company raised through an IPO above 100 crores. Earlier, SEBI was monitoring only if funds raised were above 500 crores. It was done to ensure proper utilisation of funds by companies and protect investors.
- A single trading licence and platform for trading in both commodities and shares has been introduced. It was earlier separate. For example, NSE and BSE can now provide services for commodity trading.
- Separation of Chairperson and CEO role to ensure better corporate governance. It will be in effect from 2020-21.
- Strengthening the role of Independent directors and making them more responsible rather than being a mute spectator.
- Improved disclosure of related party transactions.
- Easier norms for SMEs IPO and listing on stock exchanges.
- Easier KYC for Foreign Portfolio Investors (FPIs) to promote foreign investment.
- Streamlining IPO process and making it easier for retail investors.

Securities Appellate Tribunal

- Securities Appellate Tribunal (SAT) is a tribunal set up under the SEBI Act, 1992 and has power to hear and dispose appeals against the orders passed by SEBI, Pension Fund Regulatory and Development Authority (PFRDA) and insurance Regulatory and Development Authority (IRDA)
- SAT comprises of one presiding officer and two members. They act as judges and deal with the appeals.
- Any person aggrieved by decision of the SAT can approach the Supreme Court directly through appeal.

Forward Markets Commission (FMC)

It was set up under the Forward Contracts (Regulation) Act, 1952. FMC was the chief regulator of commodity futures market. It has been merged with SEBI in 2015 and now SEBI is the regulator for commodity futures market.

The major Commodity Exchanges in India are:

- Multi-Commodity Exchange of India Limited (MCX), Mumbai.
- National Commodity and Derivatives Exchange Limited (NCDEX), Mumbai.
- National Multi-Commodity Exchange of India Limited (NMCE), Ahmedabad.

Sweat Equity Rules: SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

- These regulations are created after merging the following regulations:
  - SEBI (Share Based Employee Benefits) Regulations, 2014; and
  - SEBI (Issue of Sweat Equity) Regulations, 2002.
- The new regulations have widened the scope of employees who can be offered stock options and made other significant modifications that will benefit both employees and Corporations that issue these options.

- **Sweat Equity Share:**
  - It is a non-monetary contribution that the individual or founders of a company make towards the company.
  - Sweat equity is commonly used by cash-strapped start-ups and business owners to fund their companies.
  - It is issued for the purpose of providing know-how or making available intellectual property rights or value additions.
  - The maximum yearly limit of sweat equity share that can be issued by a listed company has been prescribed at 15 per cent of the existing paid-up equity share capital within the overall limit.
  - The yearly limit for businesses listed on the Innovators Growth Platform (IGP) will be 15 per cent and the overall ceiling will be 50 per cent of the paid-up capital.
  - It will be in effect for 10 years, beginning on the day of company's incorporation
- The new rules will be applicable only to the listed companies, as these have been framed by SEBI, which only regulates the listed companies.
- For unlisted companies, any change needed, will have to be brought into the Companies Act, 2013.

STOCK EXCHANGE

Stock exchange is a platform where buyers and sellers trade securities such as shares, bonds, derivatives, etc. Such trade takes place through an electronic means. Price of a security is affected by the demand and supply of the security. It may be noted that such security for being traded must be listed' in that stock exchange.

After an IPO, a company can get listed on the stock exchange, but they have to meet the listing requirements of the stock exchange which seek to prevent fraudulent practices and prohibit insider trading. Stock exchanges are important for mobilising savings and capital, raising funds for corporates and promoting economic growth. India now follows T+2 (trading plus two days) settlement cycle. Presently, India's leading stock exchanges are the two:

STOCK EXCHANGE

Bombay Stock exchange

National Stock exchange

Bombay Stock Exchange

It is the oldest stock exchange in Asia and is also known as Stock Exchange of Mumbai, established in 1875, which, at that time, was called Native Share and Stock Brokers Association. Trading is done in equity, currencies, debt instruments, derivatives and mutual funds. BSE also established India INX, India's first international stock exchange in GIFT City, Ahmedabad.

SENSEX is the popular index of BSE. SENSEX is a free float market capitalisation weighted stock market index of 30 well-established companies listed in BSE. The base year of SENSEX is 1978-79 with a base value of 100. The list of these 30 blue-chip companies is revised time to time.

Financial Market

SENSEX = Total weighted market capitalisation of 30 blue-chip companies / Index divisor.

National Stock Exchange

It was set up in 1992 and was India's first fully automated electronic exchange with a nationwide presence. It is also India's first dematerialised (non-paper) stock exchange. NSE is the largest exchange in the country in terms of trading volumes. Headquarters of NSE is located in Mumbai.

NSE allows for new listings, IPOs, debt issuances and Indian Depository Receipts (IDRs) by overseas companies raising capital in India. NSE provides a trading platform for all types of securities-equity and debt, corporate, Government and derivatives. The index of NSE is NIFTY, which is based on the value of the equity shares of 50 well-established/stable companies.

FINANCIAL ACTION TASK FORCE (FATF)

- FATF was initially created by G-7 in 1989 to check global money laundering and terror funding and to maintain the integrity of the international financial system. It is located in OECD headquarters in Paris.
- FATF currently has 39 members: 37 members and 2 Regional organisations (European Commission and Gulf Cooperation Council)
- India became observer of FATF in 2006. Subsequently, India became its member in 2010.
- Functions of FATF: This inter-Governmental body sets international standards, called FATF Recommendations, and persuades other countries around the world to bring legislative and administrative changes necessary to adopt and adhere to FATF standards, rules and procedures.
- Countries which are un-cooperative with other jurisdictions in efforts against money laundering are placed under a list called FATF Blacklist or it is also called “Non-Cooperative Countries or Territories”. The FATF Blacklist is also called ‘Call for Action’. FATF updates the Blacklist regularly.
- As on February 2022, two countries are in the FATF Blacklist: North Korea and Iran.
- There also exists a FATF Grey list which currently has 23 countries as of October 2021.

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