UNIT-1

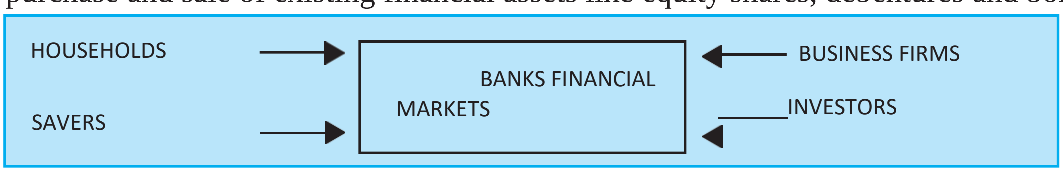
FINANCIAL MARKET

MEANING:

A business is a part of an economic system that consists of two main sectors – households which save funds and business firms which invest these funds. A financial market helps to link the savers and the investors by mobilizing funds between them. In doing so it performs what is known as an allocative function. It allocates or directs funds available for investment into their most productive investment opportunity. When the allocative function is performed well, two consequences follow:

- The rate of return offered to households would be higher
- Scarce resources are allocated to those firms which have the highest productivity for the economy. There are two major alternative mechanisms through which allocation of funds can be done: via banks or via financial markets. Households can deposit their surplus funds with banks, who in turn could lend these funds to business firms. Alternately, households can buy the shares and debentures offered by a business using financial markets. The process by which allocation of funds is done is called financial intermediation. Banks and financial markets are competing intermediaries in the financial system, and give households a choice of where they want to place their savings.

A financial market is a market for the creation and exchange of financial assets. Financial markets exist wherever a financial transaction occurs. Financial transactions could be in the form of creation of financial assets such as the initial issue of shares and debentures by a firm or the purchase and sale of existing financial assets like equity shares, debentures and bonds



DEFINITIONS:

A) Financial market is defined as a market for the exchange of capital and credit, including the money markets and the capital markets.

B) Financial market refers to a market place, where creation and trading of financial assets such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country`s economy. It acts as an intermediary between the savers and investors by mobilizing funds between them.

ROLE:

One of the important requisites for the accelerated development of an economy is the existence of a dynamic and resilient financial market. The financial market is of great use for a country as it helps the economy in the following manner:

- Saving mobilization
- Investment
- National growth
- Entrepreneurship growth
- Industrial development

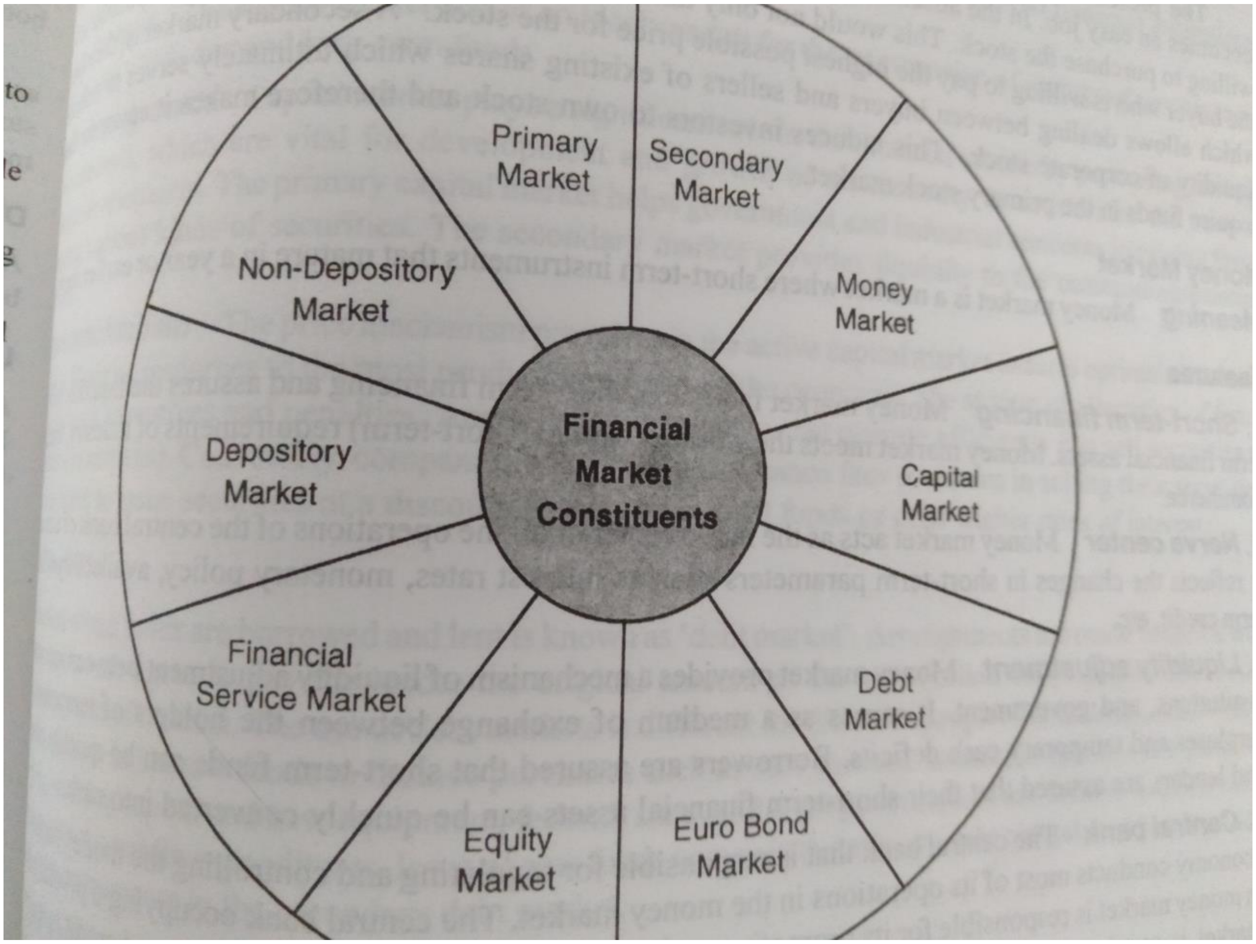
Functions oF Financial Market

Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions.

1. **Mobilisation of Savings and Channeling them into the most Productive Uses:** A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.
2. **Facilitating Price Discovery:** You all know that the forces of demand and supply help to establish a price for a commodity or service in the market. In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.
3. **Providing Liquidity to Financial Assets:** Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required. Holders of assets can readily sell their financial assets through the mechanism of the financial market.
4. **Reducing the Cost of Transactions:** Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. The financial market is thus, a common platform where buyers and sellers can meet for fulfillment of their individual needs.

Financial markets are classified on the basis of the maturity of financial instruments traded in them. Instruments with a maturity of less than one year are traded in the money market. Instruments with longer maturity are traded in the capital market.

CONSTITUENTS:



FINANCIAL INSTRUMENTS

In any financial transaction, these should be a creation or transfer of financial asset. Hence, the basic product of any financial system is the financial asset. A financial asset is one which is used for production or consumption or for further creation of assets.

One must know the distinction between financial assets and physical assets. Physical assets are not useful for further production of goods or for earning incomes. For instance, if a building is bought for residential purpose, it becomes a physical asset. If the same is bought for hiring it becomes a financial asset.

Financial instruments are also called as financial assets/securities. Financial assets are the intangible assets which receive value due to contractual transactions.

Financial assets/instruments indicate a claim on the settlement of principal or payment of a regular amount of by means of interest or dividend. Equity shares, debentures, bonds etc., are some examples.

Financial assets like deposits banks, companies and post offices, insurance policies, NSCS, provident funds and pension funds are not tradable. Financial assets like equity shares and debentures, or government securities and bonds are tradable.

The financial instruments that are used for raising capital through the capital market are known as capital market instruments. These include equity shares, preference shares, warrants, debentures and bonds. These securities have a maturity period of more than one year.

The financial instruments that are used for raising and supplying money in a short period not exceeding one year through money market are called money market instruments. Examples are treasury bills, commercial paper, call money, short notice money, certificate of deposits, commercial bills, money market mutual fund , Hybrid instruments are those instruments which have both the features of equity and debentures. Examples are convertible debentures, warrants etc.

DEFINITION: Financial assets are defined as "an asset that derives value because of contractual claim."

Financial assets represent claims for the payment of a sum of money sometime in the future (repayment of principal) and / or a payment in the form of interest or dividend.

CHARACTERISTICS OF FINANCIAL INSTRUMENTS:

The important characteristics of financial instruments are as follows:

- **Liquidity:** financial instruments provide liquidity. These can be easily and quickly converted into cash.
- **Marketing:** financial instruments facilitate easy trading on the market. They have a ready market.
- **Collateral value:** financial instruments can be pledged for getting loans.
- **Transferability:** financial instruments can be transferred from one person to another.
- **Maturity period:** the maturity period of financial instruments may be short term, medium term or long term.
- **Transaction cost:** financial instruments involve buying and selling cost. The buying and selling costs are called transaction costs.
- **Risk:** financial instruments carry risk. Equity based instruments are riskier in comparison to debt based instruments because the payment of dividend is uncertain. A company may not declare dividend in a particular year.
- **Future trading:** financial instruments facilitate future trading so as to cover risks arising out of price fluctuations, interest rate fluctuations etc.

CLASSIFICATION OF FINANCIAL INSTRUMENTS:

Financial instruments are classified into term financial instruments and type financial instruments.

Term financial instruments: these are the tradable financial assets and exchanged on term basis. These are again classified into short term, medium term and long term securities.

- **Short term securities:** this sub category comprises securities with maturity of one year or less.
- **Medium term securities:** basis for classifying securities under this sub category depends on practices applied in financial markets of the given Country. Normally, this sub-category includes securities with maturity from 1 to 5 years.
- **Long term securities:** this sub-category comprises securities with maturity longer than those of short and medium term securities.

Type based securities: under this classification financial securities are classified into primary, secondary and innovative securities.

- **Primary instruments/securities:** primary securities are defined as a financial instrument whose value is not derived from that of another instrument, but instead is determined directly by the market." These are issued by non-financial institutions. The examples for the primary instruments are equity shares, preference shares and debentures.
- **Secondary instruments/securities:** a primary security is an instrument issued directly by the financial institutions to an investor. For example, when you are investing in a mutual fund, you are investing in a secondary security. Some other examples for primary securities are mutual fund, money market funds, commercial paper, and certificate of deposits.
- **Innovative instruments:** these are the financial innovative instruments to suit the need of co-operates and investors group. For example, Derivatives, securitized assets, foreign currency mortgages and so on.

CLASSIFICATION OF FINANCIAL MARKETS:

The financial markets in India are classified into two broad categories, viz. unorganized markets and organized markets.

- ✔ **UNORGANIZED FINANCIAL MAREKTS:** these are comprised with private money lenders, pawn brokers, indigenous bankers, traders etc. they lend money to the public from their own funds. The operations and activities of these people are not regulated by the Reserve Bank of India or by any other controlling authority. But still the Reserve Bank of India is trying to fold them to the class of organized financial markets through its strategies.

- ✔ **ORGANIZED FINANCIAL MARKETS:** these are the markets strictly controlled and regulated by Reserve Bank of India and other regulating authorities. They follow high degree of institutionalization and instrumentalization. The organized financial markets are further classified into capital market and money market.

CAPITAL MARKET:

Capital market is one of the significant aspects of every financial market. Broadly speaking the capital market is a market for financial assets which have a long or indefinite maturity. The capital market instruments mature for the period above one year. It is also called as long term securities market.

It is an institutional arrangement to borrow and lend money for a longer period of time. It consists of financial institutions like IDBI, ICICI, UTI, LIC etc. These institutions play the role of lenders in the capital market. Business units and corporates are the borrowers in the capital market.

The main functions of the capital market are:

- The capital market acts as the link between the investors and savers.
- It helps in facilitating the movement of capital to more productive areas to boost the national income.
- It boosts economic growth.
- It helps in the mobilization of savings for financing long term investment.
- It facilitates the trading of securities.
- It reduces transaction and information cost.
- It helps in quick valuations of financial instruments.
- Through derivative trading, it offers hedging against market risks.
- It helps in facilitating transaction settlement.
- It improves the effectiveness of capital allocation.
- It provides continuous availability of funds to the companies and government.

The Capital Market can be divided into two parts: a. Primary Market b. Secondary Market.

A.PRIMARY MARKET:

The primary market is also known as the new issues market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals.

A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits. Funds raised may be for setting up new projects, expansion, diversification, modernisation of existing projects, mergers and takeovers etc.

Now, let us discuss the main functions of the primary market:

Origination: Origination refers to the examination, evaluation, and process of new project proposals in the primary market. It begins before an issue is presented in the market with the help of commercial bankers.

Underwriting: Underwriting firms ensure the success of new issues that guarantee minimum subscription. When the issue remains unsold then it is bought by the underwriters.

Distribution: For the success of the issue generally the brokers and dealers who are in direct contact with investors are given the job of distribution.

B.SECONDARY MARKET:

The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive investments through the process of disinvestment and reinvestment. Securities are traded, cleared and settled within the regulatory framework prescribed by SEBI. Advances in information technology have made trading through stock exchanges accessible from anywhere in the country through trading terminals. Along with the growth of the primary market in the country, the secondary market has also grown significantly during the last ten years.

Let us discuss the main functions of the secondary market:

- It regularly informs about the value of security.
- It offers liquidity to the investors for their assets.
- It involves continuous and active trading.
- It provides a marketplace where the securities are traded.

Capital market instruments:

1. Equities:

Equity securities refer to the part of ownership that is held by shareholders in a company. In simple words, it refers to an investment in the company's equity stock for becoming a shareholder of the organization.

2. Debt Securities:

Debt Securities can be classified into bonds and debentures:

1. Bonds:

Bonds are fixed-income instruments that are primarily issued by the centre and state governments, municipalities, and even companies for financing infrastructural development or other types of projects.

2. Debentures:

Debentures are unsecured investment options unlike bonds and they are not backed by any collateral.The lending is based on mutual trust and, herein, investors act as potential creditors of an issuing institution or company.

3. Derivatives:

Derivative instruments are capital market financial instruments whose values are determined from the underlying assets, such as currency, bonds, stocks, and stock indexes.

4. Exchange-Traded Funds:

Exchange-traded funds are a pool of the financial resources of many investors which are used to buy different capital market instruments such as shares, debt securities such as bonds and derivatives.

Most ETFs are registered with the Securities and Exchange Board of India (SEBI) which makes it an appealing option for investors with a limited expert having limited knowledge of the stock market.

ETFs having features of both shares as well as mutual funds are generally traded in the stock market.

5. Foreign Exchange Instruments:

Foreign exchange instruments are financial instruments represented on the foreign market. It mainly consists of currency agreements and derivatives. Based on currency agreements, they can be broken into three categories i.e spot, outright forwards and currency swap.

Indian money and capital market:

Top 10 Differences between Money Market and Capital Market

	Money market	**Capital market**
Meaning	A random course of financial institutions, bill brokers, money dealers, banks, etc., wherein dealing on short-term financial tools are being settled is referred to as Money Market.	A kind of financial market where the company or government securities are generated and patronised with the intention of establishing long-term finance to coincide with the capital necessary is called Capital Market.
Market Nature	Money markets are informal in nature.	Capital markets are formal in nature.
Instruments involved	Commercial Papers, Treasury Certificate of Deposit, Bills, Trade Credit, etc.	Bonds, Debentures, Shares, Asset Secularisation, Retained Earnings, Euro Issues, etc.
Investor Types	Commercial banks, non-financial institutions, central bank, chit funds, etc.	Stockbrokers, insurance companies, Commercial banks, underwriters, etc.
Market Liquidity	Money markets are highly liquid.	Capital markets are comparatively less liquid.
Risk Involved	Money markets have low risk.	Capital markets are riskier in comparison to money markets.

Maturity of Instruments	Instruments mature within a year.	Instruments take longer time to attain maturity
Functions served	Increasing liquidity of funds in the economy	Stabilising economy by increase in savings
Return on investment achieved	ROI is usually low in money market	ROI is comparatively high in capital market

GLOBAL FINANCIAL MARKETS

Meaning

Financial markets that are integrated and operated worldwide by using uniform trading practices are known as

'Global Financial Markets'. Under the global financial market dispensations, it is possible for firms to raise funds in international arenas.

Factors

The factors responsible for causing the emergence of global financial markets are:

1. Deregulation

Deregulation or liberalization of markets and the activities of market participants in key financial centers of the world.

2. Science and technology

Technological advances for monitoring world markets, executing orders, and

analyzing financial opportunities.

3. Institutionalization

Shift from retailing to increased institutionalization of investors in financial markets.

4. Competition

Global competition which forced governments to deregulate various aspects of their financial markets.

5. Information flow

Free and unrestricted flow of market information around the world owing to advancement in telecommunication systems.

Classification

Global financial markets may be classified into internal and external markets as described below:

Internal market

Internal market also called the national or domestic market, where the capital issues and issuers are domiciled within the boundaries of a particular country.

External market

External market also called foreign market, international market, Euro market or offshore market, deals with issue of securities not domiciled in the country but are sold and traded throughout the world.

The rules governing the issuance of foreign securities are those imposed by regulatory authorities where the security is issued. Accordingly, where an Indian firm wishes to raise capital in the global market, it has to follow the regulations of Indian authorities. The external markets are called by different names as: Yankee Market in

the U.S., Samurai Market in Japan, Bulldog Market in UK, Rembrandt Market in Netherlands, and Matador Market in Spain.

MONEY MARKET:

money market is an organized financial market. It plays an important role in the Indian financial system. Money market is a market where money or its equivalent can be traded. It does not actually deal in cash or money. It actually deals with near money substitutes like trade bills, promissory notes and government papers drawn for a short period not exceeding one year. The very feature of these instruments is they can be converted into cash readily without any loss and at low transaction cost.

This market consists of financial institutions and dealers in money or credit who wish to generate liquidity. Hence, money market is a market where short term obligations such as treasury bills, commercial papers and bankers acceptances are bought and sold.

Features of Money Market

A few general money market features are:

- It is fund-term market funds.
- It's maturity period up to one year.
- It trades with assets that can be transformed into cash easily.
- All the transactions take place through phone, email, text, etc.
- Broker not required for the transaction
- The components of a money market are the Commercial Banks, Non-banking financial companies and Central Bank, etc.

Functions of the Money Market

The money market contributes to the economic stability and development of a country by providing short-term liquidity to governments, commercial banks, and other large organizations. Investors with excess money that they do not need can invest it in the money market and earn interest. Here are the main functions of the money market.

1. Financing Trade

The money market provides financing to local and international traders who are in urgent need of short-term funds. It provides a facility to discount bills of exchange, and this provides immediate financing to pay for goods and services.

International traders benefit from the acceptance houses and discount markets. The money market also makes funds available for other units of the economy, such as agriculture and small-scale industries.

2. Central Bank Policies

The central bank is responsible for guiding the monetary policy of a country and taking measures to ensure a healthy financial system. Through the money market, the central bank can perform its policy-making function efficiently.

For example, the short-term interest rates in the money market represent the prevailing conditions in the banking industry and can guide the central bank in developing an appropriate interest rate policy. Also, the integrated money markets help the central bank to influence the sub-markets and implement its monetary policy objectives.

3. Growth of Industries

The money market provides an easy avenue where businesses can obtain short-term loans to finance their working capital needs. Due to the large volume of transactions, businesses may experience cash shortages related to buying raw materials, paying employees, or meeting other short-term expenses.

Through commercial paper and finance bills, they can easily borrow money on a short-term basis. Although money markets do not provide long-term loans, it influences the capital market and can also help businesses obtain long-term financing. The capital market benchmarks its interest rates based on the prevailing interest rate in the money market.

4. Commercial Banks Self-Sufficiency

The money market provides commercial banks with a ready market where they can invest their excess reserves and earn interest while maintaining liquidity. Short-term investments, such as bills of exchange, can easily be converted to cash to support customer withdrawals.

Also, when faced with liquidity problems, they can borrow from the money market on a short-term basis as an alternative to borrowing from the central bank. The advantage of this is that the money market may charge lower interest rates on short-term loans than the central bank typically does.

Money market instruments:

Certificate of deposit – Time deposit, commonly offered to consumers by banks, thrift institutions, and credit unions.

Repurchase agreements – Short-term loans—normally for less than one week and frequently for one day—arranged by selling securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

Money market mutual funds - short term investment debt, operated by professional institutions. Money market mutual funds are an investment fund where a number of investors invest their money in mutual fund institutions, and they diversify the funds in various investments.

Commercial paper – Short term instruments promissory notes issued by company at discount to face value and redeemed at face value

Eurodollar deposit – Deposits made in U.S. dollars at a bank or bank branch located outside the United States.

Treasury bills – Short-term debt obligations of a national government that are issued to mature in three to twelve months

Money funds – Pooled short-maturity, high-quality investments that buy money market securities on behalf of retail or institutional investors

Foreign exchange swaps – Exchanging a set of currencies in spot date and the reversal of the exchange of currencies at a predetermined time in the future.

Structure of Indian Money Market

i)	Call Money Market	1 day or 24 hours	Banks and Primary Dealers	
ii)	Notice Money	2 to 14 days	Banks & Primary	Reserve Bank of India the country is a regulator for the money market
				Fixed Income Money MarketDerivatives (FIMMDA) Issues
iv)	Commercia l	7 days to 365 days	Companies, NBFCs, Institutions, Mutual funds.	transactions in the
v)	Certificate of Deposits	7 days to 365 days	Banks, Financial Institutions	
vi)	Treasury Bills	91 days, 182 days & 364 days	Banks, primary Dealers, Financial	Clearing Cooperation of India Ltd (CCIL) ensures

			Institutions, NBFCs , Insurance Companies, Mutual	settlement of transactions in certain segments of money market such as repo, treasury bills and CBLO
vii)	Repurchase Agreement (Repo)	Upto 365 days (By & large transactions are carried out for a period upto 7 days)	Banks, Financial Institutions, Insurance Companies, Mutual Funds, Primary Dealers, Housing Finance Companies etc.	
viii)	Collectivized	Upto 365 days (By & large market for this product is active for a period upto 90 days)	Banks Financial Institutions, Insurance Companies, Mutual Funds, Companies, etc.	
	Lending Obligation (CBLO) Inter-Bank Participation certificate			

Financial institutions

Financial institutions, otherwise known as banking institutions, are corporations that provide services as intermediaries for different types of financial monetary transactions. Broadly speaking, there are three major types of financial institutions:

Depository institutions – deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies;

Contractual institutions – insurance companies and pension funds

Investment institutions – investment banks, underwriters, and other different types of financial entities managing investments.

The developed money market

The developed money market is a well organised market which has the following main features:

1. A Central Bank:

A developed money market has central banks at the top which is the most powerful authority in monetary and banking matter. I controls, regulates and guides the entire money market. It provides liquidity to the money market, as it is the lender of the last resort to the various constituents of the money market.

2. Organised Banking System:

An organised and integrated banking system is the second feature of a developed money market. In fact, it is the pivot around which the whole money market revolves. It is the commercial banks which supply short-term loans, and discount bills of exchange. They form an important link between the borrowers, brokers, discount houses and acceptance houses and the central bank in the money market.

3. Specialised Sub-Markets:

A developed money market consists of a number of specialised sub-markets dealing in various types of credit instruments. There is the call loan market, the bill market, the Treasury bill market, the collateral loan market and the acceptance market, and the foreign exchange market. The larger the number of sub-markets, the more developed is the money market. But the mere number of sub-markets is not enough. What is required is that the various sub-markets should have a number of dealers in each market and the sub-markets should be properly integrated with each other.

4. Existence of Large Near-Money Assets:

A developed money market has a large number of near-money assets of various types such a bills of exchange, promissory notes, treasury bills, securities, bonds, etc. The larger the number of near-money assets, the more developed is the money market.

5. Integrated Interest-Rate Structure:

Another important characteristic of a developed money market is that it has an integrated interest-rate structure. The interest rates prevailing in the various sub-markets are integrated to each other. A change in the bank rate leads to proportional changes in the interest rate prevailing in the sub-markets.

6. Adequate Financial Resources:

A developed money market has easy access to financial sources from both within and outside the country. In fact, such a market attracts adequate funds from both sources, as is the case with the London Money Market.

7. Remittance Facilities:

A developed money market provides cash and cheap emittance facilities for transferring funds from one market to the other. The London Money Market provides such remittance facilities throughout the world.

8. Miscellaneous Factors:

Besides the above noted features, a developed money market is highly influenced by such factors as restrictions on international transactions, crisis, boom, depression, war, political instability, etc.

Call money market:

Call money, also known as "money at call," is a short-term financial loan that is payable immediately, and in full, when the lender demands it. Unlike a term loan, which has a set maturity and payment schedule, call money does not have to follow a fixed schedule, nor does the lender have to provide any advanced notice of repayment.

Understanding Call Money

Call money is a short-term, interest-paying loan from one to 14 days made by a financial institution to another financial institution. Due to the short term nature of the loan, it does not feature regular principal and interest payments, which longer-term loans might. The interest charged on a call loan between financial institutions is referred to as the call loan rate.

Features of call money market

1. Call money is an important component of the money markets.
2. It has several special features, as an extremely short period funds management vehicle, as an easily reversible transaction, and as a means to manage the balance sheet.
3. Dealing in call money allows banks the opportunity to earn interest on surplus funds.
4. On the counterparty side, brokerages understand that they are taking on additional risk by using funds that can be called at any time, so they typically use call money for short-term transactions that will be resolved quickly.
5. The transaction cost is low, in that it is done bank-to-bank without the use of a broker.
6. It helps to smooth the fluctuations and contributes to the maintenance of proper liquidity and reserves, as required by banking regulations.
7. It also allows the bank to hold a higher reserve-to-deposit ratio than would otherwise be possible, allowing for greater efficiency and profitability.

Call Money Market in India

1. Call Money Market:

Call Money Market mainly deals with day-to-day surplus funds of banks. In India, the purpose of Call Loans are to deal in the Bullion Market and Stock Exchanges.

Money lent for one day in this market is known as “Call Money".

Money lent for more than a day, but less than 15 days, is called “Notice Money”.

Money lent for 15 days or more in the Inter-Bank Market is called “Term Money”.

Mumbai, Kolkata, Delhi, Chennai and Ahmedabad host the major Call Money Markets in India.

2. Participants in the Indian Call Money Market:

• Indian and Foreign Commercial Banks, Co-operative Banks, Discount and Finance House of India Ltd. (DFHI) and Securities TradingCorporation of India (STCI), participate as both lenders and borrowers.

• Unit Trust of India (UTI), Life InsuranceCorporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD) participate only as lenders.

Call Rate:

Call Rate is the rate of interest that is paid on Call Money Loans. It is highly volatile because the changes in demand and supply of Call Loans are instantly reflected in Call Rates. Call Rate also helps the RBI access the liquidity situation in the economy.

There are two Call Rates in India:

1. Inter-bank Call Rate

2. Lending rate of DFHI

The eligible participants are free to decide Call Rates in the Call Money Market. Interest payable on Call Money is based on the methodology given by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), which is a voluntary association of Commercial Banks,Financial Institutions and Primary Dealers.

Commercial Paper Market

Debt instruments that are issued by corporate houses for raising short-term financial resources from the money
market are called Commercial Papers (CPs).

Satellite dealers:

'Satellite Dealer' means a financial institution which holds a valid letter of authorisation as a Satellite Dealer issued by the Reserve Bank, in terms of the 'Guidelines for Satellite Dealers in Government Securities Market' dated December 31, 1996, as amended from time to time.
The seven companies selected by RBI as registered satellite dealers include DSP Merrill Lynch Ltd, Ceat Financial Services Ltd, Kotak Mahindra Capital Company, Birla Global Finance Co Ltd, Dil Vikas Finance Ltd and Srei International Securities.
(Or)

SATELLITE DEALERS (SDs)

Dealers who are enlisted with the RBI to deal in the Government securities market, are called Satellite Dealers'. With effect from June 17, 1998, they are allowed to issue CPs, with prior approval from RBI. The purpose was to enable them to have access to short-term borrowings through CP route. Following are the conditions to be satisfied in this regard:

Rating

In order that the satellite dealers are permitted to trade in CPs, it is essential that the issuing corporates obtain
the minimum specified credit rating from a credit rating agency. Such a rating must have been approved by the Reserve Bank for the purpose of issue of commercial paper. The credit rating must not be older than two months.

Maturity

The CPs shall be issued for a maturity period ranging from 15 days to one year from the date of issue.

Target Market

The issue of CPs may be targeted to such persons as individuals, banks, companies, other corporate bodies registered or incorporated in India and unincorporated bodies and non-resident Indian (NRI) on non-repatriation basis subject to the condition that it shall not be transferable.

Limits of Issue

Each issue of CPs (including renewal) shall be treated as a fresh issue. The CPs issue may take place in multiples of Rs. 5 lakhs. The investment by any single investor shall be for a minimum amount of Rs. 25 lakhs (face value) and the secondary market transactions may be dealt in for amounts of Rs. 5 lakhs or multiples thereof. The RBI shall fix the total amount of issue. The issue amount shall be raised within a period of 2 weeks from the date of approval by the Reserve Bank or may be issued on a single day or in parts on different days as the case may be.

Nature

The CPs shall be in the form of usance promissory note. It shall be negotiable by endorsement and delivery. It is issued at discount to face value, discount being determined by the SD issuing the CPs. The SDs shall bear the expenses of the issue, including dealer's fee, rating agency fee, etc.

*******UNIT-1*****COMPLETED*******