UNIT-3
Capital Market

Capital market may be defined as a market for borrówing and lending long-term capital funds required by business enterprises. Capital market is the market för financial assets that have long or indefinite maturity Capital market offers an ideal source of external finance. Capital market forms an important core of a country's financial systems too. It refers to all the facilities and the institutional arrangements for borrowing and lending medium-term and long-term funds. Like any market, the capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders).

INDIAN CAPITAL MARKET-EVOLUTION AND GROWTH

Standing the test of time, the Indian capital market has undergone phenomenal changes. Since the mid-eighties,
a metamorphic transformation involving multidimensional growth has taken place in an otherwise domant Indian financial system. The magnitude of growth could be gauged in terms of massive jumps in funds mobilization, the turnover on the stock exchanges, the amount of market capitalization, and the expansion of investor population. The regulatory framework has been strengthened and streamlined in order to tackle effectively the problems associated with the massive growth of the market.
The evaluation in the realm of Capital market in India could be brought a discounters follows:

Infrastructure stage:
The period between 1947 and 1973 marked the period of the development of infrastructure for capital market. The stage saw the process of strengthening of capital market through the establishment of a network of development financial institutions such as IFCI (1948), ICICI (1955), IDBI and UTI (1964), SFCs (during the fifties and sixties) and SIDCs (during the sixties and early seventies). A number of important enactments covering the functioning of different segments of capital market were legislated during this period. These include: Capital Issues (Control) Act, 1947, Securities Contracts (Regulation) Act, 1956 and Companies Act, 1956. Development of an organized indigenous capital market was inhibited in the initial years following independence owing toa variety of factors as stated below:
1. Insignificant demand for long-term funds owing to weak industrial base and low saving rate.
2.Dependence of many foreign companies upon the London capital market for raising funds rather than on the Indian capital market.
3.Adverse consequences of the managing agency system, which performed different functions of promotion, management and underwriting of new capital issues.
4. Lukewarm interest shown by Indian corporates for mobilizing capital through the instruments of shares and debentures from capital market and more reliance of the industry on the bank credit which offered credit at relatively lower (often subsidized) rates of interest; and
5 Hazards of administered interest rate structure.

New Issues Stage

This stage heralded the enactment of the Foreign Exchange Regulation Act (FERA) between the period 1973 and 1980. Under this Act, shareholding of foreign firms in joint ventures was restricted to 40 percent if the companies wanted to be recognized as Indian companies. This period saw many well-managed multinational companies offering their equities to the public at regulated low prices. This encouraged a large number of domestic public limited companies to come out with the offer of new capital issues for public subscription. All these culminated in the stock market exhibiting an upward trend with share prices displaying a high level of buoyancy. This also created, for the first time, an awareness among the common investors about the potential of equity investments as a hedge against inflation and a source of higher earnings compared to the other forms.

The SEBI Stage

This stage of development during the period between 1980 and 1992 brought about rapid changes in the Indian capital market. This period marked a period of change, signifying the widening and deepening of the market. Debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds, which came to be introduced since 1985-86, imparted an additional dimension to the market. The impressive growth witnessed in this stage was responsible for bringing into existence a number of stock Exchanges, phenomenal increase in the listed companies with a quantum jump in their paid-up capital and market capitalization. This signified a momentous growth in the secondary market.

New financial services

An important part of development under this stage was the emergence of SEBI as an effective regulatory body to set right many ailments affecting the secondary and the primary markets and afford a measure of protection to small investors. New financial services such as credit rating, etc came to be introduced, Several credit rating institutions such as CRISIL, CARE and ICRA were set up in order to help investors make a right choice of investment. Similarly, Stock Holding Corporation of India was set up to provide custodial services.

Committees/working groups

An important part of growth during this period was the constitution of a number of committees in order to suggest measures to revamp and restructure the working of the secondary market and cause buoyancy in the primary market so as to instil confidence in the investing community. These included the following:

a. A Committee on Organization and Management of Stock Exchange, 1986 under the chairmanship of
Mr. G.S. Patel.

b. A Working group on the Development of the Capital Market, 1989 under the chairmanship of Dr. Abid Hussain.
C. A Study Group for Guidelines Relating to Valuation and New Instruments, 1991 under the chairmanship of Mr. M.J. Pherwani.
d. A High Powered Study Group on Establishment of New Stock Exchanges, 1991 under the chairmanship Mr. M.J. Pherwani.
e.A Committee on Trading in Public Sector Bonds and Units of Mutual Funds, 1992 under the chairmanship of Mr. S.S. Nadkarni

A number of recommendations of the above committees were implemented to help streamline the operations of the capital market. However, this period witnessed one of the worst crises in the Indian capital market with a major scam in securities breaking out. Large-scale irregularities in securities transactions that took place in 1992 exposed the loopholes in the existing systems and procedures of stock trading. This necessitated the overhauling of the regulatory framework of the capital market for preventing recurrence of such irregularities in the future. The Securities and Exchange Board of India (SEBI) which was set up as a regulatory body of the Indian securities market in 1988 was vested with statutory powers for regulating the capital market only in 1992. after the enactment of the SEBI Act, 1992. Ever since its inception, SEBI has been focusing its attention on policy-making, based on wider consultations through the mechanism of a number of committees to examine the various aspects/segments of the capital market.

The Structural Transformation

The structural transformation started taking place from 1992. Many technological innovations on par with the developed countries of the world began to be introduced in the realm of trading operations in the stock market.
Some of the significant forces/happenings that were responsible for the structural transformation were:

1. Financial liberalization, adoption of market oriented approach and opening up of areas to private sector hitherto reserved for the public sector.
2.Computerized on-line trading and setting up of clearing houses/corporations by most of the stock exchanges.
3.Constitution of a depository to facilitate scripless trading.
4. Overhauling and strengthening of regulatory structure of stock exchanges with the establishment of SEBI.
5.Permission to Indian companies to raise resources abroad through the issue of Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs) after obtaining specific approval from the Government of India, since May 1992.
6.Disinvestments by Government of its holding in public sector undertakings commencing from 1992-93.

SEBI issued separate set of guidelines for different categories of intermediaries such as broker, sub-brokers ,merchant bankers ,registers to issue ,portfolio manager and directors to issue ,mutual funds ,Bank to issue, debenture trustee and venture capital fund/companies. Detailed guidelines were issued by SEBI for disclosure and investor protection in respect of new issue and for regulation of insider trading and provision of fraudulent and unfair trade practices.

New financial instruments

Indian capital market also witnessed phenomenal growth in launching a variety of new financial instruments. A brief description of some of the newly introduced financial instruments is presented below.

1.Commercial paper:

A form of usance promissory note which is negotiable by endorsement and delivery, is known as commercial paper.

2. Certificate of deposit

The CD is a document of title,similar to the deposit receipt issued by the bank. There is no prescribed interest rate on such funds and therefore banks have the freedom to issue it at the discount or at face value. Being a bearer document, it is readily negotiable. It is beneficial both to the banker and the investor.

3.Zero coupon bonds

These are the bonds in which there is no interest. In order to compensate the loss of interest they are issued at the substantial discount from the event were maturity values.

4. convertible Bonds

The bearers of this type of bond receive fixed interest and can, according to the conditions stated in the issue contract, become shareholders of the company to which they are lending. As soon as the bonds are converted into shares , the bearer loses the status (legal and economical) of lender (but keeps the status of shareholder). The fixed interest paid by convertible bonds is fiscally deductible for the company which lends. Bonds converted into shares can sometimes be issued without granting fixed rights, insofar as the conversion option reserved to the bearer is equivalent to the interest which should have been paid.

5. Profit Participative Bonds

These bonds allow their holder to benefit from part of the yearly profit and/or from the proceeds of liquidation of the borrowing company. These bonds can grant rights to fixed interest. The participation in profit then constitutes an additional interest which is variable. However, the interest paid by the company which borrows is not deductible from its taxable base. Indeed, this type of bond has similarities with shares; the interest paid is considered a distribution of dividends.

6.PEC (Preferred Equity Certificate)

PEC is a hybrid financial instrument which is considered as debt for the borrowing company and as equity for the lender.

The (fixed) interest paid by the company will be fiscally deductible.PECs concede no voting right to the creditor who will be subordinated to all other creditors.

7.CPEC (Convertible Preferred Equity Certificate)
CPECs are PECs which are convertible into shares. The choice between PECs and CPECs will depend on the country in which the issuer and the lender are resident.

INDIAN CAPITAL MARKET-MAJOR ISSUES

The Indian Capital Market has, over a period of time, undergone rapid structural transformation. During the 1947 to 1997, it has evolved itself from a dormant segment of the financial system to a highly active, dynamic, and volatile segment characterized by institutional buildup, technological advancement and modernization. With the vast and varied market reforms unleashed since 1992, primary market has emerged as a major source of funding for the corporate entities both in the public and private sectors and the secondary market has modernized itself through advanced technology and transparent trading practices. The Development Financial Institutions (DFIs) have also played a crucial role in meeting long-term credit needs of the industrial sector.
In spite of the fact that the Indian capital market has made a marvellous dent both in primary as well as secondary markets, there are very many issues, which require immediate and urgent attention of the planners concerned. There are many problems relating to investor protection, consolidation, integration with other
market segments, product innovation and technology, etc which often come in the way of its efficient functioning. The major issues confronting the Indian capital market are briefly presented below:

Investor Protection
Investors constitute the pillars of the capital market. It is imperative that adequate protection is provided to them. This is of paramount importance. However, investors have been facing serious problems in view of the continuing market disturbances arising out of unscrupulous practices followed by many companies and market intermediaries. Some of the popular problems that are being faced by investors are as follows:

1. Vanishing companies Certain companies raised funds after taking advantage of market buoyancy and then desert investors as has happened in 1985-86. This menace of vanishing companies still haunts investors and has affected their psyche very much.

2. Lack of commitment The incredible lack of commitment shown by financial institutions and underwriters regarding the avoidance of project appraisal during the post-issue period in relation to mega issues in the eighties has considerably shaken the confidence of the investors. Inability of many of the corporates to keep up their promises, which are given at the time of issue, particularly after removal of capital issues control also contributes to retardation of Indian capital market.

3. Stock scams Series of share market scams arising out of irregularities in securities transactions in

1992-93, wrongful disclosures as in 1994-95 and share-switching episode of 1995-96 have all exposed the vulnerability of the Indian capital market.

4. Malaises like share price rigging and insider trading continue to afflict the Indian capital market, affecting the investors adversely.

5. Lack of necessary professional expertise and integrity on the part of merchant bankers and other market intermediaries. In many cases merchant bankers act hand-in-glove with companies to attract the gullible investors.

6. The defaults committed by some brokers in different stock exchanges have also adversely affected the confidence of investors causing occasional suspension of trading.

7. Multiplicity of the number of investor complaints with the SEBI, the Department of Company Affairs (DCA) and the stock exchange authorities.
As a step towards overcoming many of the woes of investors, it is essential to pay attention to the following:

- Coordinated approach to attend to investor complaints
- Introduction of complete transparency in transactions. Such a step, under the changed environment,would enable companies to raise resources from the capital market easily, besides inspiring the confidence of the investors.

Capital market instruments
Meaning
Financial instruments that are used for raising capital resources in the capital market are known as capital market instruments.
Types:

1. Preference shares
2. Equity shares
3. Non Voting equity shares
4. Company fixed deposits
5. Warrants
6. Debentures and bonds

Preference shares
Preference shares are shares in the equity of a company that entitle the holder to a fixed dividend amount to be paid by the issuer. This dividend must be paid before the company can issue any dividends to its common shareholders. Also, if the company is dissolved, the owners of preference shares are paid back before the holders of common stock. However, the holders of preference shares do not usually have any voting control over the affairs of the company, as do the holders of common stock.

The types of preference shares are:

Callable.
The issuing company has the right to buy back these shares at a certain price on a certain date. Since the call option tends to cap the maximum price to which a preference share can appreciate (before the company buys it back), it tends to restrict stock price appreciation.

Convertible.
The owner of these preference shares has the option, but not the obligation, to convert the shares to a company's common stock at some conversion ratio. This is a valuable feature when the market price of the common stock increases substantially, since the owners of preference shares can realize substantial gains by converting their shares.

Cumulative.
If a company does not have the financial resources to pay a dividend to the owners of its preference shares, then it still has the payment liability, and cannot pay dividends to its common shareholders for as long as that liability remains unpaid.

Non-cumulative.
If a company does not pay a scheduled dividend, it does not have the obligation to pay the dividend at a later date. This clause is rarely used.

Participating.
The issuing company must pay an increased dividend to the owners of preference shares if there is a participation clause in the share agreement. This clause states that a certain portion of earnings (or of the dividends issued to the owners of common stock) will be distributed to the owners of preference shares in the form of dividends. These shares also have a fixed dividend rate.

Equity shares
Equity shares are the main source of finance of a firm. It is issued to the general public. Equity share holders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.

Features of Equity Shares

The main features of equity shares are:

1. They are permanent in nature.
2. Equity shareholders are the actual owners of the company and they bear the highest risk.
3. Equity shares are transferable, i.e. ownership of equity shares can be transferred with or without consideration to other person.
4. Dividend payable to equity shareholders is an appropriation of profit.

5. Equity shareholders do not get a fixed rate of dividend.
6. Equity shareholders have the right to control the affairs of the company.
7. The liability of equity shareholders is limited to the extent of their investment.

Non voting equity shares.

A non-voting share is a share in the capital of a company that belongs to a class that has no voting rights. This is distinct from, for example, an ordinary share which gives the shareholder standard rights to vote at shareholder meetings in proportion to their shareholding. Upon issuing shares to a shareholder, the subscription documents and share certificate will specify the class of shares.

Company fixed deposits

Fixed deposits are the attractive source of short-term capital both for the companies and investors as well Corporates favor fixed deposits as an ideal form of working capital mobilization without going through the process of mortgaging assets and the associated rigmaroles of documentation, etc. Investors find fixed deposits a simple avenue for investment in popular companies at attractively reasonable and safe interest rates. Moreover, investors are relieved of the problem of the hassles of market value fluctuation to which instruments such as shares and debentures are exposed. There are no transfer formalities either. In addition, it is quite possible for investors to have the option of premature repayment after 6 months, although such an option entails some interest loss.

Regulations

Since these instruments are unsecured, there is a lot of uncertainty about the repayment of deposits and regular payment of interest. The issue of fixed deposits is subject to the provisions of the Companies Act and the Companies (Acceptance of Deposits) Rules introduced in February 1975. Some of the important regulations in this regard as follows:

1. Advertisement

Issue of an advertisement (with the prescribed information) as approved by the Board of Directors in dailies circulating in the state of incorporation.

2. Liquid assets

Maintenance of liquid assets equal to 15 percent (substituted for 10% by Amendment Rules, 1992) of deposits (maturing during the year ending March 31) in the form of bank deposits, unencumbered securities of State and Central Governments or unencumbered approved securities.

3. Disclosure

Disclosure in the newspaper advertisement the quantum of deposits remaining unpaid after maturity. This would help highlight the defaults, if any, by the company and caution the depositors.

4. Deemed public company

Private company would become a deemed public company (From June 1998, Section 43A of the Act) where such a private company, after inviting public deposits through a statutory advertisement, accepts or renews deposits from the public other than its members, directors or their relatives This provision, to a certain extent, enjoins better accountability on the part of the management and auditors.

5. Default

Penalty under the law for default by companies in repaying deposits as and when they mature for payment where deposits were accepted in accordance with the Reserve Bank directions.

6. CLB

Empowerment to the Company Law Board to direct companies to repay deposits, which have not been repaid as per the terms and conditions governing such deposits, within a time frame and according to the terms and conditions of the order.

Warrants

Warrants are capital market instruments used for raising funds by companies. Warrants are a type of equity derivative instrument. The value of an equity derivative depends partly on the value of the underlying security. It is an option issued by the company granting the buyer a right to purchase some shares of its equity share capital at a given exercise price during a stipulated period. The warrant holder partly pays the premium for the option which he purchased and partially pays the price for the share that ultimately will get allotted to him if he exercises the option. The most common type of warrants are detachable and naked. Detachable warrants are issued in connection with other securities (like bonds or preferred stock) and may be traded separately from them. Naked warrants are issued without any accompanying securities.

Debentures and bonds

A debenture is a type of bond or other debt instrument that is unsecured by collateral. Since debentures have no collateral backing, they must rely on the creditworthiness and reputation of the issuer for support. Both corporations and governments frequently issue debentures to raise capital or funds.

Features

Following are the features of a debenture:

1. Issue In India, debentures of various kinds are issued by the corporate bodies, Government, and others as per the provisions of the Companies Act, 1956 and under the regulations of the SEBI. Section 117 of the Companies Act prohibits the issue of debentures with voting rights. Generally, they are issued against a charge on the assets of the company but at times may be issued without any such charge also. Debentures can be issued at a discount in which case, the relevant particulars are to be filed with the Registrar of Companies.

2. Negotiability In the case of bearer debentures the terminal value is payable to its bearer. Such instruments are negotiable and are transferable by delivery. Registered debentures are payable to the registered holder whose name appears both on the debenture and in the register of debenture holders maintained by the company. Further, transfer of such debentures should be registered. They are not negotiable instruments and contain a commitment to pay the principal and interest.

3. Security Secured debentures create a charge on the assets of the company. Such a charge may be either fixed or floating. Debentures that are issued without any charge on assets of the company are called 'unsecured or naked debentures.

4. Duration Debentures, which could be redeemed after a certain period of time are called Redeemable Debentures. There are debentures that are not to be returned except at the time of winding up of the company.Such debentures are called Irredeemable Debentures.

5. Convertibility Where the debenture issue gives the option of conversion into equity shares after the expiry of a certain period of time, such debentures are called Convertible Debentures. Non convertible Debentures, on the other hand, do not have such an exchange facility.

(Or)

Features Of Debentures

1. Debentures have a lower interest rate than bank overdrafts and bank loans.
2. Debentures are usually repayable at a far off date in the future.
3. Banks require borrowers to use the funds for specific purposes. There is no such restriction on debentures.
4. For debenture holders, debentures are a safe investment. There will be no capital erosion.
5. Debenture holders earn a fixed interest.
6. Debenture holders have no ownership rights. They are treated as creditors.
7. Interest rate on debentures may be fixed or floating.
8. Debentures can be purchased through brokers and stock exchanges**.**
9. Debentures mature after a specific period of time. Hence, debentures are to be repaid at maturity as stipulated in the issue.
10. Companies may issue debentures with a call feature. This entitles the company to redeem debentures at a certain price before maturity. The call price of the debentures is usually more than the issue price.

Types Of Debentures

Depending on the objectives and needs, a company can issue various types of debentures. The major types of debentures are:

1. Registered Debentures:
Registered debentures are registered with the company. These debentures can be transferred only by a transfer deed. Debenture interest is paid only to those names appearing in the register of the company.

2*. Bearer Debentures:*
Bearer Debentures are not recorded in the register of a company. As the name suggests, Bearer Debentures are transferable by delivery and don't
require a transfer deed. The holder or the bearers of these Debentures are entitled to get the interest.

3*. Secured Debentures:*
Secured Debentures are secured by a charge on the company assets. They give the holders a right to recover principal amount along with any unpaid debenture interest out of the assets mortgaged by the company.

4*. Unsecured Debentures*:
Unsecured Debentures are not secured. They do not have any charge on the company assets. Therefore, they have no claim on company assets with respect to the principal amount or unpaid interest.

5. Redeemable Debentures:
Redeemable Debentures are issued for a fixed period. On the expiry of the fixed period, the debenture holders are paid the principal amount.

6. Non-redeemable Debentures:
Non-redeemable Debentures cannot be redeemed in a Company's lifetime. Non-redeemable a Debentures are only paid back on company's liquidation.

7. Convertible Debentures:
Convertible Debentures can be converted into shares of the company on completion of a pre-decided period. The terms and conditions of the conversion are announced at the time of issue of the debentures.

8. Non-convertible Debentures:
Non-convertible Debentures can't be converted into the shares of the company.

Global debt instruments:

Following are some of the debt instruments that are popular in the international financial markets:

Income Bonds

Interest income on such bonds is paid only where the corporate commands adequate cash flows. They resemble cumulative preference shares in respect of which a fixed dividend is paid only if there is profit earned in a year, but Carried forward and paid in the following year. There is no default on income bonds if interest is not paid. Unlike the dividend on cumulative preference shares, the interest on income bond is tax deductible. These bonds are issued by corporates that undergo financial restructuring.

Asset Backed Securities

These are a category of marketable securities that are collateralized by financial assets such as installment loan contracts. Asset backed financing involves a disintermediating process called securitization, whereby credit from financial intermediaries in the form of debentures are sold to third parties to finance the pool. Repos are the oldest asset backed security in our country. In USA, securitization has been undertaken for the following:

1. Insured mortgages
2. Mortgage backed bonds
3. Student loans
4. Trade credit receivable backed bonds
5. Equipments leasing backed bonds
6.Certificates of automobile receivable securities
7. Small business administration loans
8. Credit and receivable securities

Junk Bonds

Junk bond is a high risk, high yield bond which finances either a Leveraged Buyout (LBO) or a merger of a company in financial distress. Junk bonds are popular in the USA and are used primarily for financing takeovers.The coupon rates range from 16 to 25 percent. Attractive deals were put together establishing their feasibility in terms of adequacy of cash flows to meet interest payments. Michael Milken (the junk bond king) of Drexel Burnham Lambert was the real developer of the market.

Indexed Bonds

These are the bonds whose interest payment and redemption value are indexed with movements in prices. Indexed bonds protect the investor from the eroding purchasing power of money because of inflation. For instance, an inflation-indexed bond implies that the payment of the coupon and/or the redemption value increases or decreases according to movements in prices. The bonds are likely to hedge the principal amount against inflation. Such bonds are designed to provide investors an effective edge against inflation so as to enhance the credibility of the anti-inflationary policies of the Government. The yields of an inflation-indexed bond provide vital information on the expected rate of inflation.

Zero Coupon Bonds (ZCBs)/ Zero Coupon Convertible Debentures
Zero Coupon Bonds first came to be introduced in the U.S. securities market. Initially, such bonds were issued for high denominations. These bonds were purchased by large security brokers in large chunks, who resold them to individual investors, at a slightly higher price in affordable lots. Such bonds were called "Treasury Investment Growth Receipts' (TIGRs) or 'Certificate of Accruals on Treasury Securities' (CATSs) or ZEROs as their coupon rate is Zero. Moreover, these certificates were sold to investors at a hefty discount and The difference between the face value of the certificate and the acquisition cost was the gain. The holders are not entitled for any interest except the principal sum on maturity.

New Issues Market (NIM)

NIM also known as “primary market' is a market, which is characterized by the presence of a set of all institutions, structures, people, procedures, services, and practices involved in raising of fresh capital funds by both new and existing companies.

NIM AND SECONDARY MARKETS—AN INTERFACE
Both the primary and secondary markets are closely interrelated. This is clear from the following:

Trading
For the purpose of securities to be traded in the secondary market, it is important that they are first issued in the primary market.

Listing
In order that a corporate entity makes a successful issue of security in the primary market, it is incumbent that the terms of such an issue carry a stipulation that the issues are to be listed in a recognized stock exchange and that an application for this purpose has been made already to the stock exchange concerned.

Regulation
The activities in the primary market such as the new issues, etc are greatly influenced by the regulatory norms prescribed by the SEBI and stock exchanges. The object is to bring about orderliness in the new issues market.

Marketability
The advantage of marketability provided by the secondary market greatly helps the subscribers in the primary market. For instance, the positive trends prevailing in the secondary market immensely help the investors to off-load their existing holdings so as to subscribe for fresh issues in the NIM. This liquidity advantage helps in expansion of the NIM.

Prevailing Conditions
The conditions prevailing in the secondary market affect to a very great extent the successfulness or otherwise of the issue being made in the NIM. Accordingly, where the conditions are so favorable in the secondary market that high market prices prevail, the issues made in the primary market will turn out to be encouraging and
successful. Issues would fetch good premiums.

Survival
The existence and the survival of the secondary market are dependent upon the efficacy of the NIM as an avenue for fundraising. There could be no stock exchanges if there is no NIM, in the same manner that there albino MIM in the absence of an efficiently functioning stock exchange .

METHODS OF MARKETING SECURITIES

- Pure prospectus method
- Private placement method
- Initial Public offer method
- Right issue method
- Bonus issue method
- Book building method

1.PURE PROSPECTUS METHOD

Meaning
The method whereby a corporate enterprise mops up capital funds from the general public by means of an issue
of a prospectus, is called 'Pure Prospectus Method'. It is the most popular method of making public issue of securities by corporate enterprises.

Features

Exclusive subscription
Under this method, the new issues of a company are offered for exclusive
subscription of the general public. According to the SEBI norms, a minimum of 49 percent of the total issue at a time is to be offered to public. Issue price Direct offer is made by the issuing company to the general public to subscribe to the securities at a stated price. The securities may be issued either at par, or at a discount or at a premium.

Underwriting Public
Issue through the pure prospectus method' is usually underwritten. This is to safeguard the interest of the issuer in the event of an unsatisfactory response from the public.

Prospectus
Prospectus that contains information relating to the various aspects of the issuing company, besides other details of the issue is called a Prospectus'. The document is circulated to the public. The general details include the company's name and address of its registered office, the names and addresses of the company's promoters, manager, managing director, directors, company secretary, legal adviser, auditors, bankers,

brokers, etc the date of opening and closing of subscription list, contents of Articles, the names and addresses of underwriters, the amount underwritten and the underwriting commission, material details regarding the Project That is location,plant and machinery, technology,performance, guarantee, infrastructure facilities etc.

Offer for Sale Method

Meaning

Where the marketing of securities takes place through intermediaries, such as issue houses, stockbrokers and others, it is a case of 'Offer for Sale Method'.

Features

Under this method, the sale of securities takes place in two stages.

First stage, the issuer company Makes an en-block sale of securities to intermediaries such as the issue houses and share brokers at an agreed price.

Under the second stage, the securities are re-sold to ultimate investors at market-related price. The difference between the purchase price and the issue price constitutes ‘profit' for the intermediaries. The intermediaries are responsible for meeting various expenses such as underwriting commission, prospectus cost, advertisement expenses, etc.The issue is also underwritten to ensure total subscription of the issue. The biggest advantage of this method is that it saves the issuing company the hassles involved in selling the shares to the public directly through prospectus. This method is, however, expensive for the investor as it involves the offer of securities by issue houses at very high price.

Private placement method:

Meaning

A method of marketing of securities whereby the issuer makes the offer of sale to individuals and institutions
privately without the issue of a prospectus is known as ‘Private Placement Method. This is the most popular method gaining momentum in recent times among the corporate enterprises.

Features

Under this method, securities are offered directly to large buyers with the help of share brokers. This method works in a manner similar to the 'Offer for Sale Method' whereby securities are first sold to intermediaries such as issue houses, etc. They are in turn placed at higher prices to individuals and institutions. Institutional investors play a significant role in the realm of private placing. The expenses relating to placement are borne by such investors.

Initial Public offer method:

The public issue made by a corporate entity for the first time in its life is called 'Initial Public Offer' (IPO). Under this method of marketing securities are issued to successful applicants on the basis of the orders placed by them, through their brokers.

When a company whose stock is not publicly traded wants to offer that stock to the general public, it takes the form of 'Initial Public Offer'. The job of selling the stock is entrusted to a popular intermediary, the underwriter. An underwriter is invariably an investment banking company. He agrees to pay the issuer a certain price for a minimum number of shares, and then resells those shares to buyers, who are often the clients of the underwriting firm. The underwriters charge a fee for their services.

Stocks are issued to the underwriter after the issue of prospectus which provides details of financial and business information as regards the issuer. Stocks are then released to the underwriter and the underwriter releases the stock to the public.

The issuer and the underwriting syndicate jointly determine the price of a new issue. The approximate price listed in the herring (the preliminary prospectus—often with words in red letters which say this is preliminary and the price is not yet set) may or may not be close to the final issue price.

Full disclosure of all material information in connection with the offering of new securities must be made as part of the new offerings. A statement and preliminary prospectus (also known as a red herring) containing the following information is to be filed with the Registrar of Companies:

1. A description of the issuer's business
2. The names and addresses of the key company officers, with salary and a 5 year business history on each
3. The amount of ownership of the key officers
4. The company's capitalization and description of how the proceeds from the offering will be used and
5. Any legal proceedings that the company is involved in

Applications are made by the investors on the advice of their brokers who are intimated of the share allocation by the issuer. The amount becomes payable to the issuer through the broker only on final allocation. The allotment is credited and share certificates delivered to the depository account of the successful investor.

Right issue method:

Where the shares of an existing company are offered to its existing shareholders, it takes the form of 'rights issue". Under this method, the existing company issues shares to its existing shareholders in proportion to the number of shares already held by them.
The relevant guidelines issued by the SEBI in this regard are as follows:

1. Shall be issued only by listed companies.
2. Announcement regarding rights issue once made, shall not be withdrawn and where withdrawn, no security shall be eligible for listing upto 12 months.
3. Underwriting as to rights issue is optional and appointment of Registrar is compulsory.
4.Appointment of category I Merchant Bankers holding a certificate of registration issued by SEBI shall be compulsory.

5. Rights shares shall be issued only in respect of fully paid shares.
6.Letter of offer shall contain disclosure as per SEBI requirements
7.A minimum subscription of 90 percent of the issue shall be received

Bonus issue method

Where the accumulated reserves and surplus of profits of a company are converted into paid up capital, it takes the form of issue of "bonus shares'. It merely implies capitalization of existing reserves and surplus of a company. The issue of bonus shares is subject to certain rules and regulations. The issue does not in any way affect the resources base of the enterprise. It saves the company enormously of the hassles of capital issue.

SEBI Guidelines
Following are the guidelines pertaining to the issue of bonus shares by a listed corporate enterprise:
1. Reservation In respect of FCDs and PCDs, bonus shares must be reserved in proportion to such convertible part of FCDs and PCDs. The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

2. Reserves The bonus issue shall be made out or Iree reserves built out of the genuine profits or share premium collected in cash only. Reserves created by revaluation of fixed assets are not capitalized.

3. Dividend mode The declaration of bonus issue, in lieu of dividend, is not made.

4. Fully paid The bonus issue is not made unless the partly paid shares, if any are made fully paid-up.

5. No default The company has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof and has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus, etc..

6. Implementation A company that announces its bonus issue after the approval of the Board of Directors must implement the proposal within a period of 6 months from the date of such approval and shall not have the option of changing the decision.

7. The articles The Articles of Association of the company shall contain a provision for capitalization of reserves, etc. If there is no such provision in the Articles, the company shall pass a resolution at its general body meeting making provisions in the Articles of Associations for capitalization.

8. Resolution Consequent to the issue of bonus shares if the subscribed and paid-up capital exceeds the authorized share capital, the company at its general body meeting for increasing the authorized capital shall pass a resolution.

Book building method:

It is a process used in IPOs for efficient price discovery. The price at which securities would be offered is not known initially. It is known only after the closure of the book building process. It is a common method of marketing of new issues in several developed countries. In book building method, the market discovers the price instead of the company determining the price. No price is fixed for the shares; instead, the company fixes a price band at which a share can be sold. The maximum price cannot be more than 120% of the floor price. Bids are then invited for the shares. The IPO should be kept open for a minimum of three days and bids are invited during this period. Investors can bid at the floor price or within the price band. The actual price of the share is arrived at depending on the number of bids (depending on the price band) received from investors. The Lead Manager known as the Book runner determines the level of interest from investors at various price levels and obtains commitments. As the book is being built, the demand at various prices can be known and investors can submit their bids accordingly.

Steps involved in book building process

The following are the steps involved in book building:

- Appointment of book runner.
- Advertisements.
- Members bid.
- Issue of Red herring Prospectus.
- Issue of Draft Prospectus to institutional buyers.
- Analysis of bids.
- Firming of underwriting contracts.
- Submission of prospectus to the ROC (Registrar of Companies)
- Collection of application forms with money.
- Allotment of securities.

The company has to issue a Red herring Prospectus. The Red herring Prospectus contains the name of the book runner and the price band within which securities are offered. It however does not contain the exact price of the securities offered and the quantum of securities offered. The book runner closes the order book in consultation with the issuing company. The final price of the issue is decided jointly by the book runner and the issuing company.

Methods of book building
There are two methods of book building. They are the:

- Open book system and
- Closed book system

Open book system: In this system, the issuers and merchant bankers are required to ensure online display of the demand and bids during the bidding period. The investors can know the movement of the bids during the period in which the bid is kept open.

Closed book system: In this case, the book is not made public. The investors will have to make bids without having any information of the bids submitted by other bidders.

INTERMEDIARIES IN NIM

The capital market intermediaries are a vital link between investor, issuer and regulator. The objective of these intermediaries is to smoothen the process of investment and to establish a link between the investors and the users of funds.

The following market intermediaries are involved in the Securities Market:

- Merchant Bankers
- Registrars and Share Transfer Agents
- Underwriters
- Bankers to an issue
- Debenture Trustees
- Stock-brokers
- Portfolio managers
- Custodians
- Credit Rating Agencies
- Depository Participant.

Merchant Bankers
'Merchant Banker' means any person engaged in the business of issue management either by making arrangements regarding selling buying or
subscribing to securities or acting as manager/ consultant/ advisor or rendering corporate advisory services in relation to such issue management.

Registrars and Share Transfer Agents
'Registrar to an Issue' means the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf :
(i) collecting application for investor in respect of an issue;
(ii) keeping a proper record of applications and monies received from investors or paid to the seller of the securities
'Share Transfer Agent' means:

Any person who on behalf of any body corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities.

Underwriters

Underwriter means a person who engages in the business of underwriting of an issue of securities of a body corporate. Underwriting is an arrangement whereby certain parties assure the issuing company to take up shares, debentures or other securities to a specified extent in case the public subscription does not amount to the expected levels.

Bankers to an issue

Banker to an Issue means a scheduled bank carrying on all or any of the following activities:
(i) Acceptance of application and application monies;
(ii) Acceptance of allotment or call monies;
(iii) Refund of application monies;
(iv) Payment of dividend or interest warrants

Debenture Trustees

Debenture Trustee' means a trustee of a trust deed for securing any issue of debentures of a body corporate.

Stock-brokers

Stock-broker means a member of stock exchange and they are the intermediaries who are allowed to trade in securities on the exchange of which they are members. They buy and sell on their own behalf as well as on behalf of their clients.

Portfolio managers

Portfolio manager" means a body corporate, which pursuant to a contract with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or goods or funds of the client, as the case may be: Provided that the Portfolio Manager may deal in goods received in delivery against physical settlement of commodity derivatives.

Custodians

A custodian is a person who carries on or propose to carry on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining t h e accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities.

Credit Rating Agencies

"Credit rating agency" means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue.

Depository Participant

A DP is an agent of the depository through which it interfaces with the investor and provides depository services.

Debt Market

Meaning

Debt Market is a market place, where buying and selling of debt market financial instruments take place. These financial instruments are fixed-income securities, giving fixed returns to the investors. These securities provide regular interest payments at a fixed rate with principal repayment at the time of maturity. The issuer of these securities can be local bodies, municipalities, state government, central government, corporate, etc. Major Debt Market securities are Bonds, Government Bonds, Debentures, Treasury Bills, Certificate of Deposits, Commercial Papers, etc.

In Debt Market, the creditworthiness of the issuer plays a very important role. Credit Rating agencies like Moody's, Standard & Poor's, Fitch, ICRA, etc give credit ratings to all these debt securities according to their credibility. Investors rely heavily on these ratings, before investing in debt securities.

ADVANTAGES

To Investors

Investment in fixed income securities is advantageous to investors in the following manner:

Steady income an important advantage of the fixed income securities is that they ensure steady and constant return by way of interest and repayment of principal at the maturity of the instrument. Further,investors are assured of a dependable income.

Safety Fixed income securities are issued by eligible entities standing against the monies borrowed by them from the investors. This guarantees safety of funds invested on these securities. Moreover, such debt is usually secured against the assets of the company.

Risk-free Some of the fixed income securities such as government securities offer a risk-free return on the investors' moneys. The default on such securities is zero or near zero. Besides, there is a sovereign guarantee on those instruments.

RISKS ON DEBT
Debt instruments are exposed to the following type of risks:
Default Risk
Default risk also known as credit risk refers to the risk of inability of the issuer to make prompt payment of the interest and the principal amount.

Interest Rate Risk
The risk emerging from an adverse change in the rate of interest prevalent in the market so as to affect the yield on the existing instrument is known as 'interest rate risk'. An investor would run a risk of having to lose in a situation where there is a sudden upswing in the prevailing interest rate scenario where he has already invested his money.

Reinvestment Rate Risk
The risk arising from the probability of a fall in the interest rate resulting in a lack of options to invest the interest received at regular intervals at higher rates or comparable rates in the market is known as “reinvestment rate risk.

Counterparty Risk
The risk arising from the failure or the inability of the opposite party to the contract to deliver either the promised security or the sale value at the time of settlement is known as 'counter-party risk'.

Price Risk
The risk arising from the possibility of not being able to receive the expected market price of the debt instrument,due to an adverse movement in price is known as 'price risk'.

ROLE OF BOND MARKET

Bond market plays an important role in the economic development of a country in the following manner:
1. Efficient mobilization and allocation of financial and other resources in the economy
2. Financing the development activities of the government
3.Transmitting signals for the implementation of various monetary and other policies of the central bank of the country
4. Facilitating the efficient liquidity management in tune with the overall short-term and long-term objectives of the economic planning.

PRICE DETERMINATION—FACTORS

The price of a bond in the markets is determined by the operation of the forces of demand and supply. The bond
price is influenced by the following factors:

1. General economic conditions
2. Money market and capital market conditions
3. Political and social conditions
4. Credit quality of the issuer
5. Interest rate prevalent in the market
6. The rates of new issues.

YIELD OF BOND

Yield refers to the percentage rate of return paid on a bond in the form of interest. It is the effective rate of interest paid on a bond or a note. Yield to Maturity (YTM) is the most popular method of measuring the bond yield. YTM refers to the percentage rate of return paid on a bond, note or other fixed income security if the instrument is bought and held till maturity date. The YTM is calculated on the basis of coupon rate, length of time to maturity and the market price. It is the IRR of the bond and is identified as that trial rate of interest at which the issue price of the bond is equated with the sum of the present value of future cash flows (debt service payments-interest and the principal) of the bond. Current yield is the coupon rate divided by the market price and this gives an approximation of the present yield.

UNIT-4
Clearing corporation of India Limited

Clearing corporation of India Limited

The Clearing Corporation of India Ltd was established in April 2001 to render guaranteed clearing and settlement functions concerning transactions in G-Secs, money, derivative markets, and foreign exchange.

The establishment of guaranteed clearing and settlement led to substantial advances in transparency, market efficiency, liquidity, and risk management/measuring practices in these markets, along with additional benefits, such as operating risk and reduced settlement, savings with respect to settlement costs, etc.

CCIL also offers a non-guaranteed settlement concerning cross-currency transactions and Rupee interest rate derivatives via CLS Bank.

A clearing corporation is an organization associated with an exchange to handle the confirmation, settlement, and delivery of transactions. Clearing corporations fulfill the main obligation of ensuring transactions are made in a prompt and efficient manner.

SETTLEMENT OF RISKS

CLS provides a continuous mechanism for the simultaneous settlement of both sides of an FX deal.
CLS operates as a Payment versus Payment (PvP) system. Time zone differences increase the risk of one party defaulting before both sides of the trade are settled. PvP eliminates time zone risk because both sides of a transaction are settled simultaneously. Settlement in CLS is final and irrevocable. Under CLS, transactions are settled on a gross basis, whereas funding is on a netted basis.

Risk management system

Apart from settlement of trades, another major function of a Clearing Corporation is to reduce risks of its members from failed trades arising out of the defaults by their counterparties. By becoming central counterparty to the trades done by its members, the Corporation absorbs risk. It manages the risks through its risk management processes in such a manner that the ultimate risk to its members from fails is either eliminated or reduced to the minimum. Risk Management Department in CCIL has been entrusted with the responsibility of designing the Risk processes and its execution. The department is also responsible for keeping the processes efficient, current and user friendly.

As the department relies heavily on the feedback of the members and other interested persons for initiating measures to improve efficiency of the risk processes etc., it considers receiving their comments/ suggestions as a privilege. Suggestions may be forwarded by clicking on Contact us option provided in CCIL homepage (www.ccilindia.com) and then directing the suggestion to Risk Management Department.

Benefits
Advantages of the CCIL CLS Services include reduction in Settlement Risk, expansion of foreign exchange trading - access to more counterparties, availability of real time information on trade status, settlement and funds flow, eliminating the need for counterparty confirmations, use of local currency as collateral, leverage of infrastructure and collateral with CCIL etc.

CRISIL:
Credit Rating Information Services Limited(CRISIL), the first credit agency was floated on January 1 1988. It was started jointly by ICICI and UTI with an equity capital of 4 crores. Each of them holds 18 % of the capital.

Objectives of CRISIL:
- The main objective of CRISIL has been to rate debt obligations of Indian companies.
- Its ratings provides a guide to the investor asterisk of timely payment of interest and principal on a particular debt instrument
- It's ratings create awareness of the concept of credit rating amongst corporations. Merchant bankers, brokers, regulatory authorities are helps in creating environment that facilitates a debt rating

Range of Services:
- CRISIL offers superior and more reliable sources of information on credit risk for three interrelated risks.
    a. It provides an unbiased opinion
    b. Due to professional resources it has greater ability to assess risk
    c. It has access to lot of information which may not be publicly available
- CRISIL, a rating firm which gathers, analyses, interprets and summarises complex information in a simple and readily understood format for white public consumption represent a cost effective arrangement
- If debt securities are rated professionally, and if such ratings enjoy widespread investors acceptance and confidence a more rational risk-return trade off would be established in the capital market
- Public exposure has a healthy influence over the management of issuer are because of its desire to have a clear image
- Provides qualitative as well as quantitative data about the issue of debts

CIBIL:
Central Information Bureau India Limited (CIBIL), a separate information company, engages in maintaining the records of all the credit rated activities of companies as well as individuals including credit cards and loans.
CIBIL is not a government organisation it is authorised by the Reserve Bank of India(RBI) and falls under the regulations of ,the credit information companies (Regulation) act, 2005.

Credit Information:
Credit information of CIBIL is provided in the terms of CIBIL score. CIBIL score is a three digit numeric summary of our credit history. The score is derived using the credit history found in the CIBIL report (also known as CIR i.e Credit Information Report).A CIR is an individual's credit payment history across loan types and credit institutions over a period of time.

Credit Assessment:
A credit assessment also known as a Credit check, which is used to assess the solvency of the companies and individuals. Usually consumers are subjected to checks when applying for a loan or to pay for purchases in installments.
Credit assessment is the reputation of a person or company in terms of solvency or creditworthiness.

CIBIL Mechanism:
Whenever we apply for a loan bank check your CIBIL score and report to evaluate your credit history and creditworthiness. The higher our score the better are the chances of our loan application getting approved. 79% of loans or credit cards or approved for individuals with high CIBIL score.

WHAT DO BANKS BROADLY CHECK?

1. CIBIL Score and Report: It is one of the most important factors that affects your loan approval. A good credit score and report is a positive indicator of your credit health.
2. Employment Status: Apart from a good credit history, lenders also check for your steady income and employment status.
3. Account Details: Credit Facility statuses and suit filed cases are carefully examined by lenders.
4. Payment History: Lenders check for any default on payments or amount overdue cases, which might project a negative overview of your overall report.
5. EMI to Income Ratio: Banks also consider the proportion of your existing loans when compared to your salary at the time of loan application. Your chances of loan approval gets reduced if your total EMI’s exceed your monthly salary by 50%.

Document requirements:
However, some of the basic requirements in terms of documentation are:

- Identity Proof: Aadhar Card, Valid Passport, Driving License, Voters ID or PAN Card
- Address Proof: Aadhar Card, Valid Passport, Driving License, Voters ID or Utility Bills
- Proof of Employment: Salary slip, Official ID card or letter from company
- Income Proof: Latest 3 months Bank Statement, salary slip for last 3 months
- 3 Passport size photographs

Defaulted credit facility:
More Definitions of Credit Facility Default
Credit Facility Default means with respect to a Credit Facility Issuer any of the following:
(a) there shall occur a default in the payment of principal of or any interest on any Bond or Purchase Price thereof by the Credit Facility Issuer when required to be made under the terms of the Credit Facility,
(b) a Credit Facility shall have been declared null and void or unenforceable in a final determination by a court of law of competent jurisdiction or
(c) such Credit Facility Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of such Credit Facility Issuer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors;

Access to CIBIL information
Step 1: Click on the 'Get Your CIBIL Score' button on the homepage of the CIBIL website.
Step 2: Click on 'Member Login' to get redirected to the login page.
Step 3: Enter your username and password in the respective fields to log in to your account.

Credit information report:
A Credit Information Report (CIR) is a report on past repayment performance as reported by various member banks and financial institutions about an individual. ... There are a number of things you can do to improve your credit profile: It provides information on prompt payment, as well as defaulted payments.

DFHIL
✓ Discount and Finance House of India Ltd.
Notes: DFHI stands for Discount and Finance House of India Ltd., which was set up in 1988 by the Reserve Bank of India as a money market institution.jointly with Public Sector Banks and All-India Financial Institutions, as a sequel to Vaghul Working Group recommendations, to deal in money market instruments.
✓ Pursuant to the Vaghul Working Group recommendation for setting up an institution to provide enhanced liquidity to the money market instruments, the RBI set up the Discount and Finance House of India (DFHI) jointly with public sector banks and the all-India financial institutions.
✓ DFHI was incorporated in March 1988 and it commenced operation in April 1988. The main objective of this money market institution is to facilitate smoothening of the short-term liquidity imbalances by developing an active secondary market for the money market instruments. Its authorized capital is Rs. 250 crores.
✓ DFHI stands for Discount Finance House of India. It is a specialised money market institution which was established in April 1988 with an objective to provide liquidity to money market Instruments and to develop secondary market. It performs various functions such as discounting

and rediscounting bills, sell and underwrite marketable securities, treasury bills, commercial bill, promissory notes etc..

ICRA

Q: What is ICRA?

Investment information and credit rating agency of India was formed in 1991 and is headquartered in Mumbai. It offers comprehensive rating to corporate via transparent rating system. Its rating system includes symbols which vary with financial instruments. Here are the types of credit ratings offered by
ICRA:

- Bank loan credit rating
- Corporate debt rating
- Corporate governance rating
- Financial sector rating
- Issuer rating
- Infrastructure sector rating
- Insurance sector rating
- Mutual fund rating
- Public finance rating
- Project finance rating
- Structured finance rating
- SME rating

Moody's investor service:

Moodys define Credit Rating as, “Ratings are designed exclusively for the purpose of grading bonds according to their investment qualities.

Moody's Investors Service, often referred to as Moody's, is the bond credit rating business of Moody's Corporation, representing the company's traditional line of business and its historical name.

(Moody's Investors Service provides international financial research on bonds issued by commercial and
government entities.

Standard and poor:

CAs a credit rating agency (CRA) the company issues credit rating for the debt of public and private companies. And other public borrowers such as government and government entities. It is one of CRA that
take been designed a nationally recognized statistical rating organization by the U.S Securities and Exchange Commission. Standard and poor issues both short term and long term credit rating.

Fitch ratings:

Fitch Ratings publishes opinions on a variety of scales. The most common of these are credit ratings, but the agency also publishes ratings, scores and other relative opinions relating to financial or operational strength. For example, Fitch's credit ratings relating to issuers are an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, and repayment of principal, insurance claims or counterparty obligations.

OTCEI

Over The Counter Exchange of India (OTCEI) can be defined as a stock exchange without a proper trading floor. All stock exchange have a specific place for trading their securities through counters. But the OTCEI is connected through a computer network and the transactions are taking place through computer operations. Thus, the development in information technology has given scope for starting this type of stock exchange.OTCEI is recognized under the Securities Contract (Regulation) Act and so all the stocks listed in this exchange enjoy the same benefits as other listed securities enjoy.

NSDL

National Securities Depository Limited

National Securities Depository Limited (NSDL) is an Indian central securities depository under the jurisdiction of Ministry of Finance, Government of India based in Mumbai.It was established in August 1996 as the first electronic securities depository in India with national coverage. NSDL aims at ensuring the safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimize risk and reduce costs. At NSDL, we play a central role in developing products and services that will continue to nurture the growing needs of the financial services industry.

STCI

The Full form of STCI is Securities Trading Corporation of India Limited, or STCI stands for Securities Trading Corporation of India Limited, or the full name of given abbreviation is Securities Trading Corporation of India Limited.

What is the role of STCI?

STCI PD is an established player in the Fixed Income and money markets, catering to a diversified pool of investors across the Indian geography. The core activities of STCI PD comprise of underwriting, bidding, market making and trading in Government Securities, Treasury Bills and other fixed income securities.

*******UNIT-4*****COMPLETED*******

UNIT-5
Financial institutions

Meaning:
A financial institution is an institution that provides financial services for its clients or members. Any institution that collects money and puts it into assets such as stocks, bonds, bank deposits, or loans is considered a financial institution.
There are two types of financial institutions primarily, viz.,
1. Depository institutions
2. Non-depository institutions.
Depository institutions pay you interest on your deposits and use the deposits to make loans.
Examples: 1. Banks 2. Credit unions 3. Trust companies 4. Mortgage loan companies.
Non-depository institutions, on the other hand, undertake the function of selling financial products. In other words, those government or private institutions that serve as an intermediary between savers and borrowers, but do not accept time deposits, are known as non-depository institutions. Such institutions fund their lending activities either by selling securities or insurance policies to the public. Their liabilities (depending on the liquidity of the liability) may fall under one or more money supply definitions, or may be classified as near money.
Examples: 1. Insurance companies 2. Pension funds 3. Brokerage firms 4. Underwriting firms 5. Mutual fund companies 6. Investment trust.
Many financial institutions provide both depository and non-depository services. Probably the most important financial service provided by financial institutions is acting as financial intermediaries. Most financial institutions are highly regulated by government bodies. Finance companies typically enjoy high credit ratings and are hence able to borrow at the lowest market rates, enabling them to make loans at rates not much higher than banks. Even though their customers usually do not qualify for bank credit, these companies have experienced a low rate of default. Finance companies in general tend to be interest rate-sensitive-increases and decreases in market interest rates affect their profits directly.

Features of financial institution:
- It provides a high rate of return to the customers who have invested in the financial institution.
- It reduces the cost of financial services provided.
- It is considered very important for the development of financial services in the country.
- It also advises the customers on how to deal with the equity and the other securities bought and sold in the market.
- It helps to improvise decision making because it follows a systematic approach to calculate all the risks and rewards.

Money Market institutions:
The various financial institutions which deal in short term loans in the money market are its members. They comprise the following types of institutions:

1. Central Bank:
The central bank of the country is the pivot around which the entire money market revolves. It acts as the guardian of the money market and increases or decreases the supply of money and credit in the interest of stability of the economy. It does not itself enter into direct transactions. But controls the money market through variations in the bank rate and open market operations.

2. Commercial Banks:
Commercial banks also deal in short-term loans which they lend to business and trade. They discount bills of exchange and treasury bills, and lend against promissory notes and through advances and overdrafts.

3. Non-bank Financial Intermediaries:
Besides the commercial banks, there are non-bank financial intermediaries which lend short-term funds to borrowers in the money market. Such financial intermediaries are savings banks, investment houses, insurance companies, provident funds, and other financial corporations.

4. Discount Houses and Bill Brokers:
In developed money markets, private companies operate discount houses. The primary function of discount houses is to discount bills on behalf of others. They, in turn, form the commercial banks and acceptance houses. Alongwith discount houses, there are bill brokers in the money market who act as intermediaries between borrowers and lenders by discounting bills of exchange at a nominal commission. In underdeveloped money markets, only bill brokers operate.

5. Acceptance Houses:
The institution of acceptance houses developed from the me change bankers who transferred their headquarters to the London Money Market in the 19th and the early 20th century. They act as agents between exporters and importers and between lender and borrower traders. They accept bills drawn on merchants whose financial standing is not known in order to make the bills negotiable in the London Money Market. By accepting a trade bill they guarantee the payment of the bill at maturity. However, their importance has declined because the commercial banks have undertaken the acceptance business.

All these institutions which comprise the money market do not work in isolation but are interdependent and interrelated with each other.

Capital Market institutions:
The capital market in India includes the following institutions (i.e., supply of funds tor capital markets comes largely from these);
(i) Commercial Banks
(ii) Insurance Companies (LIC and GIC); (iii) Specialized financial institutions like IFCI, IDBI, ICICI, SIDCS, SFCS, UTI etc.; (iv) Provident Fund Societies;
(v) Merchant Banking Agencies;(vi) Credit Guarantee Corporations.

Cooperative banking institutions
Co-Operative Banks are small financial institutions that offer lending facilities to small businesses in both urban and non-urban regions. These are monitored and regulated by the Reserve Bank of India (RBI) and come under the Banking Regulations Act, 1949 as well as the banking laws act, 1965.

The Co-Operative Banks have a huge significance for the small businesses as these have around 67% penetration in villages and account for 46% of the net funding for the rural businesses through support for processing, housing, warehousing, transport, dairy, etc.

There are 4 types of co-operative banks in India:
1. Central Co-operative Banks:
These banks are organized and operated at the district level and can be of two types:

- Co-operative Banking Union
- Mixed control Co-operative Bank

In the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. State Co-operative Banks:
These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure.
With the help of State Co-operative Banks (SCBs), the RBI funds the co-operative institutions. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. Primary Co-operative Banks:
These offer credit services in the urban and semi-urban regions. Thus, they are not considered agricultural credit societies.
Primary Co-Operative Banks receive concessional refinance services from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. Land Development Banks:
The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes. They used to be regulated by the RBI as well as the state governments. However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

What is National Housing Bank?
National Housing Bank acts as an autonomous Institute with focus on Housing development, promoting Housing Finance Institutions across the country for both regional and national development of Housing Infrastructure and also to make available financing needs of these

Institutes through either fundraising for onward refinancing to such Institutes or to provide a guarantee to such Institutions for raising finances.

Functions of National Housing Bank

- Regulation and Supervision of Housing Companies operating in India is one of the most important and foremost functions of this apex Institute, powers of which are derived from the National Housing Bank Act.
- Raising of Funds on large scale and onward refinancing to Housing Finance companies, Cooperative Banks and other housing agencies for onward lending to Individual and Infrastructure companies in Housing Segment.
- Ensure Housing Finance Companies meet regulatory Capital requirements as required by BASEL norms, have proper risk management framework in place, good governance practices etc.

EXIM BANK

EXIM Bank or Export-Import Bank of India is India's leading export financing institute that engages in integrating foreign trade and investment with the country's economic growth. Founded in 1982 by the Government of India, EXIM Bank is a wholly-owned subsidiary of the Indian Government.

EXIM Bank Functions

The bank's functions can be grouped under products and services. They are discussed briefly below:

Financial Products

1.Buyer's credit – it is a credit facility program that encourages Indian exporters to explore new regions across the globe. It also facilitates exports for SMEs by offering credit to overseas buyers to import goods from India.

2.Corporate banking – it offers a variety of financing programs to augment the export-competitiveness of Indian companies.

3.Lines of credit – it offers extended a line of credit to Indian exporters to help them expand to new geographies and uses a line of credit as an effective market-entry tool.

4.Overseas investment finance – it offers term loans to Indian companies for equity investments in their overseas joint ventures or wholly-owned subsidiaries.

5.Project exports – encourages project exports from India and helps Indian companies secure contracts abroad.

Services.

6.Marketing advisory services – help Indian exporters in their globalization ventures by assisting in locating overseas distributors/partners, etc. Also, assists in identifying opportunities abroad for setting up plant projects or acquiring companies.

7.Research and analysis – conducts research in the field of international economics, trade and investment, country profiles to identify risks, etc.

8.Export advisory services – it offers information, advisory, and support services enabling exporters to evaluate international risks, exploit export opportunities and improve competitiveness.

NABARD:

National Bank for Agriculture and Rural Development

NABARD stands for National Bank for Agriculture and Rural Development and is an apex regulatory body in the Indian rural banking system. It is a development bank that aims to provide and regulate credit in rural areas.

Functions of NABARD

The functions of NABARD are described below.

In order to build an empowered and financially inclusive rural India, NABARD has specific departments that work towards the desired goals. These departments can be collectively categorized into three majors units:

1. Financial
2. Developmental
3. Supervision

✓The financial support necessary to build rural infrastructure is provided by NABARD.

✓Preparation of district-level credit plans by NABARD are used to guide and motivate the banking industry to achieve required targets.

✓NABARD also supervises the Regional Rural Banks (RRBs) and Cooperative Banks along with developing their banking practices and integrating them to the Core Banking Solution (CBS) platform.

What is the CBS platform?

Core Banking Solution (CBS) is a networking of branches, which enables customers to operate their accounts, and avail banking services from any branch of the Bank on the CBS network, regardless of where he maintains his account. The customer is no longer the customer of a Branch. He becomes the Bank's Customer.

✓NABARD also helps handicraft artisans sell their products by training and providing a marketing platform for them.

✓NABARD has partnered with various leading global organizations and institutions affiliated with the World Bank that have played a role in transforming agriculture.

✓It offers advisory services and financial assistance provided by these international partners to help in consultation with rural development and other agricultural practices.

RBI

Reserve Bank of India (RBI) is India's central bank. It controls the monetary policy concerning the national currency, the Indian rupee. The basic functions of the RBI are the issuance of currency, to sustain monetary stability in India, to operate the currency, and maintain the country's credit system.

Functions

1. Issue of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.This concentration of notes issue function with the Reserve Bank has a number of advantages: (i) it brings uniformity in notes issue; (ii) it makes possible effective state supervision; (iii) it is easier to control and regulate credit in accordance with the requirements in the economy; and (iv) it keeps faith of the public in the paper currency.

2. Banker to Government:
As banker to the government the Reserve Bank manages the banking needs of the government. It has to-maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as a member of the IMF and the World Bank.

3. Custodian of Cash Reserves of Commercial Banks:
The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

4. Custodian of Country's Foreign Currency Reserves:
The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crises connected with adverse balance of payments position.

5. Lender of Last Resort:
The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

6. Central Clearance and Accounts Settlement:
Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

7. Controller of Credit:
Since credit money forms the most important part of the supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

NBFC:
A non-banking financial institution or non-bank financial company is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.

Functions Of NBFC

- Hire Purchase Services
- Retail Financing
- Trade finance
- Infrastructural Funding
- Asset Management Company
- Leasing Services
- Venture Capital Services
- Micro Small Medium Enterprise (MSME) Financing.

FIIs

A foreign institutional investor (FII) is an investor or investment fund investing in a country outside of the one in which it is registered or headquartered. The term foreign institutional investor is probably most commonly used in India, where it refers to outside entities investing in the nation's financial markets.

FUNCTIONS:

- Foreign Direct Investments (FDI) are a part of the investment made by Foreign Institutional Investors. However, not every FII will make an FDI in the country it is investing in.
- FIIs directly impact the stock/securities market of the country, its exchange rate and inflation.
- FIIs can invest in listed, unlisted, and to-be-listed companies on the stock markets, in both the primary and secondary markets.
- FDIs are more intentional, while FIIs are more concerned with transfer of funds and looking for capital gains in a prospective company.
- In India, FIIs tend to invest via Portfolio Investment Scheme (PIS) after registering with Securities and Exchange Board of India (SEBI).
- Foreign Institutional Investors choose to invest in developing countries because they provide greater growth potential, due to the emerging economies.
- Sometimes, FIIs invest in the securities for a short period of time. This is helpful for liquidity in the market, but they also cause instability in flow of money.

Dangers/Risks:

International investing can provide you with some benefits as an investor. However, this method of investment does carry with it some risks that you need to be aware of. Here are some of the risks associated with international investing.

1. Exchange Rates

One of the biggest risks that you will have to deal with when investing internationally is the exchange rate. When you invest in an international company, you will have to first convert your native currency to the currency of the other country. Then, whenever your investment is completed, you will have to convert back into your original currency. When this happens, there is a significant exchange rate risk that is involved. If the value of the dollar goes down against the foreign currency, your investment may not be as profitable as you thought it would be. Before getting involved with a foreign investment, you should have good reason for confidence in the currency that you are converting your money to.

2. Limited Information
Even in today's information age, it can be difficult to obtain all of the information that you need about a foreign investment. In order to determine if an investment is sound, you need to have a great deal of information about it. When dealing with foreign companies, this may not be possible. Foreign countries may not have the same requirements as we do here in the United States. This means that you might not have access to financial statements or other important information that you need to make a decision. Many times, those that get involved with international investment do so based upon the recommendation of someone that they trust instead of actual financial numbers. This represents a big risk for most investors and could end up costing you a lot of money.

3. Political Factors
Something else that you will need to be concerned about is the political situation in the country in which you are investing. There are many unforeseen political factors that could creep up while you are investing in a company. The entire government that was in place could be overthrown. Many countries do not enjoy the stability that some of the more developed countries in the world do. If a new government takes over, you do not know how this will impact your investment.

4. Economic or Social Events
When you are investing in foreign countries, a number of economic or social events could potentially impact your investment negatively. If the economy of the foreign country goes south, this could considerably lower the value of your investment.

5. Lack of Liquidity
Another problem that often comes up when investing internationally is a lack of liquidity. Anytime that you are investing, you would like there to be a market for the security that you own. This way, you can sell it whenever you need to and cash out. With international investments, there may be a limited amount of buyers that are interested in what you have. This means that you might have to sell it at a deep discount in order to get your money when you need it.

IMF
The International Monetary Fund (IMF) is an international organization that aims to accomplish a number of different goals. These include reducing global poverty, encouraging international trade, and promoting financial stability and economic growth.

The IMF functions in three main areas:

- Overseeing the economies of member countries.
- Lending to countries with balance of payments issues.
- Helping member countries modernize their economies.

World Bank:
The World Bank is an international organization dedicated to providing financing, advice, and research to developing nations to aid their economic advancement. The bank predominantly acts as an organization that attempts to fight poverty by offering developmental assistance to middle- and low-income countries.

The International Finance Corporation(IFC),
A member of the World Bank Group (WBG), is the largest global development institution focused exclusively on the private sector. IFC helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services.

ABD
The Asian Development Bank provides assistance to its developing member countries, the private sector, and public-private partnerships through grants, loans, technical assistance, and equity investments to promote development. The ADB regularly facilitates policy dialogues and provides advisory services. They also use co-financing operations that tap official, commercial, and export credit sources while providing assistance.

Stock Exchange
A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here includes debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies.

Functions of Stock Exchange
Following are some of the most important functions that are performed by stock exchange:

Role of an Economic Barometer:
Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.
Valuation of Securities: Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.

Transactional Safety:
Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company’s position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.

Contributor to Economic Growth:
Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.

Making the public aware of equity investment:
Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.

Offers scope for speculation:
By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.

Facilitates liquidity:
The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.

Better Capital Allocation:
Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.

Encourages investment and savings: Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.

Role of SEBI:

This regulatory authority acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate the efficient and smooth working of the securities market. SEBI also plays an important role in the economy.
To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investors, and financial intermediaries.

1. Issuers of securities
These are entities in the corporate field that raise funds from various sources in the market. This organization makes sure that they get a healthy and transparent environment for their needs.

2. Investor
Investors are the ones who keep the markets active. This regulatory authority is responsible for maintaining an environment that is free from malpractices to restore the confidence of the general public who invest their hard-earned money in the markets.

3. Financial Intermediaries
These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

Stock Trading
Stock trading refers to the buying and selling of shares in a particular company; if you own the stock, you own a piece of the company.

Regulatory framework:
Indian Capital Markets are regulated and monitored by the Ministry of Finance, The Securities and Exchange Board of India and The Reserve Bank of India.

The Ministry of Finance regulates through the Department of Economic Affairs - Capital Markets Division. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for institutional reforms in the securities markets, building regulatory and market institutions,
strengthening investor protection mechanisms, and providing an efficient legislative framework for securities markets.
The Division administers legislations and rules made under the
1.Depositories Act, 1996,
2.Securities Contracts (Regulation) Act, 1956 and
3.Securities and Exchange Board of India Act, 1992.

Insider trading:
Insider trading is the trading of a public company's stock or other securities (such as bonds or stock options) based on material, nonpublic information about the company. In various countries, some kinds of trading based on insider information is illegal. This is because it is seen as unfair to other investors who do not have access to the information, as the investor with insider information could potentially make larger profits than a typical investor could make. The rules governing insider trading are complex and vary significantly from country to country.

Speculation
Definition:
Speculation involves trading a financial instrument involving high risk, in expectation of significant returns. The motive is to take maximum advantage from fluctuations in the market.
Description: Speculators are prevalent in the markets where price movements of securities are highly frequent and volatile. They play very important roles in the markets by absorbing excess

risk and providing much needed liquidity in the market by buying and selling when other investors don't participate.

Investor protection:
Investor protection measures
Simplification of share transfer and allotment procedure
SEBI appointed a committee under the chairmanship of Shri R Chandrasekaran, Managing Director of the Stock Holding Corporation of India Limited, to suggest a procedure for expediting and simplifying share transfer and allotment. The committee has submitted its draft report which has been circulated to various market intermediaries for their comments. Based on the feedback received, the report will be finalized and necessary action will be taken to implement the recommendations. It is expected that implementation of the recommendations of this committee would considerably ease the difficulties faced by investors on account of inordinate delays in share transfers and bad deliveries.

Unique order code number
All stock exchanges have been required to ensure that a system is put in place whereby each transaction is assigned a unique order code number which is intimated by the broker to his client. Once the order is executed, this number is to be printed on the contract note.

Time stamping of contracts
Stock brokers have been required to maintain a record of time when the client has placed the order and reflect the same in the contract note along with the time of the execution of the order. This will ensure that the broker gives due preference in execution of client's order and charges the correct price to his client without taking advantage of any intra-day price fluctuation for himself.

Role of sub-brokers
Historically, the brokers have been operating through a network of sub-brokers who form an important link between the brokers and the investors. While the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 provide for compulsory registration of sub-brokers, only 1,798 sub-brokers have registered with SEBI. In an attempt to safeguard the interest of investors and bring sub-brokers under the regulatory framework of SEBI and the stock exchanges, the following measures have been initiated:

✓Efforts have been made to revive the institution of remisier under the rules and bye-laws of the stock exchanges. A remisier is an agent of a broker and is registered with the stock exchange. However he is not authorized to issue a contract/confirmation note to his investor; instead the contract is issued by the broker and as such the broker takes full responsibility in respect of that deal. This way the interest of the investor vis-…-vis the remisier or broker is protected.
✓Transfer deeds bearing rubber stamps on the reverse other than those of clearing members of the stock exchanges/clearing house/clearing corporations, SEBI registered sub-brokers and

remisiers registered with the stock exchanges would become bad delivery in the stock exchanges for all transfer deeds dated June 1, 1997 and thereafter.
✓A stock broker may not deal with a person who is acting as a sub-broker unless he is registered with SEBI. It shall be the responsibility of the broker to ensure that his client are not acting in the capacity of a sub-broker unless he is registered with SEBI as sub-broker or is recognised by the stock exchange as a remisier.

Investor protection fund

The amount of compensation available against a single claim of an investor arising out of default by a member broker of a stock exchange has already been increased to Rs.1 lakh in case of major stock exchanges, to Rs.25,000 in case of smaller stock exchanges viz. Gauhati, Bhubaneshwar, Magadh and Madhya Pradesh and to Rs. 50,000 in case of the other stock exchanges.

Listing

In corporate finance, a listing refers to the company's shares being on the list (or board) of stock that are officially traded on a stock exchange. Some stock exchanges allow shares of a foreign company to be listed and may allow dual listing, subject to conditions.

SBI:

State Bank of India (SBI) is the country's largest commercial bank, in terms of assets, deposits, and employees.

Owned by the Indian government, it offers a range of general banking services from loans and advances to corporates and individuals in India and abroad. Because it is state-owned, SBI is the preferred banker for most public sector corporations. SBI, along with its associate banks, offers micro-financing to entities such as self-help groups in rural areas that would otherwise have no access to formal credit channels. Through its subsidiaries and joint ventures, SBI offers financial services such as investment banking, brokerage services, asset management and insurance.

Functions

The functions of the State Bank of India is largely divided into two main categories. These are ordinary banking functions and central banking functions. Both these categories are broadly divided into many subcategories.

Central Banking Functions

SBI acts as an agent to the RBI, where there are no branches of RBI available. Accordingly, there are many functions which are rendered by the SBI. These are

- Maintaining the currency
- Government’s bank
- Bank’s banker
- Acts as a clearinghouse

General Banking Functions

There are many functions that SBI beyond the above-mentioned services. These services are rendered by SBI under section 33A. These are:

- It accepts deposits from the people in the form of savings, fixed, current, and recurring deposit accounts.
- Based on the security of stocks, securities, SBI gives advances and loans to the public.
- SBI gives the facility of drawings, accepting, and buying and selling the bills of exchange.
- It also issues and circulates the letters of credit.
- SBI also invests in funds or any special kind of security.

*******UNIT-5-COMPLETED*******