Financial Market Segments, Institutions and Instruments

Term Money Market

It is a segment of the uncollateralized money market. The maturity period is between 15 to 365 days.

Term Lending and Refinance Institutions

TLIs and RIs meet the bulk of large and medium industry financial needs. These institutions include: IDBI, IFCI, IRBI, SIDBI and large institutional investors such as LIC and GIC.

Term loans from financial institutions and banks are a syndicated activity. For big projects financial institutions provide finance on a consortium basis and commercial banks also join them where 'gap' is left in financing arrangements of the project costs.

NBFCs

NBFCs comprise hire purchase finance companies, equipment lease companies, housing finance companies, investment companies, loan companies, mutual benefit finance companies, chit fund companies and etc.

Commercial Papers

Commercial Paper (CP) is issued in the form of a promissory note sold directly by the issuers to investors, or else placed by the borrowers through agents such as merchant banks and security houses. When it is issued by corporate borrowers directly to investors in the money market and by the process of securitisation, the intermediation function of the bank is obviated. CP was introduced in India in January 1990. in order to enable highly rated non-bank corporate borrowers to diversify their sources of short-term borrowings and also provide an additional instrument to investors. CP could carry an interest rate coupon but is generally sold at a discount. Since CP is freely transferable, banks, financial institutions, insurance companies and others are able to invest their short-term surplus funds in a highly liquid instrument at attractive rates of return.

Certificate of Deposits

Certificates of Deposit (CDs) were introduced in June 1989. They are essentially securitised short-term time deposits issued by banks and all-India financial institutions during periods of tight liquidity, at relatively higher discount rates as compared to term deposits.

Other Money Market Segments (Money Market Mutual Funds) (MMMFs)

Money market mutual funds were introduced in India in April 1991 to provide an additional short-term avenue to investors and to bring money market instruments within the reach of individuals. A detailed scheme of MMMFs was announced by the Reserve Bank in April 1992. The portfolio of MMMFs consists of short-term money market instruments. Investments in such funds provide an opportunity to investors to obtain a yield close to short-term money market rates coupled with adequate liquidity. The Reserve Bank has made several modifications in the scheme to make it more flexible and attractive to banks and financial institutions. In October 1997, MMMFs were permitted to invest in rated corporate bonds and debentures with a residual maturity of up to one year, within the ceiling existing for CPs. The minimum lock-in period was also reduced gradually to 15 days, making the scheme more attractive to investors.