

1. INSTITUTION AND INSTRUMENTS IN F.M

PART-A : Financial Institution.

- The Financial system plays key role in economy by -
stimulating economic growth, affecting economic welfare.
- A financial institution / system makes it possible more efficient transfer of funds.
- According to structural approach, financial system of economy consist 3 components -



Ques-1] Explain Financial Institutions??

- ↓
- Financial institution are business organisation that act as mobilisers of saving & purveyors of credit finance.

- Financial*
- The Financial business org deals in FA, such deposits, loan, securities & so on.

- ↓
- Non-Financial are those business org. which deals in real asset such as machinery, equipment, real assets etc.

Non-Financial

A) Banking Financial Institution.

↓

Those institution, which participate in economy's pay system.

B) Non-banking Financial Institution

↓

Those institution, which act as "Purveyors" & they will not create credit.

eg = LIC, IDBI

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A) Financial Intermediaries

↓

Those institution which are intermediaries between saver & investors; they lend money as well mobilise saving.

B) Non-Financial Intermediaries

↓

Those institution which do the loan business but their resources are not directly obtain from savers.

Ques-2] Write about Reserve bank of India ???

- ↓
- The Origin of Reserve bank can be traced to 1926, when Royal commission on Indian currency & Finance - also known as "Hilton-Young-Commission".
 - It is creation of central bank to separate control of currency & credit from gov & banking facilities throughout country.
 - Reserve bank of India Act, 1934 established Reserve bank as banker to CG & set in motion a series of actions in start up. 1935.
 - Today's RBI bears some resemblance to original Institution but mission to expanded along deepened, broadened, increasingly eco

↓

* RBI at a Glance

- Managed by central board of directors.
- Manager of foreign exchange reserves.
- Banker & debt manager to government.
- Supervisor of payment system.

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- Bankers to bank
- Maintaining financial stability
- Development Function.
- Research, data & knowledge sharing.

Ques-3] Explain structure, organisation & Governance of RBI???

The Reserve bank is wholly owned by Government of India.

The central board has primary authority for oversight of Reserve bank.

The central board of directors includes:

- Official Director

- 1] 1 Governor
- 2] 4 Deputy governor at max.

- Non-official Director

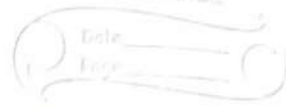
- 1] 4 Director - Nominated by CG to represent local board
- 2] 10 Director - Nominated by CG to expertise various segments economy.
- 3] 2 representative - by CG.

- Holding of meeting of board

- 1] 6 meeting — ar min — each year.

- 2] 1 meeting — ar min — each quarter.

- Committee of central Board
 - A) Current business of central bank & typically meets every week on "Wednesday".
 - B) It focuses on current operations, including approval of weekly statements of accounts.
- Board of Financial Supervision
 - A) Regulate & supervise commer. banks, Non-banking Finance comp (NBFC's), Urban co-op bank.
 - B) Regulate & supervise payment & settlement system.
- Sub-committees of CB — Includes those on a Inspection of Audit staff & building.
- Local board
 - A) In chennai, kolkata, Mumbai & New Delhi representing country 4 regions.
 - B) Local board members are appointed by CG for 4 yrs terms.



Ques-4] Explain management & structure ???



- The "Governer" is Reserve Bank's Chief Executive.
 - Governer supervises & directs the affairs & business of Reserves bank.
- Following Department & sub-department of RBI.

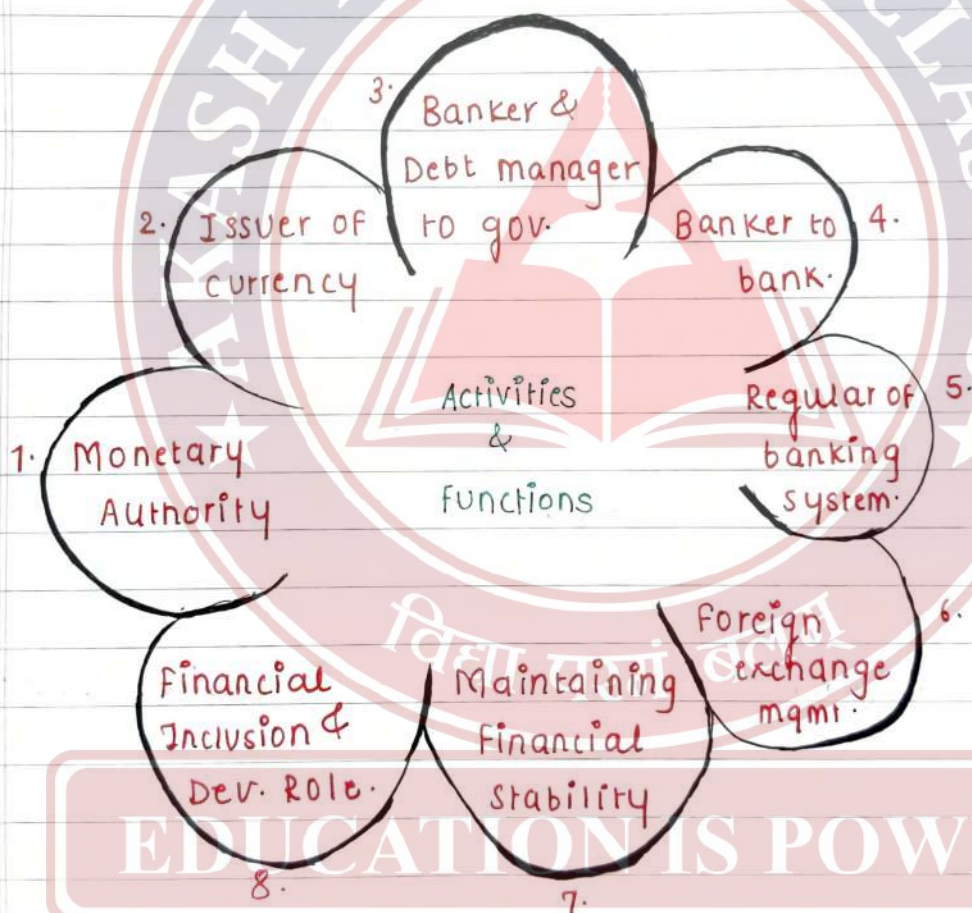
Sl.no	Department	Sub- Department
1.	Markets	<ul style="list-style-type: none"> • Internal Debt mgmt Department • Monetary policy Department • Financial market Department
2.	Research	<ul style="list-style-type: none"> • Department of economic & policy reasearch. • Dep- of Statistics & info mgmt.
3.	Regulation, Supervision & Financial stability	<ul style="list-style-type: none"> • Dep. of banking supervision. • Dep. of banking & Non-banking Supervision
4.	Serpervision/ service	<ul style="list-style-type: none"> • Dep. of Gov. & bank department. • Dep. of currency dep. • Customer service dep.
5.	Support	<ul style="list-style-type: none"> • Human resource mgmt. dep. • Dep. of communication. • Premises Dep. • Legal Dep. • Inspection Dep.

Ques-5] What is activities & functions of RBI??

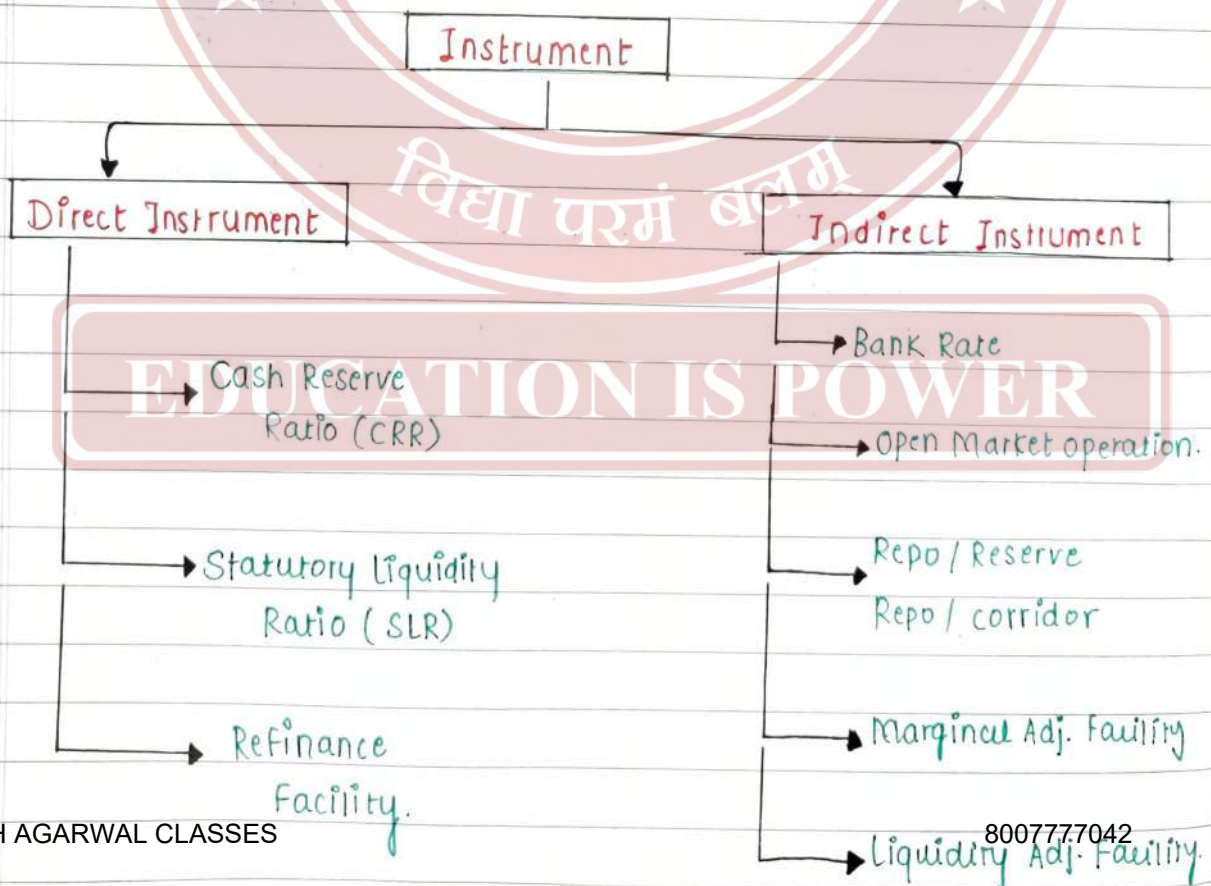
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The Reserve bank is umbrella network for numerous activities, all related to nation's financial sector, beyond of typical central bank.

- Main activities or functions of Reserve bank are -



- 1] Monetary Authority
- A] The Reserve bank of India control credit & formulate monetary policies.
 - B] Main objectives are -
 - Maintaining price stability
 - Ensuring adeq. flow of credit to productive sector of economy.
 - Financial stability.
 - C] Mone. policy Dep (MPD) formulate monetary policy.
Financial Mar. Dep (FMD) handle day-to-day liquidity mgmt op.
- ∴ There are several Direct & Indirect Instruments Implementation to monetary policy.



Ques-6] Explain issuer of currency ???

- The Reserve bank is nation's sole note issuing authority.
- Along with gov. of India, RBI responsible for design & prodⁿ & overall mgmt of nation's currency, with goal of ensuring adequate supply of clean & genuine notes.
- The Dep. of current mgmt at central office, Mumbai Corporation with issue dep of Reserve bank across offices India currency mgmt

4 printing presses actively print notes

- Dewas, Madhya Pradesh.
- Nasik, Maharashtra.
- Mysore, Karnataka.
- Salboni, West Bengal.

Ques-7] Explain Banker & Debt manager to government ???

- Managing government's banking transaction is key role of RBI.
- Like individuals, businesses & banks, governments need a banker to carry out their businesses, banks, governments need a banker to use our financial trans. in effective & efficient manner.
- RBI act as a banker to those state gov. that has entered into an agreement.
- As central gov., Reserve bank maintain accounts, receives money into make payment out of these accounts trans. to gov.

- Role as banker & debt manager to gov includes several distinct functions:



- 1) Under banking transactions for central & state gov. to facilitate receipt & payment of maintaining accounts.
- 2) Managing gov. domestic debt with objective of raising req. amount of public debt in cost & effective manner.
- 3) Developing market for gov. securities to enable government to raise debt at reasonable cost.
- 4) RBI's electronic system automatically consolidates all OF gov. trans. to determine net financial position.

Ques-8] RBI is known as Bankers to Bank???

- 1) Banks are required to maintain portion of their demand & time liabilities as cash Reserves with Bank Reserve
- 2) They need to maintain current A/c with reserve bank.

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- 4) These current a/c also maintained for participation in centralised & decentralised payment system are used in settling inter-bank transaction. such clearing transaction or clear money transactions between 2 banks.
- 3) Current account of individual banks are being opened in e-Kuber by banking dep.

As bankers to bank, RBI focus on -

- 1] Enabling smooth, swift & seamless clearing & settlement of inter bank obligation
- 2] Providing efficient means fund transfer to bank.
- 3] Acting as lender of last resort.

Ques-10] Explain Regulatory Role of RBI ???

- RBI play critical role to play ensuring safety & soundness of banking system.
- Maintaining financial stability & public confidence in system.
 - Reserve bank regulates & supervises nation's financial system.
 - Reserve bank protects interest of depositors, ensures framework for orderly development.

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Commercial
Banks

Regulated by Dep.
of banking op. & Dev,
Supervised by dep. of
banking institution.

Urban
co-operative
Bank

Regulated by &
supervised by
urban bank
dep.

Regional
Rural
Bank

Regulated by
rural planning &
credit dep & super-
vised by NABARD.

Ques-10] Explain Several Supervisory tools used by RBI???

1] ON-SITE
INSPECTION

2] OFF-SITE
Surveillance

3] THEMATIC
INSPECTION

- The Board Financial supervision Oversees Reserve's Bank regulatory & supervisory responsibility
- Consumer confidence & trust confidence are fundamental to proper functioning of banking system

As nation's financial regulator, Reserve bank handles range of activities

- a) Licensing
- b) Prescribing capital requirements.
- c) Monitoring governance.
- d) Regulatory interest rate in specific areas.
- e) Setting appropriate regulatory norms related to income recognition, asset classification, investment valuation.

Ques-11] RBI as a Foreign Exchange manager???

Reserve bank plays a key role in regulation & development of foreign exchange 3 roles

- a) Regulating transaction related to external factor & facilitate develop foreign exchange market.
- b) Ensuring smooth conduct & orderly condition.
- c) Managing foreign currency asset & gold reserves of country.

- Reserve bank responsible for administration of foreign exchange mgmt 1999.
- Foreign exchange dep (FED) responsible for regulation & development of market.
- Foreign exchange rate reflects demand & supply of foreign exchange arising from trade & cap. transaction.
- RBI's Financial Market Dep (FMD) participates in foreign exchange market under sales / purchases of foreign currency.

Ques-12] Role RBI as Regulator & supervisor payment & settlement system??

The payment & settlement system Act, 2007 (PSS Act) gives reserve bank oversight authority, including regulation & supervision.

They consist of all diverse arrangements that we use to systematically transfer money, currency, paper instr.

There are 2 tiered structure

1] Provide basic framework for our payment system.

2] Focuses on supervision of his framework.

Most operate security platform of Indian financial network, using digital signatures - for various system

1] Retail payment system

2] Large value system.

Facilitating cheque clearing, electronic funds transfer, through national electronic fund Transfer (NEFT), bulk payment.

1] (RTGS) - Fund transfer
2] Securities settl. system - gov. sec. market
3] Foreign exchan. clearing - Foreign currency
4] (PSS) - Reserve bank payment & settlement system.

operated through local clear houses. 5] (IT) - Res. bank internal IT system.

Ques-13] Explain maintaining financial stability of RBI???

1] Financial stability has emerged as key critical policy Obj. for central banks in wake of recent global financial crisis.

2] Central banks have a critical role to play in achieving objective.

3] In 2009, RBI setup dedicated financial stability unit to put in place a continuous monitoring macro financial system -

- a) conduct macro-prudential surveillance of FS.
- b) Developing model for assessing financial stability in going forward.
- c) Preparation of half-yearly financial stability report.
- d) Development of time series of core set of financial indicators.

** First Financial stability Report (FSR) being published in March 2010.

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** FSRs are now being published on half yearly basis - June & Dec.

Ques-14) what is Role of Financial Inclusion & Development??

This role includes ensuring credit availability to productive sector of economy -

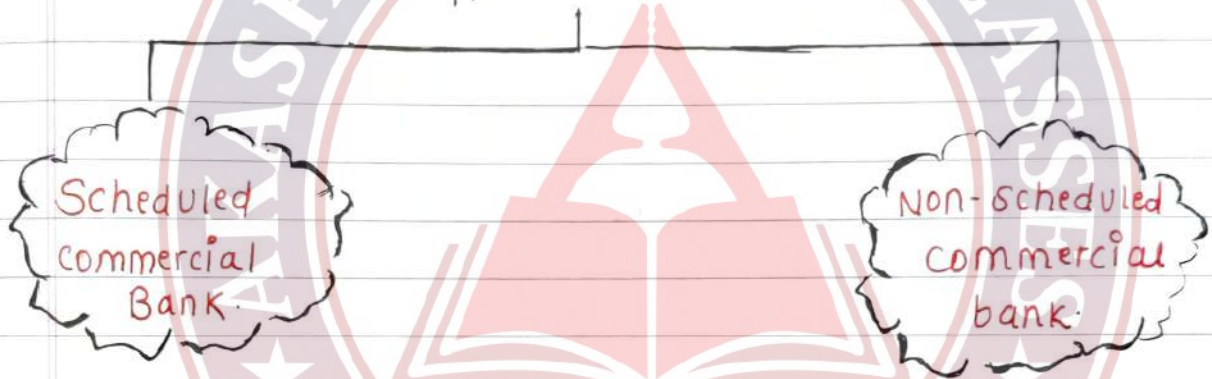
Reserve bank added new institution as economy has some institution established RBI -

- a) Deposit Insurance & credit Guarantee corporation (1962) to provide protection to bank depositors & guarantee
- b) Unit Trust of India (1964) the first mutual fund of country
Industrial develop. bank (1964) develop. financial instit.
- c) National bank for Agriculture & Rural develop. (1982) for promoting rural & agriculture credit.
- d) Discount & Finance House of India (1988) money market intermediary & primary dealer gov. securities.
- e) National Housing bank (1989)
- f) securities & Trading corporation of India (1994)

Ques-15] what is commercial bank? Explain types of comm. banks?

- Commercial bank are part of organized money market India
- Commercial bank are joint stock companies dealing in money & credit accept demand deposit from public.
- Deposits are accepted from large group of people in form of money.

Types of Banks



A) Schedule commercial bank-

A scheduled bank is so called as included in [SCH-II] of Reserve Bank of India Act, 1934.

Following 3 condition bank must satisfy -

- It must have paid-up capital & Reserves aggregate value asset at least 500 lakh.
- RBI affairs are not conducted in manner damaging to int. to depositors.
- It must corporation & not partnership.

- Advantages of SCB-

- Free/concessional remittance facilities through office of RBI & agents.
- Borrowing Facility from RBI, depositing necessary docu

B) Non-Scheduled Bank -

Indian Bank

Foreign Bank.

1] Indian banks are those banks which are incorporated in India & whose head offices are in India.

2] Foreign banks are those banks which are incorporated outside of India & head office outside India.

3] They are maintained cash reserve with RBI rates.

Private Bank

Public sector Bank

- whose at least 51% shares are holding by private sectors.

- Those bank which are not private sector.

Ques-16]

what is the functions of commercial banks???

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Banking Functions

- 1] Acceptance of deposits from public
- 2] Advancing Loan

Non-banking Functions

- 1] Agency services
- 2] General utility services

• Banking Functions -

a) Acceptance of Deposits from Public -

(i) Demand deposits -

- It can be in form of current account or saving account.
- These deposits are withdrawable any time by depositors by cheques.
- Current deposits have no interest or nominal interest.

(ii) Fixed Deposits -

- Those deposits which are withdrawable only after specific period.
- It earns higher rate of interest.

(iii) Recurring Deposits -

People deposit a fixed sum every month for a fixed period of time.

b) Advancing Loan -

Bank grants short term, medium term & long term loans to meet the requirement of WC of industrial unit & trading unit.

(i) Overdraft — Bank grant old facility to curr. acc holder to draw amt.

(ii) Cash credit — credit cash against hypothecation of goods.

(iii) Discounting Trade Bills - Facilitate trade & commerce by discounting bills of exchange.

(iv) Term loan — Traders & agriculturists against collateral activities.

(v) Money at call or short term adv — very short period not exceeding 7 days to lenders.

• Non-Banking Function -

a) Agency Services -

- 1] It makes periodic payments of subscription, Rent, Insurance prem. as per standing order.
- 2] It collects bill, cheques, DD etc.
- 3] It acts as a trustee for property of customer.
- 4] It acts as attorney.

b) General utility Services -

- 1] Lockers are provided by bank at nominal rate.
- 2] Provides travel by cheque & ATM facility.
- 3] Bank maintains foreign exchange dep.
- 4] Bank underwrites issues of shares & deb of concerns.
- 5] Accepts public provident fund deposits.

Ques-17] Explain Non-Banking Financial companies???

(NBFC) defined under clause (xi) paragraph 2(i) of Non-banking financial companies, 1998

↓
 "non-banking financial companies means only non banking financial institution which is a loan company or hire purchase company".

↓
 (NBFC) registered u/s 1956 companies act, engaged in business of loans & advances, stock/shares or other marketable securities like leasing, hire purchase But does not include -

Does not include —

- ① Agriculture activity.
- ② Industrial activity.
- ③ Purchase or sale of any goods.
- ④ Sales / Purchase / construction of immovable property.

• Different types of NBFC registered RBI

1) Asset Finance company (AFC)

- a) It is carrying on principle business of financing physical asset such as automobiles, tractors, general sets, industrial machines etc.
- b) Economic activity & income not less than 60% total assets & total income respectively.

2) Investment company (IC)

(IC) means any company which is financial institution

carrying on principle business acquisition of securities.

3) loan company (LC)

(LC) means providing finance wheather by making loans or advance or any other activity.

But does not include Asset finance company.

4) Infrastructure Finance company (IFC)

- a) which deploys at least 75% of total asset in infra. loan
- b) Minimum net owned funds 300 cr.
- Minimum cr. rating 'A'
- CRAR of 15%.

5) Infrastructure Debt fund (IDF)

- a) (IDF - NBFC) company Facilitate flow long term debt into projects.
- b) Issue of Rupee or Dollar denominated bond minimum 5 yrs maturity.

6) Non-Banking Financial company - Factors (NBFC - Factors)

- a) NBFC engaged in business of factoring.
- b) Financial business should constitute asset atleast 50% of total assets &

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not less than 50% Gross Income

7) Mortgage Guarantee companies (MGC)

- a) which at least 90% business turnover mortgage business atleast 90% of gross income net owned fund is 100 cr.

Ques-18) What is Regulatory objectives of NBFCs ???

The Reserve bank of India entrusted with responsibility of regulating & supervising (NBFC) -

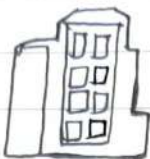
Objectives

- a) ensure healthy growth of financial companies.
- b) ensure companies function as a part of financial system within policy framework.
- c) quality of surveillance & supervision exercised by Bank over NBFCs sustained by keeping development take
- d) To meet this need, clarifications in form of questions & answers being brought out by RBI.
- e) It has been felt necessary to explain rationale underlying regulatory changes.

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Ques-19] Diff. between NBFC's & Banks ???

NBFC's



Bank



- | | |
|--|---|
| 1] NBFC's is registered under companies act 1956. | Bank registered under banking regulatory act 1949. |
| 2] NBFC's cannot accept demand deposit. It cannot issue a self drawn cheque. | Banks can issue self drawn cheque. |
| 3] Payment method like NEFT, RTGS is not a part of NBFC. | Pay method like NEFT, RTGS is part of bank. |
| 4] loan sanction process is easy & convenient in NBFC | loan sanction process is lengthy & hectic in bank. |
| 5] Deposit insurance facility of deposit insurance & credit Guarantee Corporation is not available to NBFC's | This all facility are available to banks depositor. |

Ques-20] Define Insurance companies & explain its functions???

Insurance Industry
In India

PUBLIC SECTOR

PRIVATE SECTOR

Life Ins.

AKASH AGARWAL CLASSES

General Ins.

Life Insu.

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General Ins.

• Insurance companies -

1] They are Financial intermediaries as collect & invest large amount of premium.

2] They offer protection to investors, provide means for accumulating saving, channelise funds to gov. & other.

3] They are contractual saving agencies which receive, mostly without fail, steady inflow of funds regular contri- to pension plan.

4] In most cases, long term liabilities, many policies are held for 30, 40, 50 or even many years.

5] So, liquidity is not problem of them & major activities feild long term investment.

6] Insurance business consist spreadling over time risks & sharing between persons & org.

• Functions of Insur. comp -

1] Issue applicant certificate of registration, renew, modify withdraw, suspend or cancel registration.

2] Specifying requisite qualification, code of conduct & practical training for intermediaries

3] Specifying code of conduct for surveyors & loss assessors.

4] Promoting efficiency in conduct of insurance business

5] Promoting & regulating professional org. connected with insurance & re-insurance business.

6] Levying Fees & other charges for carrying out purposes of Act.

Ques-21]

Explain Pension Funds ???

** Pension Funds grown rapidly become primary vehicle of retirement benefit, saving & income in many countries.

** PP are generally sponsored by private employers, gov. as employer & labour unions.

** IF benefits promised by —

Funded Pension Plan (FPP)

- ↓
- If benefits promised by PP are secured by assets specifically dedicated for purposes, is called (FPP).

Unfunded pension Plan (UPP)

- ↓
- If benefits promised by sponsor depends on general credit & not by any specific contri. to be made year after year, is called (UPP).

Ques-22]

Explain Classification of Pension plan ???

- Defined Benefits Pension plan (DBPP)
- Defined contribu. Pension plan (DCPP)
- Pay-as-you-go Pension plan (PAYGPP)

- Defined Benefits

Pension plan (DBPP)

1] Under (DBPP), final pension is pre-defined based on final salary & period of under service.

2] Most pension plan offered by public sector enterprises & gov. as employer in India, DBPP variety.

3] DBPP's involve considerable cost of employer.

4] DBPP typically establish legally sep. trust fund & contr. shares bonds

- Defined Contribution

Pension plan (DCPP)

1] The employee & employer make pre-determined contribution each year, these funds are invested over period of time retirement of employee

2] Employee will get certain amount which would use purchase an annuity.

3] It is also known as 'Money Pension Purchase Plan'.

- Pay-as-you-go Pension plan (PAYGPP)

- 1] In European countries, including France & Germany pension are paid through PAYGPP, under current employees pay % of their income.
- 2] In US, there as been trend towards declined in DBPPs & increase DCPPs.

Ques-23]

Explain current Pension Schemes ???



- 1]- (GEPS) which has been made mandatory From 1995.
- 2]- It provides → a) superannuation pension.
b) retirement pension c) widow or widower's pens.
- 3] Benefits pay as go scheme which diverting 8.33% of employers existing share PF contri.
- 4] CG contri. amount equivalent to 1.16% of workers salary.
- 5] Scheme provides mini pension 500 p-month & max. pension 60% of salary.

Bank employees Pension Scheme.

- 1] In 1993, & Insurance employees pension scheme (IEPS), 1993 are benefit of employee of public sector banks.
- 2] They are financed by entire employer portion of PF contribution which 10% of basic salary.
- 3] The main benefit under scheme -
(after superannuation at 60 yrs of age & after 33 yrs of service).
50% of average basic salary during last 10 months.
- 4] Additional benefit of 50% average of allowances which rank PF but not DA during last 10 months amounts 2-4% of employee salary.

Privately Administered superannuation Fund.

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- 1] It is stipulated that he can accumulate fund in forms of irrevocable trust fund during employment concern but pension payable, suitable annuities purchase from LIC.
- 2] LIC has introduced 4 pension plan in past -
 - i) Varishta Pension Bima Yojna (VPBY)
 - ii) New Jeevan Akshay (NJA)
 - iii) New Jeevan Dhara (NJD)

Ques-24]

Explain concept of Angel Fund ???

Angel Fund -

i] Angel Fund is sub-category of venture capital fund category I alternative investment fund that raises funds from angel investors.

ii] Angel Fund shall accept, upto max. period of 3 yrs. & not less than ₹ 25 lakh from angel investors.

"Angel investor" means persons who proposes to invest in angel fund satisfy 1 of following condition -

(a) an individual investor who net tangible asset of at least 2 cr. rupees excluding value of prin. residence

1] has early stage investment experience.

2] has experience as serial entrepreneur.

3] Senior mgmt professional with least 10 yrs of exp.

- Investment in Angel Fund

Sec 19D SEBI regulation

- Angel Fund shall only raise fund by way of issue units to angel investor.
- Angel Fund corpus at least 10 cr. rupee
- Angel fund shall accept upto max. per. 3 yrs & invest of 25 lakh rupees.
- Raise funds through private placement by issue info.

Sec 19F SEBI regulation

- have been incorporated during prece 3 yrs from date of invest.
- TLO of less than 25 cr. rupees.
- are not promoted & sponsored related industry grp TLO exceed 3 cr. 300 cr. rupees.

Ques-25] Explain Hedge Funds ???

Hedge Funds -

* Meaning -

- 1] Hedge Funds are private investment vehicle not open to general investment public.
- 2] Hedge Funds managers generate profit from both long as well as short position.
- 3] Private nature of hedge funds often suits both needs of investors & managers.

* Features of Hedge Fund -

- 1] Reduce risk, enhance returns & minimize correlation with eq. & bond market.
- 2] Flexibility in investment option.
- 3] Variety in terms of invest. returns, volatility & Risk.
- 4] Consistency of returns & capital preservation.

* Hedging strategies adopted in case of HF -

A] Selling short

↓
selling shares w/o owning them, to buy them back at future date at lower price.

B] Using arbitrage

↓
Seeking to exploit pricing inefficiencies between related securities.

C] Trading option

↓
contract whose value are based on performance of underlying financial asset, index & other inv.

D) Investing in application/
anticipating sp. event

↓
Merger transaction, hostile takeover, spin-off, existing proceedings etc.

E) Investing in delay
discounting securities

↓
companies about enter or exist financial distress or bankruptcy.

* Benefits of Hedge Funds -

1) Seeking Higher Returns -

Hedge fund strategies generate positive returns in both rising & falling equity & bond market.

2) Investment style -

Many uncorrelated with each other provide investors with wide choice of hedge fund strategies to meet their inv.

3) Long Term solution -

Hedge fund provide ideal long-term inv. solution, eliminate need correctly time entry & exist market.

* Diversification -

1) Hedge funds in balanced portfolio reduces overall risk & increases returns.

2) Adding hedge funds to invest. portfolio provides diversification not available in trad. investing.

Ques-26] Explain Function & Role of SEBI Regulation ???

SEBI
Was established on
April 12, 1992 with
SEBI act 1992.

FUNCTION OF
SEBI

"To protect interest of investor in securities & promote develop of regulate securities market & matters connected therewith".

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- 1] SEBI has drawn up programme for inspecting stock exchange. basic objective of inspection is improving functioning stock exchange.
- 2] SEBI has been authorised to conduct inspection of various mutual funds.
- 3] SEBI introduced no. of measures to reform primary market in order to make stronger std. disclosure.
- 4] The process of registration & Intermediaries such stockbrokers has provided under SEBI act 1992.

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- 5] SEBI has advised to stock exchange to collect From companies public issue, deposit 1% issue amt.
- 6] Merchant banking / bankers have authorised by SEBI.
- 7] SEBI issued regulation pertaining to "Insider Trading" in nov. 1992 prohibiting dealings, communication in matters.
- 8] SEBI issued a separate set guidelines for dev. financial institution in sep. 1992 for disclosure & invest. regarding raising their funds.
- 9] SEBI regulation provide laissez-faire relationship between various constituents mutual funds to structural changes in mutual funds.
- 10] SEBI has issued directives to stock exchange to ensure contract notes are issued by brokers to clients within 24 hours of execution contract.
- 11] In july, 1995 Malegam committee recommendation SEBI issued no. of guidelines in sep. & oct 1995 to protect int. to investor.

PART-B

Financial Inst - CAPITAL MARKET

Ques-1] Explain capital market & Explain its Functions??

Meaning

- 1] Capital market is market for equity shares & long term debt.
- 2] In this market, capital funds & comprising both equity & debt issued are traded.
- 3] Capital market includes financial instruments with more than 1 maturity.
- 4] Market in which money is provided for periods longer than a year, as raising of short term funds take place on other market.
- 5] It is categorised by -
 - equity & preference shares.
 - fully convertible debentures.
 - non-convertible debentures
 - Partly convertible debentures.

F U N C T I O N

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- A] Mobilises long-term saving to finance long-term investments.
- B] Provide risk capital in form of equity.
- C] Encourage broader ownership of productive asset.
- D] Lower the cost of transaction & information.

FUNCTION

- e) Improve efficiency of capital allocation through competitive pricing.
- f) Enable quick valuation of financial instrument both equity & debt.
- g) Provide operational efficiency through -
 - Simplify transaction procedure.
 - Lowering settlement timings.
 - Lowering transaction needs.

Ques-2]

Explain primary market ?? Explain its types of issue market?



- Primary market is market for new issues.
- Hence it is also known as "new issue market".
- This refers to long-term flow of funds from surplus sector to govt. & corporate primary issues to govt. bank & non-bank FI.

TYPES OF METHODS -

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1. PUBLIC ISSUE

- A) (IPO) this is offer sale of securities of unlisted company for first time.

B) (FPO) this is offer of sale of securities by listed companies for first time.

2. **RIGHT ISSUE** - A] If company issue share in market to raise additional cap. existing members are given to first preference to apply for new shares,

B] In proportion to existing share holding, this is known as share holding / Right issue.

3. **BONUS ISSUE** - A] Bonus issue are made by the company when it has huge amt of accumulated reserves & wants to capitalize reserves.

B] Bonus shares are issued on fully paid-up shares only, to existing SH at free of cost.

4. **PRIVATE PLACEMENT** - A] It is direct sale of securities to some specified individual or FI.

B] Preferential Issue allot. of shares to selected person.

5. **DEPOSITORY RECEIPTS** -

A] Issue of negotiable equity instru. by Indian companies for raising capital from international capital market.

B] Eg - ADRs, GDRs.

Ques-3) Explain concept of secondary market??? explain function??

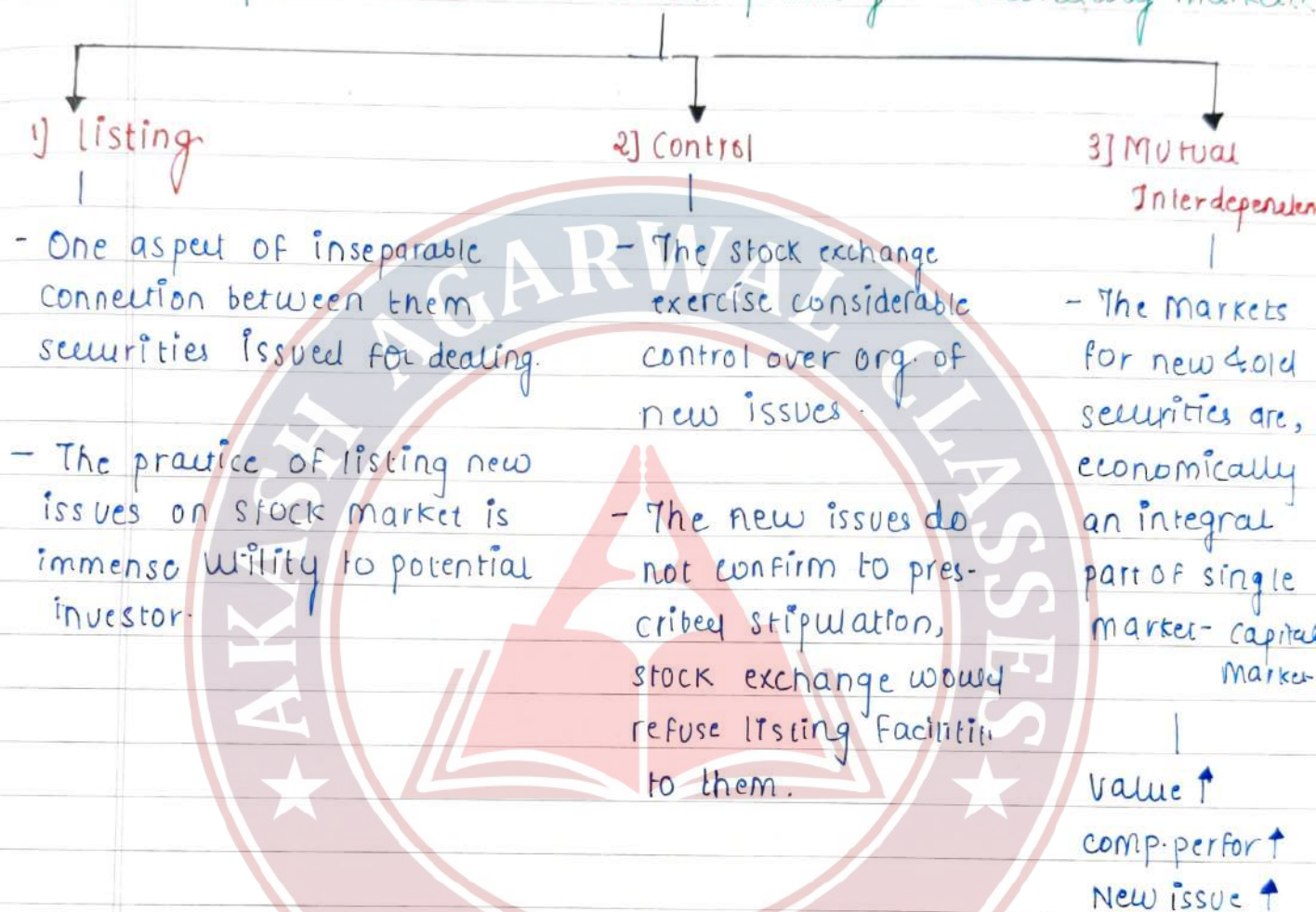
SECONDARY MARKET

- Secondary market is market in which existing securities are resold or traded.
- This market is known as stock market.
- It is market where buying, selling of those securities which have granted stock.
- Bombay stock Exchange (BSE) established by 1851 1875, it is oldest stock exchange in India.
- In India, 7 stock exchanges operating
 - 1] BSE
 - 2] Calcutta stock exchange Ltd.
 - 3] Indian commodity exchange Ltd.
 - 4] Metropolitan stock exchange of India.
 - 5] Multi commodity Exchange of India.
 - 6] National commodity & derivatives exchanges Ltd.
 - 7] National stock exchange of India Ltd.

FUNCTIONS -

- 1] To contribute economic growth through allocation of funds to most efficient channel through process of disinvestment.
- 2] To facilitate liquidity & marketability of OI's eq & debt instr.
- 3] To ensure a measure of safety & fair dealing to protect investors invest.
- 4] To provide instant valuation of securities caused by changes internal environment.

Ques-4] Explain similarities between primary & secondary market??



Ques-5] Name & explain types of securities are traded in separate markets in stock exchange??

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A. Equity Securities	B. Debt securities
Eq. shares	Debentures
Preference shares	Bond.



A] Equity Securities -

- Equity shares — 1] Equity share represents form of fractional ownership which shareholder, fractional owner undertake maxi. entrepreneurial risk associated with business venture.
2] They issue shares with diff rights:- voting, payment of dividend.
3] Types of PS:- cumulative & Non-cumulative convertible & Non-convertible.
- Pref. shares — 1] Pref. SH are entitled to fixed dividend or dividend calculated at fixed rate.
2] They also enjoy priority over eq. shareholder in payment of surplus.
3] Types of PS:- cumulative & Non-cumulative convertible & Non-convertible.

B] Debt Securities -

- Debentures — 1] Debenture holder is document issued by company under its common seal acknowledging to debt holder.
2] Deb. holders are treated as creditors of company.
3] As per SEBI guidelines, no public or right issue of conver. or non-conver. debt should be made unless credit rating agency has obtained.

- Bonds —
 - 1] A bond is negotiable certificate which entitles holder of repayment of principal int.
 - 2] They are debt securities issued by company, or gov. agency bond investor lends money to issuer.

Ques-6] Write short note on American Depositary Receipt (ADR's)

- American Depositary Receipts popularly known as ADR's.
- were introduced in American Market 1927.
- ADR's are negotiable instrument denominated in dollars, issued by depository bank.
- A non-US company that seeks to list in US, deposits its share with bank receives receipt enable comp. issue ADR's.
- This ADR's are serves as stock certificate & used interchangeably with ADR's represent ownership shares.
- ex - Infy (Infosys Technologies ADR)
WST (wipro ADR)

American
Depository
Receipt**

Rdy (Dr. Reddy's lab ADR)

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Ques-7] Write short note on Global Depository Receipts (GDR's) ???

Global Depository Receipts

- GDR's are equity instrument issued abroad by authorized overseas corporate bodies against shares
- An Indian company intending company to issue GDR will issue corresp. no. of shares overseas dep. bor.
- GDR are freely transferable & India & dividend in respect of shares represented by GDR is paid in Indian rupees only.
- They are listed & traded on foreign stock exchange.
- Most Indian comp have their GDR issues listed on London stock exchange.
- Indian GDR are primarily sold to major demand in UK, US, Hongkong, France etc.
- There no such diff. between ADR & GDR to legal point of view.

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Ques-8] Write short note on Derivatives???

- 1] A derivative is a financial instrument, whose value depends on values of basic underlying variable.
- 2] derivatives offers return based on return of some underlying asset.
- 3] Derivatives are mechanisms to hedge market, int. rate, exchange rate etc.
- 4] 2 types
 - Financial Deri.
 - commodity Deri.
- 5] Financial types of Derivatives
 - Forward, Future, option
 - warrant, swap.
- 6] 3 types of trader derivatives market
 - Hedger
 - speculator
 - arbitrageur.

DERIVATIVES

Ques-9] Explain EURO Bond & MASALA BOND.???

EURO BOND -

- "EURO BOND" is debt instrument that is denominated in currency other than home currency of country.

- Euro bond frequently grouped together by currency, denominated euro dollar or Euro-yen bonds.

MASALA BOND -

- "MASALA BOND" were introduced in India in 2014 by International Finance Corporation.

- The IFC issued first masala bond in India to fund infrastructure projects.

- Masala bond are rupee-denominated bond issued OIS India by Indian entities.

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- They are debt instrument which help to raise money in local currency to foreign investor.

- Both gov. & private entities can issue these bonds.

Ques-10] Explain the term Rolling Settlement???

Rolling Settlement

- Settlement refers to process in which traders who made purchase make payment while those sold shares, deliver them.
- The exchange ensures that buyers receive shares & sellers receive payment for same.
- SEBI introduced new settlement cycle known as:
 'Rolling Settlement Cycle'.
- It means, where all trades of the day have to be settled.

BENEFITS-

- In rolling settlement, payment are quicker than weekly settlement.
- Thus, investor benefits to increased liquidity.
- It keeps cash & Forward market separate.
- Rolling settlement provide higher degree of safety.

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Ques-11] Explain the term Clearing House Operation (CHO)???

Clearing House Operation - (CHO)

- Clearing house is a body either owned by or independently associated with exchange & charged function of ensuring financial sound trade.

- Orders enter into by members are cleared by means of clearing house.

1] It ensures adherence to system & procedures for smooth trading.

ROLE

2] It minimizes credit risk by being counter party to all trades.

3] It involves daily accounting of all gains or losses.

Working of CHO

- a] The clearing house act as a medium transaction between buyer & seller.
- b] Every contract between buyer & seller substituted by 2 contracts.

Ques-12]

Write short note on Depository System???

DEPOSITORY SYSTEM -

- Depository system is an organisation which holds securities (like shares, debentures, bonds, gov securities etc) of investor in electronic form.
 - It also provides services related to transaction in securities.
 - 2 Depository in India
 - ↳ National Securities Depository Ltd (NSDL)
 - ↳ Central Depository Services Ltd (CDSL) registered in SEBI.
 - Increase in volume of stock exchange with advent of on-screening trading coupled with operational inefficiency of former settlement & clearing led emergence of new system is called depository system.
 - Need for setting up Depository in India - under following Reas.
- ## EDUCATION IS POWER
- 1] A lot of time consumed in process of allotment & transfer of shares.
 - 2] Increase in volume of transaction.
 - 3] Problems associated with dealing physical shares-
 - Problems of theft
 - Share transfer delays particularly due to sign. mismatch
 - Paper work involved buying, selling, storage etc

Ques-13] Initial Public Offer (IPO) -

Initial Public Offer

- 1] (IPO) or stock market launch new type of public offering where share of stock of company are sold to general public, on securities for first exchange of 1st time.
- 2] It can process that private companies transform into public company.
- 3] It is an offering either a fresh issue of securities & offers both by unlisted company for 1st time to public.
- 4] A company selling shares is never required to pay capital to its public investors.
- 5] After IPO, where shares are traded freely to open market, money passes between public investors.
- 6] Details of proposed offering are disclosed to potential purchasers in form of lengthy document known as prospectus.
- 7] (IPO) of eq. shares or any other securities which may be converted into exchanged eq. shares at later date -
 - Entry Norm-I : Profitability Route
 - Entry Norm-II : QIB route
 - Entry Norm-III : Appraisal Route.

Ques-14]

Follow on Public Offer (FPO) -

(FPO)

- (FPO) is an offer of sale of securities by listed company
 - 2 types of (FPO)
 - ↳ Dilutive
 - ↳ Non-Dilutive
 - A secondary offering is an preceded by release prospectus similar to IPO.
 - Dilutive Type of Follow -
 - (ATM offering) which is sometimes called controlled equity distribution.
 - In an ATM offering, exchange-listed companies incrementally newly issue shares into secondary trading market broker-dealer market prices.
 - Non-Dilutive Type of Follow -
 - when privately held shares are offered for sale by company directors or other insiders who may looking to diversify holding.
 - However, increase in available shares allows more institution to take non-trivial position in company.
- * A non-dilutive offering is called a secondary market offer.

Ques-15] Explain book building ?? & process of BB process ??

BOOK BUILDING PROCESS

Meaning -

- 1] Book building means a process by which a demand for securities proposed to issued by body corporate elicited & build up price of securities, assessed for determination of quantum of such securities to issue by means notice/ circular/ advertisement.
- 2] The process is directed towards both institutional as well as retail investors
- 3] Book building process is part of Initial Public Offer (IPO) of Indian capital market.
- 4] It was introduced by SEBI recommendation of Mr. Y.H. Malegam in Oct 1995.
- 5] Book building refers to collection of bids from investors. which is based on indicative price range.
- 6] The issue price is fixed after closing bid date.
- 7] In book that why process is called BB.
- 8] An issuer company make issue securities public through prospectus in -

100% of net offer
to public through BB
process.

75% of net offer public
through BB process &
25% of price determined
through BB.

• Process -

- 1] The Issuer company shall appoint an eligible Merchant Banker, Book Runner & their name shall mention in draft prospectus submitted to SEBI.
- 2] The issuer company shall enter into agreement with 1 or more stock exchange, which requisite online system.
- 3] The brokers so appointed, shall collect money his client for every order placed by him in case of client / Investor fails to pay allocated of shares.
- 4] Bids shall open at least 3 working days & not more than 7 working days which may extended max. 10 working days.
- 5] On receipt of basis of allocation data, brokers shall immediately inform of allocation their client.

Advantages

- BB process helps in discovery of price & demand.
- The cost of public issue must reduced.
- It Inspires Investors confidence leading large investor universe.
- Issuer can choose investors by quality.

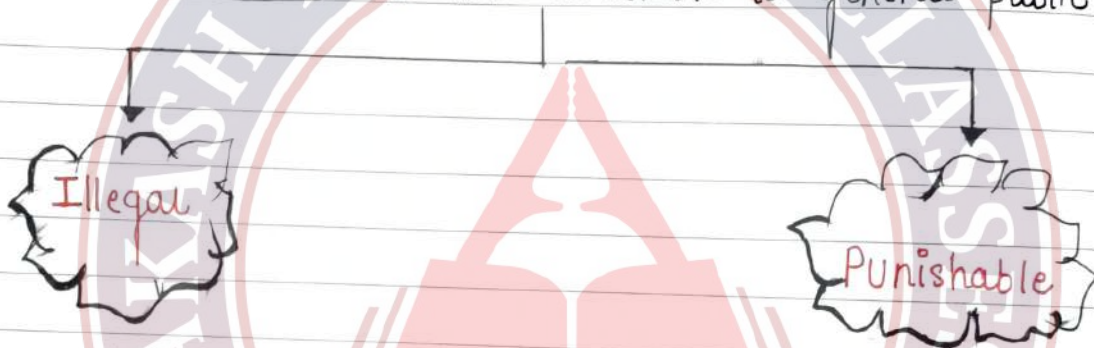
Disadvantages

- There is possibility of price rigging on listing as promoters may try to bail out members.
- BB system works very efficiently in matured market condition.

Ques-16]

Explain Insider Trading-

It is buying or selling or dealing in securities of listed company by Director, member of mgmt or such person internal auditor, agent, advisor who have knowledge of Material 'inside' info not available to general public.



1] Dealing in securities by an insider is illegal, when it is predicted upon utilization of inside info. to profit at exp.

2] It is prohibited and considered offence as per SEBI regul; 1992.

1] Insider trading is unethical practice resorted by those persons causing huge losses to common investors capital market, hence punishable.

2] SEBI 1992, Requires that persons who connected with listed comp & possession of any unpublished price:

- On his behalf or behalf of any other person deal in securities
- communicate such info. to any other person shall not deal in securities.

Ques-17

Explain Green-Shoe - Option ???

CASE-1**CASE-2**

1] Price mechanism - stable price of shares.

1] SA will not do anything

↓
company will appoint agent - Stable agent.

2] comp. will issue excess shares to allot to promoter

2] Upto 15% excess share issue
eg = 10,000 shares
excess 15% = 1500 shares.

3] SA will return shares comp.

3] comp. will borrow shares from promoters (1500 shares @ 100)

4] GPO - comp / Promoter

4] co. will give these shares to SA
eg. Issue → 11,500

10,000 1500 x 100

x

100

10,00,000

1,50,000

comp. will keep

GSO bank A/C

5] On the day of IPO
MP ↓

Share are getting sold ↑

- SA artificial demand purchase

PART - C

MONEY MARKET

Ques-1] what is money market? Explain features of money market.

- Meaning -

- Money market is market for dealing in monetary asset of short-term in nature.
- Short-term Funds upto 1yr & Financial asset that are close substitute for money dealt in mm.
- It is not physical location, but activity that is conducted over telephone.
- Money market instrument having characteristics of liquidity, min trans. cost & no loss in value.

- Features -

- a) Instrument Traded — Money market is collection of instruments like call money, notice money, Repos, Term money, Treasury bills, COD, commercial papers etc.

- b) Un large participants — Participants of money market is
i) lender ii) Mutual Funds of India
iii) Borrowers.

- | Organized sector | Unorganized sector. |
|-------------------------------|------------------------------|
| - Commercial & other banks. | - Indigenous bankers |
| - Non-banking financial comp. | - Nidhis & chit funds. |
| - CO-operative bank | - Unorganized money lenders. |

- c) Zone centric Activities — Activities in money market tend to concentrate in some centre, which serves region or area.
- d) Pure competition — Relationship between participants in money market is impersonal in character, relatively pure.
- e) Market Size — It is wholesale market & volume of funds or FA traded very large.

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Ques-2] Mention Features of Treasury Bills???

A] Meanings -

- 1] Treasury bills are short term instrument issued by Reserve Bank on behalf of the gov to tide over short term liquidity shortfalls.
- 2] T-bills are repaid at par maturity.
- 3] Tax deducted at source (TDS) is not applicable on T-bills.

B] Features -

- They are negotiable securities.
- They are highly liquid as they are shorter tenure & there possibility of inter-bank repos.
- There is an absence of default risk.
- At present there are 91-days, 182-days & 364-days T-bills in vogue. The 91-days T-bills are auctioned by RBI every Friday & 364-days T-bill every Wednesday.
- T-bills are available for mini amt of ₹ 25000 & multiple thereof.

Ques-3] Explain different types of commercial ^{Bills} paper??

• Meaning -

1] commercial bill is short term, negotiable & self-liquidating instrument with low risk.

2] The BOE is written unconditional order signed by drawer requiring to whom addressed to pay on demand at future time a definite sum of money payee.

- Types of commercial Paper

A] Inland Bills

- 1] be drawn or made in India & must be payable in India
OR
- 2] Drawn upon any person residing in India.

B] Foreign Bills

- 1] Drawn o/s India & may payable & partly o/s India
OR
payable in India or drawn on party in India.
- 2] Exporter bills drawn by exporter o/s in any country in India
OR
Import bills are drawn on Importers in India.

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Ques-4) Explain commercial papers & advantages & salient features.

Meaning-

- 1] commercial paper (CP) is an unsecured short term promissory notes, negotiable & transferable by endorsement delivery with fixed maturity period.
- 2] It is issued only by large well known, creditworthy companies & typically unsecured, issue at discount on FV & redeemable at FV.

Salient features-

- Unsecured money market instrument.
- Introduced in India 1990.
- Governed by guidelines of FIMMDA in consultation with RBI.
- mini - 7 days & max - 1 yr maturity period.
- can be issued dematerialized form.

Advantages-

- Documentation involved issue of commercial paper is simple & minimum.
- The issuer company can issue commercial paper with suitable maturity period, tailored to match cash flow of company.
- CPs provide investor with higher returns than banking system.

Ques-5] Explain - Government Securities ? Explain features ??

- 1] Government securities are tradable instrument issued by CG on state gov.
- 2] It acknowledge gov. debt obligation.
- 3] Such securities are short term called Treasury bills with original maturity less than 1 year or more.
- 4] Gov. securities are mostly interest bearing dated securities issued RBI on behalf of gov. India GOI exp. commitments.

Government Securities -

Features -

- Issued at FV.
- No default risk as securities carry sovereign guarantee.
- Ample liquidity as investor can sell security in secondary market.
- No tax deducted at source.
- Can be held in demat form.
- Redeemed at face value of securities.
- Maturity ranges from 91 days - 30 years.
- Gov. securities qualify as SLR investment, unless otherwise stated.

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2. INTRODUCTION TO FINANCIAL MANAGEMENT

Ques-1] what is Fundamentals of Financial management ???

Finance is called -

"The science of money".

It studies the principles & methods of obtaining control of money from who have save it, administering by those control passes.

Finance is branch of economics till 1890.

- In other words,
Parther & Wert, "Business finance deals primarily with raising, administering & disturbing funds by privately owned business operating in non-financial fields of industry."
- Howard & Upton, "as an application of general managerial principles to area of financial decision making".
- Weston & Brigham, "as an area of financial decision making, harmonizing individual motives & enterprise goal."

Ques-2] What is objectives of financial management???

Objectives of Financial Management

A. PROFIT MAXIMIZATION

- 1] The behaviour of firm is analysed in terms of profit maximization.
- 2] It implies that firm either produces max. O/P for given amt of input or uses min. input for producing given O/P.
- 3] Profit is considered to be main driving force in business.

B. VALUE / WEALTH MAXIMIZATION

- 1] The earlier obj. of profit is now replaced by wealth max. since profit max is limited one it cannot be sole obj. of firm.
- 2] Value creation is driving force behind financial mgmt.
- 3] Creating wealth for SH by increasing value for investors is key goal of financial mgmt today.

Ques-8] what is scope of financial management ???

1) Investment Decision

Investment decision of firm includes 2 main aspects -
where to invest & how much to invest

& Basic decisions of firm includes in investment decision.

- Evaluation of alternative investment avenues as select best option.
- Monitoring & implementation of selected option.

2) Financing Decision

Objective of Financing decision of firm should optimum combination of debt-equity, where COC will min & return will max.

& sources of funds

- Internal
- External

Internal source includes own fund where External source of includes borrowed funds.

3) Dividend Decision

Dividend decision of firm includes determining how much to distribute as dividend policy is max. value of eq. share.

Ques-4) What is Function of Financial management???

- 1) Determining Financial needs -
 - one of the most important function of financial management is ensure availability of adequate financing.
 - financial needs have to assessed for diff. purposes.
- 2) Determining sources of funds -
 - The finance manager has to choose sources of funds.
 - He may issue diff. types of securities & debentures.
 - He may borrow from no. of financial institution in public.
- 3) Financial Analysis -
 - The finance manager has to interpret diff. statements.
 - He has to use large no. of ratio to analyse financial status & activities of firm.
 - He is required to measure its liquidity, determine profitability & assets performance in financial term.
- 4) Optimal cap. structure -
 - The finance manager has to establish op. capital structure & ensure max. rate of return on investment.
 - The ratio between equity & other liabilities carrying fixed charges as to be defined.
- 5) Cost - Volume - Profit analysis -
 - The finance manager has to ensure that income of firm should cover its variable cost.
 - A firm will have to generate adequate income to cover its FC as well.

- 6] Profit - Planning & control -
- Profit planning ensures attainment of stability & growth.
 - Profit Planning & control is a dual Functions which enables mgmt to determine cost has incurred & revenue earned.
 - PPC are directly related to taxation.
- 7] Fixed-asset management -
- Fixed assets are financed by long term funds.
 - Finance manager has ensure that these assets should yield reasonable to investment.
- 8] Capital Budgeting -
- Capital budgeting forecasts return on proposed long-term investment & compares profitability of diff. investment & COC.
 - It result in cap. expenditure investment.
- 9] Corporate Taxation -
- Corporate taxation is an important function of financial management; former has various impact of financial planning.
 - company is separate legal entity, it is sub. to an income-tax structure distinct from of personal income.

Ques-5] what is principle of Profit Maximization ???

PROFIT MAXIMIZATION

- Meaning-

- Profit maximization is one of leading goals for all firms as reflected in income statement.
- If net operating profit tend to increase consecutively, firm portrays effict. performance.

- Profit maximization or optimization is main obj. of business-
 - 1) Profit acts as measure efficiency &
 - 2) It protect serves against risk.

- Arguments in favour of profit maximization-

- When profit earnings is main aim business the ultimate objective should profit max.
- Future is uncertain. A firm should earn more profit to meet future contingencies.
- The main source of finance for growth of business profit.

- Arguments against profit maximization-

- 1) It leads to exploitation of workers & consumers.
- 2) It ignores risk factors associated with profit.
- 3) Profit itself vague concept means differently to different people.

Ques-6] what is principle of wealth/value maximization??

WEALTH MAXIMIZATION

Wealth max. is considered as appropriate obj. of an enterprise. When firm maximize SH value/wealth the individual SH wealth maximize individual utility.

- SH wealth or value shown by -

$$\text{Shareholders value / wealth} = \text{No. of shares owned} \times \text{Current market price per eq. share}$$

- Arguments In favour wealth maximization -

- 1] Due to wealth max, short-term money lenders get payment in time.
- 2] long-time lenders too get fixed rate of interest & investment.
- 3] The employees share in wealth gets increased.

- Arguments Against value/wealth maximization -

- It is socially undesirable.
- It is not descriptive data.
- Only stock holder's wealth maxi. does not lead to firm wealth maximization.

Ques-1] What is Dynamic Role of CFO in Emerging Business Environ

Emerging Business Environment

The CFO plays a dynamic role in modern company development. First half 1900s, financial manager primarily raised funds manage their firm cash position - & was pretty much it.

• The CFO Responsibilities Include -

- 1] Estimating total requirements of funds given period.
- 2] Raising funds through various sources both national & international, keeping in mind.
- 3] Investing the funds both term as well as long short term needs.
- 4] funding day-to-day working cap requirements.
- 5] collecting on time from debtors & paying to creditors on time.
- 6] Managing funds & treasury operation.
- 7] Paying interest on borrowings.
- 8] Repaying lenders on due date.
- 9] Interfacing with capital market.
- 10] Maximizing wealth shareholders over long term.

• External Factors have increasing impact on CFO

- 1] Technological change.
- 2] Heightened corporate comp.
- 3] fluctuating exchange.
- 4] world wide economic uncertain
- 5] Tax law changes environ. issues & ethical issues.

Ques- 8] Diff. between wealth maximization & Profit maximization

PROFIT MAXIMIZATION	WEALTH MAXIMIZATION
1] Maximization of firm's net income.	Maximize price of firm's common stock.
2] Emphasizes short term profit	Emphasizes long term profit.
3] Ignores time value of money concept.	Consider time value of money concept.
4] Does not consider Risk & Uncertainty	Does consider risk & Uncertainty.
5] Management may decide not finance discretionary exp. such as advertising, reasearch.	Management always pays for these discretionary exp.
6] Spends only to handle existing sales level & perhaps the short-term sales forecast.	Spends more heavily on capacity in order to meet long-term sales projections.