

Indian Financial System

**SUBJECT : COMMERCE IV
SYBCOM**

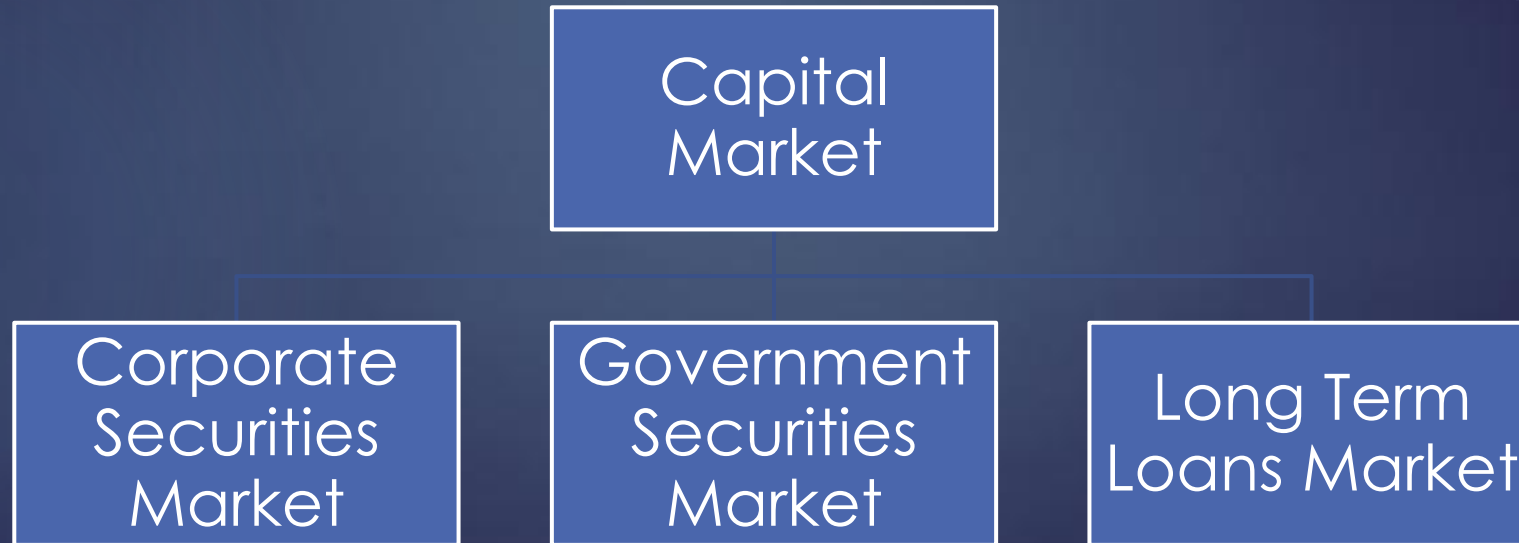
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organised Money Market

- ▶ Follows standardized rules and regulations.
- ▶ The participants consists of
 1. RBI
 2. Banks
 3. Corporates
 4. Non Banking Finance Companies
- ▶ Major instruments in Money Market are
 1. Treasury Bills
 2. Certificate of Deposit
 3. Commercial Paper
 4. Call Money Market
 5. Commercial Bill Market

Capital Market

- ▶ Deals with long term securities which have a maturity period of over 1 year.
- ▶ Long term securities enable the firms or issuers to purchase fixed assets.



Corporate Securities Market

- ▶ Provide long term funds to companies.



Primary Market

- ▶ It is a market for new issue of securities.
- ▶ Deals with the debt or equity backed securities which are issued to the public for the first time.
- ▶ So, also called New Issue Market.
- ▶ Following are the ways in which a company can raise funds through the primary market.
 1. Public Issue through Prospectus
 2. Rights Issue
 3. Book Building
 4. Offer for sale
 5. Placement Method

Functions of Primary Market

- ▶ The main function is to facilitate the transfer of savings from investors to the users for productive activities.
- ▶ The following are the three service functions
 1. Origination : Refers to the investigation, analysis, and processing of new market proposals.
 2. Underwriting: The underwriters guarantee the minimum subscription.
 3. Distribution : The sale of securities to the ultimate investors is called as distribution.

Secondary Market

- ▶ It is the market in which the buying and selling takes place of the listed securities.
- ▶ The trading transactions is done through the medium of stock exchange.
- ▶ The main purpose of the secondary market is to create liquidity in securities.
- ▶ Main features of secondary market are as follows:
 1. Facilitates trading in securities
 2. Facilitates primary market
 3. A security can be traded a number of times

Government Securities Market

- ▶ Also called as 'Gilt Edged Securities Market.'
- ▶ 'Gilt Edged' means ' of the best quality.'
- ▶ Government securities are free from risk of default.
- ▶ Open market operations of RBI are conducted in this market.
- ▶ Securities are issued by Central government and state government.
- ▶ Normally have full backing of the government.
- ▶ Rate of interest is called as 'coupon rate'.

Long Term Loans Market

- ▶ Bank and Financial Institutions provide long term loans to firms.
- ▶ These loans can be utilized for fixed assets.
- ▶ The maturity period of long term loans is more than 1 year.



Initial Public Offer (IPO)

- ▶ It is a process by which an unlisted company can be listed on the stock exchange.
- ▶ This is done by listing the shares on the stock market.
- ▶ It can be through fixed price method , book building method or combination of both.

Procedure of IPO

IPO process initialization by issuer company



Pre Issue Role by Lead Manager – Part I



Prospectus Review by SEBI



Pre Issue Role by Lead Manager Part II



Bidding for the public issue by investors



Price fixing by Lead Managers



Processing IPO Applications by Registrar to the Issuer



Share Listing by Lead Managers

Dematerialisation

- ▶ It refers to conversion of physical share certificates into electronic certificates.
- ▶ Transfer of shares becomes easier and quicker under demat mode.

Process of Dematerialisation

Opening a DEMAT account with a depository participant (DP) by investor.

Submission of Demat Request Form (DRF) and share certificate

Forwarding of DRF and Share Certificate

Confirmation from Depository

Verification and Updating the Records

Recording by Depository

Updating of Records by DP

Confirmation to DEMAT account holder

Operation of Demat Account

National Securities Depositories Limited (NSDL)



Basic Services

- ▶ **NSDL provides various services to investors and participants.**
- ▶ **It links the issuers, depository, participants, clearing corporations and clearing houses.**
- ▶ **It facilitates scrip-less trading.**
- ▶ **Basic services are :**
 1. **Account Maintenance**
 2. **Dematerialisation**
 3. **Rematerialisation**
 4. **Market trades**
 5. **Inter – Depository Transfers**
 6. **Corporate Actions**

Value Added Services

▶ Apart from core services, NSDL provides the following value added services:

1. Public issues
2. Dividend distribution
3. Pledge
4. Hypothecation
5. Public issues
6. Stock lending and borrowing

NSDL Consolidated Account Statement (CAS)

- ▶ **NSDL CAS is a single statement of a person's investment in the securities market.**
- ▶ **All investments held in single or joint names with the person as the sole holder is a part of the NSDL CAS.**
- ▶ **It helps to manage investments.**

Role of CDSL



Central Depository Services (India) Ltd. (CDSL)

- ▶ **It is the second Indian Central securities depository based in Mumbai.**
- ▶ **CDSL works for Bombay Stock Exchange.**
- ▶ **CDSL is promoted by BSE jointly with State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Axis Bank, Union Bank of India**

Benefits to Investors of CDSL

- ▶ **Elimination of all risks associated with physical certificates.**
- ▶ **Elimination of bad deliveries**
- ▶ **Immediate transfer and registration of securities**
- ▶ **Faster settlement cycles**
- ▶ **Faster receipt of securities in case of bonus / split / merger**
- ▶ **Waiver of stamp duty**
- ▶ **Ease in recording change of address, etc.**
- ▶ **Ease of portfolio monitoring**

Role / Services of CDSL

- ▶ Same as NSDL

SECURITIES and EXCHANGE BOARD of INDIA (SEBI)

- ▶ SEBI was set up on 12th April 1998.
- ▶ The main purpose of setting up SEBI was to develop and regulate stock market in India.
- ▶ In 1992, SEBI Act was passed.
- ▶ The act gave statutory powers to SEBI.
- ▶ SEBI began operations in 1992.

FUNCTIONS OF SEBI

- ▶ **Protection of Investor's interest**
- ▶ **Regulates working of Mutual Funds**
- ▶ **Prohibition on Insider Trading**
- ▶ **Regulates merchant banking**
- ▶ **Regulates Stock Brokers Association**
- ▶ **Portfolio Management**
- ▶ **Regulates Take Overs and Mergers**
- ▶ **Research and Publicity**
- ▶ **Monitoring of Stock Exchanges**
- ▶ **Capital Market Reforms by SEBI**
- ▶ **Guidelines on Capital issues**

Investors Protection Measures by SEBI

- ▶ **Investor Education and Protection Fund**
- ▶ **Investor Awareness Programme**
- ▶ **Regulation of Mutual Funds**
- ▶ **Investor Grievance Cell**
- ▶ **Due – diligence Certificate by Merchant Bankers**
- ▶ **Representatives for Allotment process**
- ▶ **Credit rating for Convertible Debt Instruments**
- ▶ **IPO Grading**
- ▶ **Promoters Contribution**
- ▶ **Underwriting of securities**
- ▶ **Redressal of investor grievances by Lead Managers**
- ▶ **Restriction on Further Issue of Capital**
- ▶ **Guidelines on Advertisement of Public Issues**

Stock Exchange

- ▶ **It is an association established for assisting, regulating, and controlling business in buying, selling and dealing in securities.**
- ▶ **Bombay Stock Exchange is the oldest stock exchange in India and Asia set up in 1875.**
- ▶ **At present, the largest volume of trading takes place on National Stock Exchange.**

Functions of Stock Exchange

- ▶ Acts as a clearing house of securities.
- ▶ Regulation and control of contracts.
- ▶ Listing of securities.
- ▶ Suspension of securities from trading.
- ▶ Settlement of claims or disputes.
- ▶ Imposes fines and penalties
- ▶ Registration of brokers
- ▶ Maintaining records
- ▶ Filing of periodical returns with SEBI
- ▶ Framing rules and regulations for its members.