SYLLABUS

Class – B.COM II YEAR

SUBJECT: FINANCIAL MARKET OPREATION

Unit	Syllabus
Unit – I	Historical background and Introduction of financial system in India, formal and informal financial sectors. Financial system and economic growth. An overview of Indian financial system 1951 to 1990. Financial sectors reforms after liberalization 1990 to 1991
Unit – II	**Money Market-** Definition, Functions, Significance and Structure of Money Market. Acceptance house, Discount house, Call money market, New trends in Indian money market. Role of RBI and Commercial Bank in Indian Money Market.
Unit – III	**Capital Market-** Meaning and Components of Capital market, Securities market, Cash Markets Equity and Debts, Depositories. Function of Stock market, Stock brokers, Margin trading, Forward trading, Primary and Secondary market, NSE, BSE, NIFTY, SENSEX, OTCEL
Unit – IV	**Stock Exchange Board of India-** SEBI as capital market regulators. Objectives, functions, powers and Organisational structure of SEBI. SEBI Guideline on primaryand secondary market. Listing procedure and legal requirement. Public issue pricing and marketing
Unit – V	**Stock Exchange and Investor-** Functionaries on Stock Exchange-Brokers, Sub Brokers, Market makers, Jobbers, Portfolio consultants, Institutional investors, Investor's protection- Grievances, Dealing and their removal, Grievance cells in Stock exchange, SEBI, Company law board, Press, Remedy through courts.
Unit – VI	**Financial Services-** Introduction of Financial services industry in India. Merchant Banking meaning and scope, Underwriting and regulatory framework of Merchant Banking in India. Leasing and hire purchase, Consumers and Housing finance, Venture Capital finance, factoring services, Concept function and types of Credit rating.

renaissance
renaissance

UNIT-I

MEANING OF FINANCIAL SYSTEM

Finance-Finance means funds of monetary resources required by individual's business houses and the government for their varied needs. It is the provision of money at the time it is wanted.

System-A system is a set of interrelated parts, working together to achieve some purpose, with reference to financial system it implies a set of complex and closely connected or intermixed institutions, agents, practices, markets, claims and so on in an economy.

FINANCIAL SYSTEM

Conceptually, the term financial system includes a complex of institutions and mechanisms which affect the generation of savings and their transfer to those who will invest. In other words, financial systems may be said to be made up of all those channels through which savings become available for investment. Included in the complex of institutions are:

(i) financial institutions/intermediaries like banks, insurance organizations, unit trusts/mutual funds, and so on which collect capital from savers-investors and distribute them to entrepreneurs/productive enterprises; (ii) what may be called facilitating institutions/organizations, comprising stock exchanges and new issue market, that is, securities market.

Thus, defined as a network of financial institutions and activities in the economy, the term financial system is treatea, synonymously and interchangeably with industrial organisations, investment market, financial markets and capital markets, and so on.

The financial system is characterized by the presence of an integrated, organised and regulated financial markets, and institutions that meet the short term and long-term financial needs of both the household and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community. They operate in close combination with each other.

An efficient and developed financial system is indispensable for rapid economic growth of any economy since the process of economic development is invariably accompanied by a corresponding parallel growth of financial organisation. The financial sector of a c consists of specialized and non-specialized financial institution organised and unorganised financial markets, of financial instrument and prices which facilitate transfer of funds. The financial system concerned about money, credit and finance which are intimately rel yet are different from each other.

ROLE/FUNCTIONS OF FINANCIAL SYSTEM A financial system performs the following functions:

1. It serves as a link between savers and investors. It helps utilising the mobilised savings of the scattered savers in efficient and effective manner. It channelizes flow of savings i productive investment.

2. It assists in the selection of the projects to be financed and reviews the performance of such projects periodically.
3. It provides a payment mechanism for the exchange of goods a services.
4. It provides a mechanism for the transfer of resources geographic boundaries.
5. It provides a mechanism for managing and controlling the involved in mobilizing savings and allocating credit.
6. It promotes the process of capital formation by bringing together the supply of savings and the demand for investible funds.
7. It helps in lowering the cost of transactions and increase return Reduced cost motivates people to save more.

8. It provides detailed information to the operators/players in the market such as individuals, business houses, government etc

COMPONENTS/CONSTITUENTS OF FINANCIAL SYSTEM

Financial sector comprises of following four major components:

1. **Financial Institutions**:
   These are institutions which mobilise and transfer the savings a funds from 'surplus units' to 'deficit units' directly or indirectly. The institutions promote savings, collect them and allocate among variou users on the basis of best rewarding unit to get first. Beside these directly contributing institutions, others are to regulate and monitor this proces thus making their indirect contribution.

Financial institutions are also termed as financial intermediarie because they act as middle men between savers and borrowers. The role as intermediary differs from that of a broker who acts as an age between buyers and sellers of financial instruments, thus facilitating th transaction but does not personally issue a financial instrumen Whereas financial intermediaries mobilise savings of the 'surplus un and lend them to the borrowers in the form of loans and advances. Entermediaries, they meet the short-term as well as long-term needs he borrowers and provide liquidity to the savers.
2. Financial Markets : This is a place or mechanism where savings/funds are transferred. This market facilitates the exchange of financial assets among dealers by making sale and purchase smoother of these assets. This market can broadly be classified into Money Market and Capital Market.

2. **Financial Instruments**
   Those commodities which are traded or dealt within a financial market are financial instruments/assets, or securities. There are varieties of securities as the requirements of borrowers and lenders varied. Some of the popular examples are Equity Shares, Preference Shares, Debentures and Bonds Derivatives etc.

04. Financial Services
These include Merchant Banking, Underwriting, Brokerage and Credit Rating etc. These financial services help not only to raise the required fund but also ensure their efficient deployment by helping in deciding the finance- mix and extend their services up to the stage of servicing of lender.

These services are provided by specialised persons, Financial Institutions, Banks and Insurance Companies and are regulated by SEBI, RBI and Deptt. of Banking and Insurance under Ministry of Finance. Thus, financial institutions and financial markets facilitate the functioning of financial system through financial instruments.

INDIAN FINANCIAL SYSTEM: EVOLUTION AND GROWTH

Planned economic development in India has greatly influenced t course of financial development. The liberalization/deregulation globalisation of the Indian economy, since early nineties has h important implication for the future course of development of t financial sector. The evolution of Indian financial system may classified into three distinct phases:

Pre-planned Period Like a traditional model of a financial organisation it had the features such as:

(i) Family character of entrepreneurship.
(ii) Semi- organised and narrow securities markets.
(iii) Devoid of Issuing Institutions.
(iv) Absence of financial intermediaries in long-term financing.
(v) Non-responsiveness to opportunities.
(vi) Incapable of sustaining high rate of industrial growth.
(vii) Stock Exchanges had very few securities being traded in market.
(viii) No separate Issuing Institution.
(ix) Access to outside savings was restricted to industries.

Mixed Economy Based Planned Period In pursuance of the broad economic and social aim of state to secure economic growth with social justice mixed economy pattern of industrial development was adopted. Post-independence period stressed on planned economic growth with a view to achieve the broad economic and social objectives of the state. Both private and public sectors were to play an important role in the economy to achieve industrial growth and development. The main features of this period were:

(i) **Public/Govt. Ownership of Financial Institutions**.

Nationalisation of Reserve Bank of India in 1948, setting up State Bank of India in 1956, LIC in 1956, 14 major commercial banks were nationalised in 1969, and 6 other commercial banks in 1980 and setting up of GIC in 1972 by nationalising private general insurance companies. Special purpose financial institutions designated as development banks and financial institutions/term lending institutions were set up

.Unit Trust of India-an investment trust organisation was set up in public sector.

Public sector occupied a commanding position in that era. (ii) Investors' Protection. Legal reforms were carried out to reinforce investors' confidence in industrial securities. To illustrate a few-enactment of the Companies Act, 1956, Abolition of Managing Agency System in 1969, Capital Issue Control Act (Now replaced by SEBI Act, 1992), Securities Contract (Regulation) Act, 1956 and Foreign Exchange Management Act, 1999.

renaissance
renaissance

NATURE OF FINANCIAL SYSTEM BEFORE LIBERALISATION

(A) **Institutional Structure** : An aspect of weakness in the organisation of the industrial financing system in India is related to the institutional structure. It consisted of two categories of financial institutions:
(i) Commercial banks, LIC, GIC and UTI which were normal con stituents of the institutional financial mechanisms and obtained their resources by mobilising savings from saving- surplus economic units, and Development Financial Institutions, namely, IDBI, IFCI, ICICI, SPCs and so on, which were like artificial limbs, created to compensate for the lack of growth of normal channels and derived most of their funds from their sponsors like the RBI, and the Government.
The structure of the Indian financial system was heavily dominated by the second category of financial institutions. Their participation in the financing of the companies carried an implicit guarantee to the investing public of the soundness of the proposition. Moreover, the evaluation of projects by them was objective and impersonal. This led to the availability of funds to varied types of enterprises in diverse forms.

(8) **Distributive Mechanism**
Development Financial Institutions were primarily the distributors of finance and credit to industrial enterprises, which was made available to them by the agencies sponsoring them, such as the Government and the RBI. They did not autonomously mobilise savings from the saving surplus economic units.

It was playing a limited role as a distributive mechanism only. Such a system was clearly incapable of growing pari passu with the growing requirements of the expanding industrial sector.

(C) **Forms of Financing**
Since the development banks provided most of the funds in the form of term loans, there was a preponderance of debt in the financial structure of industrial enterprises and the share of equity/risk capital was both low and declining. It is true that term-loans, as a form of financing, reduced the dependence of investment on the erratic' stock exchanges. The sympathetic and flexible attitude of the developmental banks did permit, in case of defaults, a greater use of debt than was warranted by the traditional concept of sound capital structure, but it did not justify the unrestricted use of borrowed funds without jeopardising the future of the concern itself.
(D) **Problems of Small and New Enterprises** :The crying need of the Indian financial system after the mid-eighties was the integration of the distributive mechanism with the ultimate pool of savings of the community. It was also necessary to promote diversification in the form of financing of industrial enterprise with greater focus on

equity/risk capital to reflect larger stake to promoters, and the implicit financial discipline.

Another weakness in the organisation of the Indian financial system was its inability to meet the financing needs of small and new enterprises Apart from institutional obstacles, such enterprises also faced operational obstacles in terms of the prohibitively high cost of raising capital. The solution to the problem of supply of equity capital to such enterprises required the creation of institutional demand for their securities, as well as the development of institutional facilities for placement of their securities.

(E) **New Issue Market Organisation** The new issue market in India also suffered from serious lack institutional arrangement for the origination of issues of capital.

This problemcould have been solved by setting up of merchant banking institutions to provide the necessary skill and expertise. Moreover, the underwriting facility to issues of capital was of limited complexion being inconvenient, time-consuming and expensive to the issuers of capital What was required was an arrangement for a unified and comprehensive package of service, a greater integration in the underwriting organisation and closer cooperation among the underwriting agencies.

NATURE OF FINANCIAL SYSTEM AFTER LIBERALISATION

Since the launching of New Economic Policy, 1991, the financial system has gone into profound transformation. Fundamental shift from regulated to free economy has brought major economic policy changes such as macro-economic stabilisation, delicensing, trade liberalisation, financial sector reforms, privatisation/disinvestment of public undertakings, tax reform, reduction in subsidies and simplification have had far reaching impact.

The essence of these developments has been that financial system poised for an integration. Government role in distribution of finance and credit has declined over the years. More attention was towards focussing development of capital market which is emerging as the main agency for the allocation of resources to public and private sector and state governments.

Major developments may be summarised as below:

(a) Entry of private sector.
(b) Changing role of Development Financial Institutions (DFIs),
(c) Emergence of Non-Banking Financial Companies (NBFCs)
(d) Growth of Mutual Fund Industry. (e) Establishment of SEBI.
(f) Development in Secondary Market

renaissance

UNIT -2

Money Market Definition:

The money market refers to the market where short-term financial instruments with high liquidity andlow risk are traded. These instruments have maturities typically ranging from overnight to one year.

Functions of Money Market:

1. **Liquidity Provision:** It offers a platform for institutions and individuals to invest surplus funds orborrow for short periods to meet immediate needs.

2. **Facilitates Monetary Policy:** It provides a mechanism for central banks to influence interest ratesand control the money supply.

3. **Financing Short-term Needs:** Businesses and governments can access short-term funds omanage their cash flow requirements.

4. **Price Discovery:** The money market helps determine short-term interest rates, which in turninfluences borrowing and lending rates across the financial system.

Significance of Money Market:

1. **Economic Stability:** A well-functioning money market ensures smooth financial operations,contributing to overall economic stability.
2. **Financial Intermediation:** It promotes efficient allocation of funds by connecting surplus unitswith deficit units.

3. **Monetary Policy Transmission:** Changes in key interest rates set by central banks are transmittedthrough the money market, impacting borrowing and lending rates in the economy.

Structure of Money Market:

1. **Acceptance House**: These are financial institutions that provide financing by accepting bills ofexchange, facilitating trade transactions.

2. **Discount House** : They purchase short-term money market instruments (like treasury bills) at adiscount to their face value and sell them at face value upon maturity.

3. **Call Money Market** : It is a segment of the money market where banks borrow and lend funds toeach other for very short periods, typically overnight.

4. **New Trends in Indian Money Market** : This could include the introduction of new financial products, technological advancements facilitating faster transactions, and regulatory reforms aimed atimproving market efficiency and transparency.

Role of RBI and Commercial Banks in Indian Money Market :

1. **RBI** : As the central bank of India, the Reserve Bank of India (RBI) regulates the money market. Itconducts open market operations, sets key policy rates (like the repo rate), and acts as a lender of last resort to maintain liquidity and stability in the money market.

2. **Commercial Banks** : Commercial banks play a crucial role in the money market by participating in various money market instruments, providing liquidity to the market, and serving as intermediaries between the RBI and other market participants. They borrow from the RBI through repo transactions and lend to other banks or invest in money market instruments to manage their liquidity positions.

These are the key points regarding the money market, its components, functions, significance, and the roles of regulatory bodies and commercial entities in India. Let me know if you need more details on anyspecific aspect.

UNIT -3

Capital Market :

The capital market is where long-term securities such as stocks and bonds are bought and sold. It comprises the primary market, where new securities are issued, and the secondary market, whereexisting securities are traded among investors.

Components of the Capital Market:

1. **Securities Market** : This includes both equity (stocks) and debt (bonds) markets.
2. **Primary Market** : Where new securities are issued by companies or governments to raise capital.
3. **Secondary Market** : Where existing securities are traded among investors.
4. **Depositories** : Institutions responsible for holding and safeguarding securities in electronic form.

Securities Market :

1. **Equity Market** : Deals with the buying and selling of company stocks.
2. **Debt Market** : Involves bonds and other debt instruments.

Cash Markets:

1. **Equity Cash Market** : Where shares are traded for immediate delivery and payment.
2. **Debt Cash Market** : Involves trading debt securities such as bonds for immediate delivery andpayment.

Depositories:

Depositories are institutions like NSDL (National Securities Depository Limited) and CDSL (Central Depository Services Limited) that hold securities in electronic form, making trading and settlement moreefficient.

Functions of the Stock Market :

1. **Facilitating Capital Formation** : Companies raise funds by issuing shares to investors.
2. **Providing Liquidity** : Investors can buy and sell securities easily.

3. **Price Discovery** : Stock prices reflect the market's perception of a company's value.
4. **Risk Management** : Investors can diversify their portfolios to manage risk.

Stock Brokers :

Intermediaries who facilitate buying and selling securities on behalf of investors. They charge acommission for their services.

Margin Trading :

Allows investors to buy securities with borrowed funds, leveraging their investments. This magnifiesboth gains and losses.

Forward Trading :

Involves entering into a contract to buy or sell securities at a future date at a predetermined price. Ithelps manage risk by locking in prices.

Primary Market vs. Secondary Market :

Primary Market : Where new securities are issued through processes like IPOs (Initial PublicOfferings) and rights issues.

Secondary Market : Where existing securities are traded among investors, providing liquidity toinvestors.

NSE (National Stock Exchange) and BSE (Bombay Stock Exchange):

Both are major stock exchanges in India where securities are traded electronically. NSE is headquarteredin Mumbai and is known for its Nifty index, while BSE is also in Mumbai and is known for its Sensex index.

Nifty and Sensex:

Nifty : Nifty 50 is a benchmark index of NSE, representing the top 50 companies in terms of market capitalization.

Sensex : Sensex is the benchmark index of BSE, representing the performance of 30 large, well-established companies.

OTCEI (Over-The-Counter Exchange of India) :

It was India's first screen-based nationwide stock exchange for small and medium-sized companies. Itprovided a platform for trading in unlisted securities.

These components collectively form the backbone of India's capital market, playing crucial roles in thecountry's economic growth and development.

UNIT -4

The Securities and Exchange Board of India (SEBI) is the regulatory body for the securities market in India. Its primary objectives include protecting investors' interests, promoting the development of thesecurities market, and regulating the securities market to ensure transparency and fairness.

Objectives of SEBI :

1. Protecting the interests of investors.
2. Regulating the securities market.
3. Promoting the development of the securities market.
4. Regulating intermediaries such as stockbrokers, sub-brokers, etc.
5. Regulating insider trading and fraudulent practices.
6. Facilitating the mobilization of funds through the securities market.

Functions of SEBI :

1. Regulating and supervising the securities market.
2. Registering and regulating various market intermediaries.
3. Promoting investor education and awareness.
4. Prohibiting fraudulent and unfair trade practices.
5. Conducting research and publishing information relevant to the securities market.
6. Regulating mergers and acquisitions to ensure fairness and transparency.

Powers of SEBI :

1. SEBI has the power to issue regulations, guidelines, and circulars to regulate various aspects of thesecurities market.
2. It can conduct inquiries and investigations into the affairs of market intermediaries and companies.
3. SEBI can impose penalties and sanctions for violations of securities laws and regulations.
4. It has the authority to take measures to protect investors' interests and maintain the integrity of thesecurities market.
5. SEBI can regulate the listing and delisting of securities on stock exchanges.
6. It can recommend changes to existing laws and regulations to the government.

Organizational Structure of SEBI :

SEBI is headed by a Chairman, who is appointed by the government of India. It has a governing board consisting of members representing various stakeholders such as the government, RBI, and market participants. SEBI's organizational structure includes departments responsible for regulation, enforcement, investor education, and market surveillance.

SEBI Guidelines on Primary Market :

SEBI regulates the primary market through guidelines and regulations governing public issues ofsecurities. These guidelines cover aspects such as the registration of prospectuses, disclosure requirements, pricing of securities, and allotment procedures.

SEBI Guidelines on Secondary Market :

SEBI regulates the secondary market through regulations aimed at ensuring transparency, fairness, andintegrity. These guidelines cover areas such as insider trading, market manipulation, and disclosure requirements for listed companies.

Listing Procedure and Legal Requirements :

Companies intending to list their securities on stock exchanges must comply with SEBI's listing regulations. This includes fulfilling eligibility criteria, submitting necessary documents, and adhering to disclosure requirements. SEBI mandates continuous compliance with listing requirements to maintainthe listing status.

Public Issue Pricing and Marketing :

SEBI regulates the pricing of public issues to ensure fairness and protect investors' interests. Companies are required to disclose relevant financial information and justify the issue price. SEBI also regulates the marketing and promotion of public issues to prevent misleading investors and ensure adequate disclosure of risks.

Overall, SEBI plays a crucial role in regulating India's capital markets, ensuring investor protection,market integrity, and fostering market development.

UNIT -5

1. **Stock Exchange** : A stock exchange is a marketplace where securities, such as stocks, bonds, and derivatives, are bought and sold. It provides a platform for companies to raise capital by issuing sharesto investors and for investors to trade these securities.

Functionaries on Stock Exchange :

Brokers : Middlemen who execute buy and sell orders for investors in exchange for acommission.

Sub-brokers : Individuals or entities who act on behalf of brokers and assist in executing trades.

Market Makers : Entities that facilitate trading by providing liquidity, buying and selling securities to maintain market efficiency.

Jobbers : Individuals or firms that specialize in making markets in specific securities by buyingand selling for their own accounts.

Portfolio Consultants : Professionals who advise investors on building and managing investmentportfolios tailored to their financial goals and risk tolerance.

Institutional Investors : Large organizations, such as mutual funds, pension funds, and insurance companies, that invest on behalf of their clients or members.

1. **Investor Protection :**

Grievances Dealing and Removal : Mechanisms and procedures to address investor complaints and resolve disputes in a fair and timely manner.

Grievance Cells in Stock Exchange : Dedicated departments or committees within stockexchanges tasked with handling investor grievances and ensuring compliance with regulations.

SEBI (Securities and Exchange Board of India) : The regulatory authority overseeing the securities market in India, responsible for protecting the interests of investors and ensuring the integrity of the market.

Company Law Board : A quasi-judicial body in India that adjudicates disputes related to companies and corporate governance.

Press : Media outlets play a role in investor protection by reporting on market developments, frauds, and regulatory actions, which can raise awareness and encourage transparency.

Remedy Through Courts : Investors have the option to seek legal recourse through the judicial system if their grievances are not adequately addressed through other channels.

UNIT -6

Introduction of Financial Services Industry in India : The financial services industry in India encompasses a wide range of activities including banking, insurance, asset management, securities trading, and other related services. It plays a crucial role in mobilizing savings, allocating capital, managing risk, and facilitating economic growth.

1. Merchant Banking :

Meaning & Scope : Merchant banking involves a range of financial services including underwriting, syndication, advisory, and management of corporate securities and assets. It helps companies raise capital through initial public offerings (IPOs), private placements, and other financing methods, and also provides advisory services for mergers and acquisitions, restructuring, and corporatefinance.

2. Underwriting and Regulatory Framework of Merchant Banking in India :

Underwriting : In underwriting, merchant banks assume the risk of buying securities from a company and reselling them to investors. They guarantee the sale of securities at a predetermined price,thus providing financial assurance to the issuing company.

Regulatory Framework : In India, merchant banking activities are regulated by the Securities and Exchange Board of India (SEBI) under the SEBI (Merchant Bankers) Regulations, which prescribe eligibility criteria, registration requirements, code of conduct, and compliance standards for merchant bankers.

3. Leasing and Hire Purchase :

Leasing : A financial arrangement where one party (the lessor) provides an asset to another party(the lessee) for a specified period in exchange for periodic payments. At the end of the lease term, the lessee may have the option to purchase the asset.

Hire Purchase : A method of purchasing goods where the buyer (hirer) pays for them in installments while using them. Ownership of the goods transfers to the hirer after the final installment ispaid.

4. Consumer and Housing Finance :

Consumer Finance : Financial services tailored to meet the borrowing needs of individual consumers, such as personal loans, credit cards, and installment financing for durable goods.

Housing Finance : Loans provided to individuals or developers for the purchase, construction, renovation, or improvement of residential properties. Housing finance companies (HFCs) play a key

rolein this sector.

5. **Venture Capital Finance :** Venture capital involves providing funding to early-stage, high-growth companies in exchange for an equity stake. Venture capital firms typically invest in startups with innovative ideas and strong growth potential, and they provide not just funding but also strategic guidance and expertise to help these companies succeed.

6. **Factoring Services :** Factoring is a financing arrangement where a business sells its accounts receivable (invoices) to a third party (factor) at a discount. The factor then collects payments from thebusiness's customers.

7. **Credit Rating** :

Concept : Credit rating is an assessment of the creditworthiness of an individual, company, or financial instrument. It helps investors and lenders evaluate the risk associated with extending credit orinvesting in a particular entity or security.

Function : Credit rating agencies assign credit ratings based on factors such as financial performance, debt levels, industry outlook, and macroeconomic conditions. These ratings serve asindicators of the likelihood of default or credit risk.

Types : Credit ratings range from AAA (highest credit quality) to D (default), with intermediate grades indicating varying degrees of credit risk. Common rating agencies include Standard & Poor's, Moody's, and Fitch.

renaissance