FINANCIAL MARKET

Financial Market: A financial market is a market for the creation and exchange of financial assets.

Functions of Financial market:

1. **Mobilisation of funds:** Mobilisation of savings and channelising them into the most productive uses.
2. **Price Discovery:** the household are supplier of the funds and business firms represent the demand, which helps in establishment of price for the financial assets.
3. **Providing liquidity:** as financial market provides easy conversion of financial securities into cash, hence improving liquidity.
4. **Reducing cost of transactions:** financial market saves the efforts, time and money that both the buyer and seller would have spent.

Types of Financial Markets:

1. **Money Market:** it is the market of short term, unsecured, low risk debt instrument that are highly liquid.
2. **Capital Market:** refer to facilities and institution arrangements through which long term financial instruments are raised and invested.

◊ Money market:

Money market instrument:

1. **Treasury bill:** a short term borrowing by the government of India, also known as zero coupon bonds. These are issued in the form of promissory note. Issued at a price lower than their face value, this difference is the interest receivable called as discount.
2. **Commercial paper:** these are short term unsecured, promissory note, negotiable and transferable. Issued by large credit worthy companies, maturity period of 15 days to one year.

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3. **Call money:** this is used for inter-bank transaction, to maintain the cash reserve ratio, these are with maturity of one day to 15 days, the interest rate on these are highly volatile, it varies from day-to-day, hour-to-hour.
4. **Certificate of deposit:** these are unsecured negotiable, short-term instrument in barrier form, issued by commercial banks and financial Institutions. to individuals. corporations and companies
5. **Commercial bill:** finance the working capital requirements of business firms. short-term, negotiable, self-liquidating instrument is used to finance the credit sales of the seller draws the bill, being accepted, become marketable investment called trade bill, when trade bill is accepted by commercial bank it is known as a commercial bill.

Comparison between primary and secondary market:

Basis	Capital market	Money market
Participants	Financial institution, banks, corporate entities, foreign investor, individuals	RBI, banks, financial institutions, financial company, individuals
Instruments	Equity shares, debentures, bonds, preference share, etc.	T-bills, trade bills, commercial paper certificate of deposit
Investment outlay	The value of units of securities is low i.e. ₹10, minimum lot size is low i.e. 5	Whereas money market transactions entail huge
Duration	Medium and long term	Short term
Liquidity	Lower degree of liquidity as compared to that of money market	Higher degree of liquidity
Safety	Riskier as the issuing company might fail to perform the projection	Safer, as shorter duration of investment
Expected return	Capital market yield higher return as the investment if done for longer duration.	Lower return as the investment is done for shorter period

◊ Primary market:

Primary market: market of newly issued financial securities.

Methods of Floatation:

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1. **Offer through Prospectus:** this method is often used by public companies, direct appeal to investors to raise capital through an advertisement in newspapers and magazines.
2. **Offer for Sale:** Under this method securities are not issued directly to the public but are offered for sale through intermediaries.
3. **Private Placement:** Private placement is the allotment of securities by a company to institutional investor and some selected individuals. It helps to raise capital more quickly
4. **Rights Issue:** This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company.
5. **e-IPO:** proposing issue capital to the public through the on-line system.

◊ Secondary market:

Secondary market: market of existing financial securities:

Stock exchange: a body of individuals, weather incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

Functions of a stock exchange:

1. **Providing Liquidity and Marketability to Existing Securities**
2. **Pricing of Securities:** A stock change is a mechanism of constant valuation through which the prices of securities are determined.
3. **Safety of Transaction:** dealings are Well defined according to the existing legal framework this ensures that the investing public gets a safe and fair deal on the market.
4. **Contributes to Economic Growth:** Stock exchange savings get channelised into their most productive investment avenues. Thus, leads to capital formation and economic growth.
5. **Spreading of Equity Cult:** The stock exchange can play a vital in ensuring wider share ownership by regulating new issues taking effective steps in educating the public about investments.
6. **Providing Scope for Speculation:** stock market provides, a certain degree healthy speculation is to ensure liquidity and price continuity in the stock market

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Advantages of Electronic trading systems advantages:

1. **It ensures transparency:** they are able to see the full market during real time.
2. **It increases efficiency of information:** being passed on, thus helping in fixing prices efficiently
3. **It increases the efficiency of operations:** since there is reduction in time, cost and risk of error.
4. **Enabled a large number of participants:** Online mode of trading cover more area enabling large number of participants to trade with each other, thereby improving the liquidity of the market.
5. **one trading platform:** all the Trading centres spread all over the country have been brought onto one single platform.

Following are the Steps involved in screen-based trading:

1. Sign a broker-client agreement and a client registration form.

2. Open a demat account or beneficial owner (BO) account with a depository participant (DP)

3. The investor then places an order with the broker to buy or sell shares. Clear instructions have to be given about the number of shares and the price
4. Broker will go on line and connect to the main stock exchange and match the share and best price available

5. When the shares can be bought or sold the broker will issue a trade confirmation slip to the investor.

6. After the trade has been executed. Within 24 hours the broker issues a Contract Note: This note contains details of the number of shares bought or sold, the price, the date and time of deal, brokerage charges. <u>A Unique Order Code number is assigned to each transaction by the stock exchange</u>

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7. Investor has to deliver the shares sold or pay cash for the shares bought. This should be done within play-in-day.
   Pay-in-day: the day on which contract note is received.

8. Before the T+2 day as the deal has to be settled

9. On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the pay-out day. The broker then has to make payment to the investor within 24 hours of the pay-out day

10. The broker can make delivery of shares in demat form directly to the investor's demat account.

Depository:

In India, there are two depositories.

1. **National Securities Depositories Limited (NSDL)**
2. **The Central Depository Services Limited (CDSL)**

National Securities Depositories Limited (NSDL):

The first and largest would depository presently operational. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange.

The Central Depository Services Limited (CDSL):

promoted by the Bombay Stock Exchange and the Bank of India.

Electronically connected to the depository and serve as contact points with the investors and are called depository participants Financial institutions, banks,

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clearing corporations, stock brokers and non-banking finance corporations are permitted to become depository participants.

National Stock Exchange (NSE):

NSE, is the most modern and technologically driven exchange. It was incorporated in 1992 and was recognised as a stock exchange in April 1993. The board of NSE comprises of senior executive from promoter institutions and eminent professionals, without having any representation from trading members.

OBJECTIVES OF NSE:

1. nationwide trading facility for all types of securities.
2. equal access to investors
3. Providing a fair, efficient and transparent securities market
4. Enabling shorter settlement cycles and book entry settlements.
5. Meeting international benchmarks

Bombay stock exchange ltd. (BSE):

BSE was Asia's first stock exchange. It was granted permanent recognition under the securities contract Act, 1956. It was established as the native share stock brokers Association in 1875.

Objective of BSE:

1. Efficient and transparent market for trading in equity, debt instruments, derivatives, and mutual funds.

2. Trading platform for equities of small and medium enterprises

3. Active trading and safeguard market integrity

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4. Other services to capital market participants, like risk management, clearing, settlement, market data and education

5. To conform to the international standards

Objective of SEBI:

1. To regulate stock exchanges and the securities industry to promote orderly functioning.

2. To protect the right and interests of investors, particularly individual investors and to guide and educate them.

3. To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation

4. To regulate and develop a code of conduct and fair practice by intermediaries

Functions of SEBI:

1. **Regulatory:**
   a. Registration of broker and sub-broker and other players.
   b. Regulation of stock brokers, portfolio exchanges, business and others.
   c. Levying fee or other charges for carrying out the purpose of the act.
2. **Developmental:**
   a. Training of intermediaries.
   b. Undertaking measures to develop the capital markets.
   c. Conducting research and publishing information useful to all market participants.
3. **Protective:**
   a. Prohibition of fraudulent and unfair trade practices.
   b. Imposing penalties for such practices.
   c. Promotion of fair practice and code of conduct.

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