Unit 10

Part A

1. Expand IPO/BSE/NSEI/SEBI/NASDAQ/OTCEI/CSDL

IPO – Initial Public Offer

BSE – Bombay Stock Exchange

NSEI – National Stock Exchange of India

SEBI – Securities Exchange Board of India

NASDAQ - National Association of Securities Dealers Automated Quotations

OTCEI - Over the Counter Exchange of India

CSDL – Central Depository Services Limited

2. What is Money Market?

Money Market is a market for short-term funds. It deals in monetory assets whose period of maturity is less than one year.

3. What is Stock Exchange?

Stock Exchanges are the organisations which provide a platform for buying and selling of existing securities

4. What is the benchmark index of BSE?

Sensex

5. What is the benchmark index of NSE?

Nifty

6. Name the first and the largest depository presently operational in India.

National Securities Depositories Limited (NSDL) is the first and largest depository presently operational in India.

7. What is meant by Depository?

A depository also is like a bank and keeps securities in electronic form on behalf of the investor

8. Give the meaning of Dematerialisation.

Shares can be held either in physical form or an electronic book entry form of holding and transferring shares can also be adopted. This electronic form is called dematerialised form.

9. Primary and secondary markets (a) Compete with each other **(b) Complement each other** (c) Function independently (d) Control each other
10. The settlement cycle in NSE is (a) T+5 (b) T+3 **(c) T+2** (d) T+1
11. The National Stock Exchange of India was recognized as Stock Exchange in the year (a) 1999 **(b) 1993** (c) 1994 (d) 1995
12. A Treasury Bill is basically: **(a) An instrument to borrow short term funds** (b) An instrument to borrow long term funds (c) An instrument of capital market (d) None of the above

Part B

No Questions in Part – B

Part C

13. Explain briefly the functions of a Financial Market.
    a) Mobilisation of Savings and Channeling them into the most Productive Uses: A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.
    b) Facilitating Price Discovery: You all know that the forces of demand and supply help to establish a price for a commodity or service in the market. In the financial market, the households are suppliers of funds and business firms represent the demand.
    c) Providing Liquidity to Financial Assets: Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required. Holders of assets can readily sell their financial assets through the mechanism of the financial market.
    d) Reducing the Cost of Transactions: Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. The financial market is thus, a common platform where buyers and sellers can meet for fulfillment of their individual needs.

14. Explain any four methods of floating new issues in the primary market.
    a) Offer through Prospectus: Offer through prospectus is the most popular method of raising funds by public companies in the primary market. This involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital, through an advertisement in newspapers and magazines.
    b) Offer for Sale: Under this method securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. In this case, a company sells securities enbloc at an agreed price to brokers who, in turn, resell them to the investing public.
    c) Private Placement: Private placement is the allotment of securities by a company to institutional investors and some selected individuals. It helps to raise capital more quickly than a public issue. Access to the primary market can be expensive on account of various mandatory and nonmandatory expenses.

d) 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. The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

15. Write any four advantages of 'Electronic Trading System' in Stock exchanges
   a) It ensures transparency as it allows participants to see the prices of all securities in the market while business is being transacted. They are able to see the full market during real time.
   b) It increases efficiency of information being passed on, thus helping in fixing prices efficiently. The computer screens display information on prices and also capital market developments that influence share prices.
   c) It increases the efficiency of operations, since there is reduction in time, cost and risk of error.
   d) People from all over the country and even abroad who wish to participate in the stock market can buy or sell securities through brokers or members without knowing each other. That is, they can sit in the broker's office, log on to the computer at the same time and buy or sell securities.

16. Distinguish between primary market and secondary market (any four points).

Primary	Secondary
There is sale of securities by new companies or further (new issues of securities by existing companies to investors).	There is trading of existing shares only
Securities are sold by the company to the investor directly (or through an intermediary).	Ownership of existing securities is exchanged between investors. The company is not involved at all.
The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation	Enhances encashability (liquidity) of shares, i.e. the secondary market indirectly promotes capital formation
Only buying of securities takes place in the primary market, securities cannot be sold there.	Both the buying and the selling of securities can take place on the stock exchange.

17. State the objectives of Securities and Exchange Board of India.
   a) To regulate stock exchanges and the securities industry to promote their orderly functioning.
   b) To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
   c) To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
   d) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

Part D

18. Explain any four money market instruments.
    a) Treasury Bill: A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India on behalf of the Central Government to meet its short-term requirement of funds. Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par. The difference between the price at which the treasury bills are issued and their redemption value is the interest receivable on them and is called discount. Treasury bills are available for a minimum amount of Rs 25,000 and in multiples thereof.
    b) Commercial Paper: Commercial paper is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year.
    c) Call Money: Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks must maintain a minimum cash balance known as cash reserve ratio. The Reserve Bank of India changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks.
    d) Certificate of Deposit: Certificates of deposit (CD) are unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high. They help to mobilise a large amount of money for short periods.

19. What is Stock Exchange? Explain the functions of stock exchange.

A stock exchange is an institution which provides a platform for buying and selling of existing securities.

a. Providing Liquidity and Marketability to Existing Securities: The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.
b. Pricing of Securities: Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.
c. Safety of Transaction: The membership of a stock exchange is wellregulated and its 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.

d. Contributes to Economic Growth: A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.

e. Spreading of Equity Cult: The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

f. Providing Scope for Speculation: The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

20. Briefly explain the steps in the Screen based Trading and Settlement procedure in a Stock Exchange.

a) If an investor wishes to buy or sell any security he has to first approach a registered broker or sub-broker and enter into an agreement with him. The investor must sign a broker-client agreement and a client registration form before placing an order to buy or sell securities.

b) The investor has to open a 'demat' account or 'beneficial owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form. He will also have to open a bank account for cash transactions in the securities market.

c) The investor then places an order with the broker to buy or sell shares. Clear instructions have to

d) be given about the number of shares and the price at which the shares should be bought or sold. The broker will then go ahead with the deal at the above mentioned price or the best price available. An order confirmation slip is issued to the investor by the broker.

e) The broker then will go on-line and connect to the main stock exchange and match the share and best price available.

f) When the shares can be bought or sold at the price mentioned, it will be communicated to the broker's terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.

g) 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, and the brokerage charges. This is an important document as it is legally enforceable and helps to settle disputes/claims between the investor and the broker. A Unique Order Code number is assigned to each transaction by the stock exchange and is printed on the contract note.

h) Now, the investor must deliver the shares sold or pay cash for the shares bought. This should be done immediately after receiving the contract note or before the day when the broker shall make payment or delivery of shares to the exchange. This is called the pay-in day.

i) Cash is paid or securities are delivered on pay-in day, which is before the T+2 day as the deal has to be settled and finalised on the T+2 day. The settlement cycle is on T+2 day on a rolling settlement basis, w.e.f. 1 April 2003.
j) 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 payout day since he has already received payment from the exchange.
k) The broker can make delivery of shares in demat form directly to the investor's demat account. The investor has to give details of his demat account and instruct his depository participant to take delivery of securities directly in his beneficial owner account.

21. How does the Demat System works? Explain.

a) A depository participant (DP), either a bank, broker, or financial services company, may be identified.
b) An account opening form and documentation (PAN card details, photograph, power of attorney) may be completed.
c) The physical certificate is to be given to the DP along with a dematerialisation request form.
d) If shares are applied in a public offer, simple details of DP and demat account are to be given and the shares on allotment would automatically be credited to the demat account.
e) If shares are to be sold through a broker, the DP is to be instructed to debit the account with the number of shares.
f) The broker then gives instruction to his DP for delivery of the shares to the stock exchange.
g) The broker then receives payment and pay the person for the shares sold.
h) All these transactions are to be completed within 2 days, i.e., delivery of shares and payment received from the buyer is on a T+2 basis, settlement period.

22. Explain the functions of Securities and Exchange Board of India.

Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. It also has certain protective functions.

Regulatory Functions

a. Registration of brokers and subbrokers and other players in the market.
b. Registration of collective investment schemes and Mutual Funds.
c. Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
d. Regulation of takeover bids by companies.
e. Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.
f. Levying fee or other charges for carrying out the purposes of the Act.

g. Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

Development Functions

a. Training of intermediaries of the securities market.
b. Conducting research and publishing information useful to all market participants.
c. Undertaking measures to develop the capital markets by adapting a flexible approach.

Protective Functions

a. Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
b. Controlling insider trading and imposing penalties for such practices.
c. Undertaking steps for investor protection.
d. Promotion of fair practices and code of conduct in securities market.