Financial Markets and Regulatory Framework

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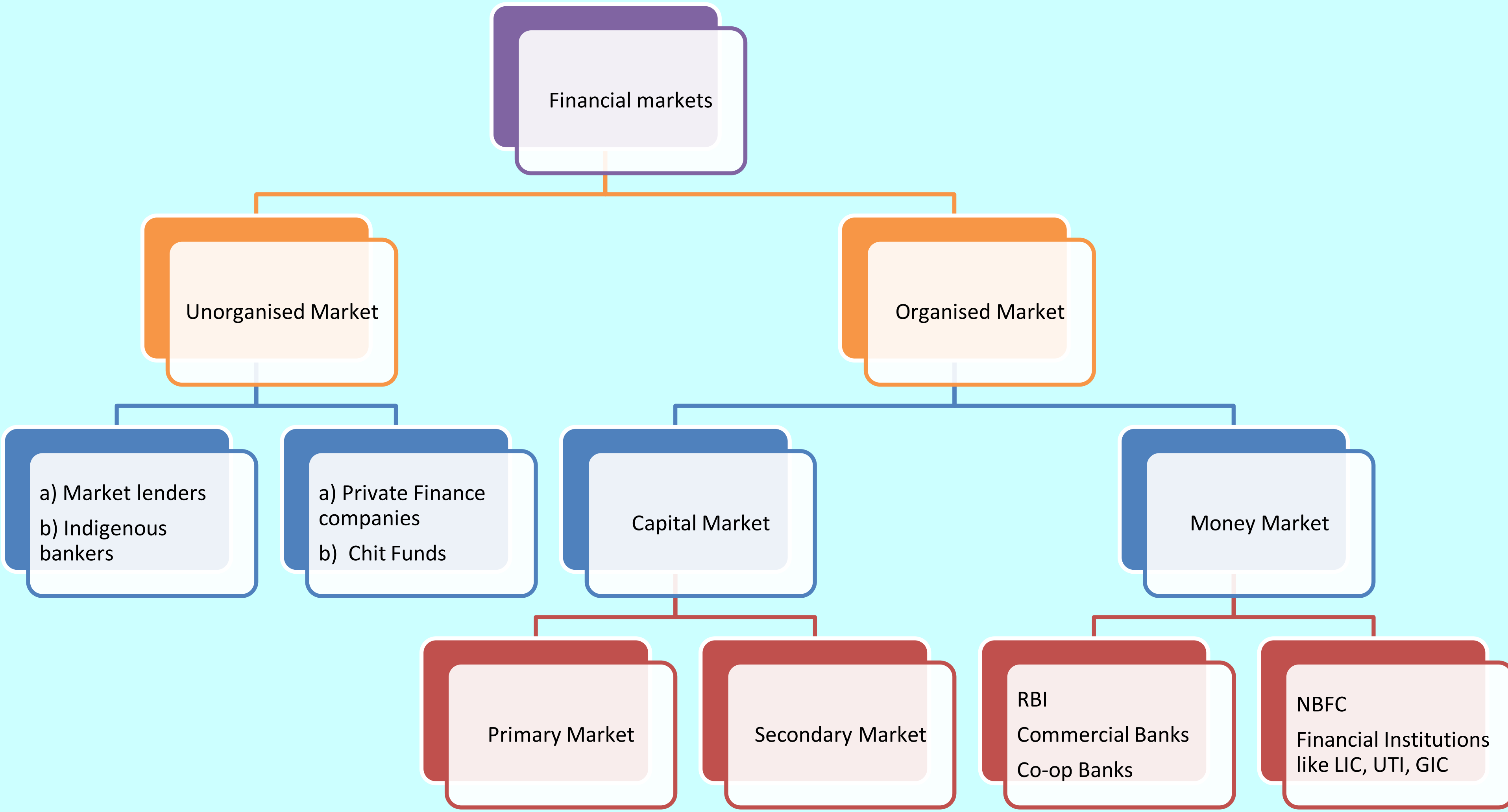
Classification of Financial Markets



Points of Differences between Primary Market and Secondary Market

- Function
  - Primary market launches or issues securities for long term funding where as Secondary market ensures that such securities are traded regularly.
- Participants
  - In a primary market, Merchant Bankers, Mutual Funds, Underwriters are the key participants where as in a Secondary Market, Stock Broker is a key player
- Listing Requirement
  - In primary market, listing is not important whereas in a Secondary Market, trading is not possible without being listed
- Price – determination
  - In Primary market, Management decides the price where as in the Secondary market, price is decided by Demand and Supply.

Money Market Instruments

- Call money
  - A temporary financial requirement adjusted by a bank through a bank. (1 day to 15 days)
- Treasury Bills
  - It is a promissory note issued by RBI to meet the short term financial requirements (max tenure - 364 days)
- Commercial Paper
  - Is generally used to finance working capital requirements. It is unsecured instrument issued in the arrangement of promissory note. (Corporate World) (15 days to 1 year)
- Certificate of Deposit
  - This is a short term financing option issued by Banks and Financial institutions. It is issued to Individuals, companies and co-operatives . (91 days to 1 year). Freely transferable.
- Trade Bill
  - This is a regular Bills of Exchange. It is drawn and accepted by traders for financial arrangements. The period of bill may vary on case to case basis

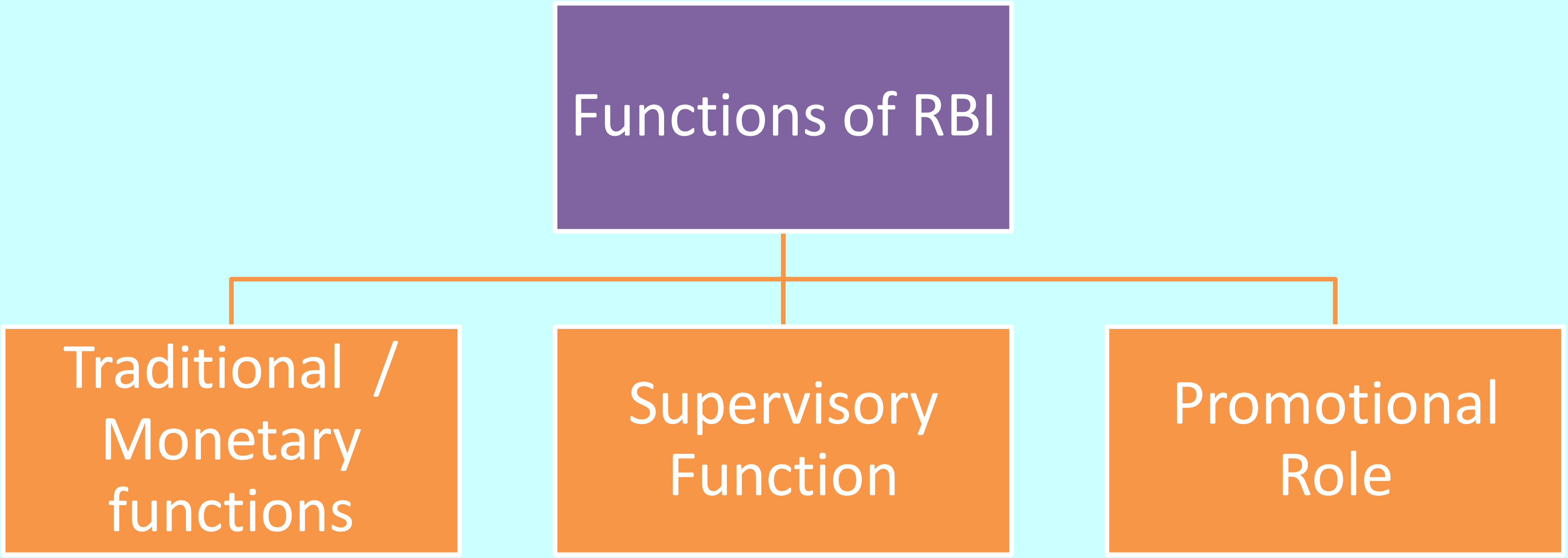
Difference between Capital Market and Money Market

- Money market is for Short term funding whereas Capital Market is for long term fund requirements.
- Money market deals with Trade bills, CP, CDs, Treasury bills whereas Capital market deals with shares, debentures, stocks, Govt securities
- The participants in Money market is RBI, Commercial Banks, Co-operative banks where as in Capital Market the Stock brokers, Underwriters, mutual funds are the participants
- Money market is largely regulated by RBI where as Capital Market is regulated by SEBI

Reserve Bank Of India

- About the formation and history of RBI
  - It was established on 1st April, 1935.
  - However, it was nationalized in 1949.
  - RBI is the bank which was formed to supervise, regulate and control the commercial banks through its policies, directions and regulations.
  - Its purpose was to play an important role in the Money Market.
  - One major role of RBI is supervision and regulation of other banks
  - RBI also provides training to bank employees and Officers
  - RBI is empowered to buy and sell Government securities

Functions of RBI



- <u>Traditional Role:</u>
  - Currency Issue
  - Bankers’ Bank
  - Custodian of Foreign Exchange Reserve
  - Bank of central clearance, settlement and transfers
  - Lender of last resort
  - Controller of Credit

- <u>Supervisory Role:</u>
  - License to Bank
  - Inspection and Regulate through enquiries
  - Control NBFC (Non banking financial corporations)

- <u>Promotional Role:</u>
  - Promotion of Banking Habits
  - Provides Refinance for Export Promotion
  - Facilities for Agriculture
  - Facilities for Small Scale Industries
  - Provision for Training
  - Collection of data
  - Publication of Reports

Securities Exchange Board of India (SEBI)

- SEBI was established in 1988 as an administrative body.
- It was given statutory recognition on 30th January, 1992.
- SEBI was established to achieve the following objectives:
  - To provide protection to the investors
  - To promote fair dealings by the issuer of securities
  - To regulate and develop a code of conduct for the financial intermediaries
  - To provide for the matters connecting with or incidental to any of the above matters

- Composition of SEBI:
  - 1 Chairman appointed by the Government
  - 2 members from the Finance Ministry
  - 1 member from RBI
  - 5 members, 3 of whom will be whole time members.
- Powers and Functions:
  - To protect the interest of the investors
  - To promote the development of securities market
  - To Regulate the securities market
  - Promoting investors education and training of intermediaries of securities market
  - Prohibiting insider trading

- Regulating substantial acquisition of shares.
- Regulating the work of all financial intermediaries (agents)
- Audit of stock exchanges, mutual funds
- Concentrate on all activities related to issue of an IPO (eligibility, pricing, promoters contribution, pre issue obligation, prospectus, post issue obligation)

- <u>Achievements of SEBI</u>
  - Dematerialization of shares
  - Rolling settlement (T+2days)
  - Regulating working of institutions
  - Derivatives trading
  - Transparency
  - Mergers & Acquisitions
  - Investor education
  - Circuit Breaker System