

**B.Com. (Hons.) V Semester****Paper Title: Financial Market Operations****Paper Code: AU-6671**

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**Note: These model answers are a depiction of important points which, an examinee must have to mention, to secure high marks in particular question. The length of the answer may vary as per the examinee's understanding, interpretation, and his/her ability to comprehend the content.**

**Section – A (Short Answer Type Questions)****1. (i) Original and Actual Maturity:**

Given, Issue Date: 01-10-2014  
 So, Stipulated Maturity Date: 31-12-2014 (i.e., 91 days from issuance)  
 So, Original Maturity: 91 days (01-10-2014 to 31-12-2014)  
 Actual Maturity: 71 days (22-10-2014 to 31-12-2014)

**(ii) Functions of Money Market:**

- (1) Provide a balancing mechanism to even out the demand for and supply of short-term funds
- (2) Provide a focal point for central bank intervention for influencing liquidity and general level of interest rates in the economy
- (3) Provide reasonable access to suppliers and users of short-term funds to fulfil their borrowings and investment requirements at an efficient market clearing price

**(iii) Certificate of Deposits and Commercial Paper:**

<b>S. No.</b>	<b>Basis for difference</b>	<b>Certificate of Deposits</b>	<b>of Commercial Paper</b>
<b>1.</b>	<b>Issued by</b>	Scheduled commercial banks excluding RRBs and LABs; and select all-India Financial institutions	Highly rated corporates, primary dealers, and all-India financial institutions

S. No.	Basis for difference	Certificate of Deposits	of Commercial Paper
2.	Issued to	Individuals, corporations, companies, trusts, funds, NRIs	Individuals, banks, companies, Unincorporated bodies, NRIs and FIIs
3.	Minimum Denomination	Rs. 1 lakh	Rs. 5 lakh
4.	Introduced in	June 1989	Jan 1990
5.	Rating Requirement	NIL	At least P2 by CRISIL
6.	Stamp Duty	Not applicable	Applicable
7.	Maturity	7 days to 364 days	7 days to 364 days
8.	Agents	No specific agent	Issuing and Paying Agent

**(iv) Issuing and Paying Agent:**

Only a scheduled commercial bank can act as an IPA. It verifies all original certificates and hold custody of original of credit support document. IPA issues an 'IPA certificate' to all subscribers of the CP in the primary market and then reports the issue to the RBI.

**(v) Red herring prospectus:**

It is a prospectus which does not have details of either price or number of shares being offered or the amount of issue. It is submitted to the SEBI.

**(vi) Listing of securities:**

Listing of securities permits trading, unlocks the value of the company, and creates wealth effect for a company. These three qualities should be explored by the examinee

**(vii) Market segments of NSE:**

There are four market segments of NSE:

- (a) Capital Market
- (b) Wholesale debt market
- (c) Futures and Options
- (d) Currency Derivatives

**(viii) Market-makers:**

Market maker is an individual or a firm who gives two-way buy and sell quotes for a stock. Thus, he creates a market for a scrip wherein it can be easily bought and sold.

**(ix) Delisting of Securities:**

According to the rules, Stock Exchanges will have to compulsorily delist a company if:

- (1) It has suffered losses during the preceding 3 consecutive years and its net worth has turned negative.
- (2) Trading in its securities has remained suspended for more than 6 months, or the security has been infrequently traded in preceding 3 years.
- (3) It violates SCRA, or SEBI Act, or Depositories Act for which a minimum penalty of Rs. 1 Crore or less than 3 punishment is there.
- (4) It provides false address or there is unauthorised change in its registered address.
- (5) The public shareholding in the company shrinks below a minimum level prescribed in the listing agreement.

**(x) Differentiate between Merchant banks and commercial banks:**

S. No.	Basis for difference	Merchant Banks	Commercial Banks
1.	Main Aim	Providing advisory services in Issue management and project completion	Depositing the amount and lending loans and advances to the customers
2.	Customers	Usually large corporations	Anyone including an individual
3.	License requirement	Both from RBI and from SEBI to perform issue management activities	By RBI only
4.	Superiority	Usually merchant banks are subsidiaries	Commercial banks usually operate issue

S. No.	Basis for difference	Merchant Banks	Commercial Banks
		of a renowned commercial bank	management activities by establishing its branch or subsidiary as merchant banker

**Section – B (Long Answer Type Questions)**

**2. Financial market, its role, functions, and components:**

The examinee should write about the financial market, and a proper schematic diagram showing its various components will add up the value of the answer.

The answer can be started as financial market facilitates the exchange of financial assets among dealers. It refers to a place or mechanism where financial assets are sold or purchased.

The prime roles of financial market can be detailed with the following points:

- (1) Capital Formation
- (2) Movement of money from savers’ side to users’ side
- (3) Helps exchange of goods and services
- (4) Helps in transfer of resources from one to another
- (5) Helps in controlling the risk

Thereafter, the examinee should detail about capital market and money market with little hint on its sub-sections.

**3. Treasury Bills:**

The examinee should support the statement by showing that t-bills have always been the source of liquidity for the government. Though, names changed from Adhoc T-bills to Auctioned T-bills, the sole purpose of floating such type of money market instrument is provide necessary cash for governmental operations. Then, the examinee should write about different types of t-bills on the basis of their maturity and a little table of preferably 91-day t-bills trading shall support the answer more positively.

**4. Book-building mechanism or process:**

Here, the examinee should start answer by mentioning that earlier ‘Fixed Rate regime’ was not useful for the investors and so, the current book-

building process, which is based on market demand and respective price an investor looks to pay, is more pragmatic and helpful in determining real price of an IPO.

The examinee then, should start writing about the book-building process which should include details about BRLM, Price Band, Moving Price Band, Road-shows, mandatory advertising, basis for issue price determination, red herring prospectus etc.

The prime idea of writing this answer should be showing the supremacy or adequacy of the book-building mechanism in current IPO scenario.

### **5. Reforms in Primary Capital Market in India:**

The examinee is required to provide detailed outline on some important points about the reforms in primary capital market of India. Some of the points are:

- (1) The SEBI has been given the statutory powers from January 1992
- (2) The Capital Issues (Control) Act, 1947 was repealed
- (3) The requirement to issue shares at a par value of Rs. 10 and Rs. 100 was withdrawn. This gave companies the freedom to determine a fixed value per share. This facility is available to companies which have dematerialised their shares.
- (4) Indian companies have been allowed to raise capital from the international capital market through GDRs, ADRs, ECBs, etc.
- (5) Every public-listed company making an IPO of any security for Rs. 10 crore or more is required to make an offer only in a dematerialised form.
- (6) The SEBI introduced the Green-shoe option facility in IPOs as a stabilisation tool for the post listing price on newly issued shares.
- (7) The Central Listing Authority was set-up to ensure uniform and standard practices for listing the securities on stock exchanges; etc.

### **6. Listing; its advantages and disadvantages:**

A company has to list its securities on the stock exchange so that they are available for trading. A company can seek listing on more than one stock exchange. While the advantages of listing are many like, permission of trading of securities in the stock exchange, unlocking the value of the company by investors, and creating wealth effect for the company and its shareholders; the prime disadvantage of listing of security is that companies need to publish their quarterly unaudited financial reports in

the newspapers and other media. One can also suggest that disadvantage of listing is lack of secrecy in company affairs as financial matters shall be disclosed every quarter in public. Another disadvantage is with every fall in the share price in the market, company reputation goes down.

**7. Investors Grievances Redressal Mechanism:**

The examinee should write about investors' grievances in different capital market issues. Thereafter, a detailed outline of redressal mechanism available to them through SEBI should be mentioned in answer. The answer should mention about commonly faced problems by investors which can be categorised as grievances from company, intermediaries, and from depository participants. Similarly, a brief outline about redressal of such types of grievances are anticipated by the examinee.

**8. 'Pre-issue obligations' of Merchant banker related to Issue Management:**

The examinee should inform that issue management is the most important activity to be performed by a merchant banker. It is divided into pre-issue and post-issue obligations. Pre-issue obligations are hereunder (details must be given):

- (1) Submitting offer document
- (2) Submitting an undertaking
- (3) Submitting list of promoters group
- (4) Appointment of intermediaries
- (5) Appointment of underwriter
- (6) Making offer document public
- (7) Filing a No-complaint certificate
- (8) Appointing Authorised Collection agents
- (9) Entering into an agreement with Depository/ies

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