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.

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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.

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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.

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. Thi problem

could 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

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