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Capital market instruments pdf

Photo Courtesy: Pixabay Whether you're channel or web surfing, televisions are the focal point of most homes. The wide selection of televisions on the market means buyers can find something that fits their specific and ever-changing needs. While they all broadcast moving pictures, the search for the perfect television can become daunting as there are numerous features that make them more than just a TV. Here are 10 televisions that won't result in buyer remorse. MORE FROM CONSUMERSEARCH.COM Introduction: We learn previously that Swati Enterprises was looking for Capital for expansion in other states and suggestion for sourcing the funds was Financial Market. But as we have learnt that Financial Market consists of different segments with unique characteristics, like Money Market, Capital Market, Currency market, Commodity market etc., CEO of Swati enterprises went to the expert for suggestion on, from where to source the funds. After listening to the requirement of funds of Swati enterprises, expert suggested to go for Capital market, but CEO of enterprise was keen to know about Capital Market in detail, so that he can approach the right place as per requirement. Expert told CEO to ask questions so that he can resolve his doubts and queries, so the CEO started asking questions. What is Capital Market? Capital market refers to facilities and institutional arrangements through which Medium and long-term funds (for a period of minimum 365 days and above), both debt and equity are raised and invested. It provides all with a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. The capital market consists of development banks, commercial banks and stock exchanges. Why should I borrow from Capital Market? Well, Capital market provides with many benefits that one might not be able to avail through direct borrowing from a creditor, like: In Capital market, finance is available at reasonable cost. Financial Institutions are sufficiently developed and their processes are well established to provide free, fair, competitive and transparent financial instruments. Capital market is efficient and mostly accurate in providing all necessary information to the investors and borrowers. Besides, all the benefits to an individual organisation, Capital markets contribute to the economic development by providing necessary capital for its facilitation. It is believed today that for strong growth prospects in an economy presence of a strong and vibrant capital market is essential. Why shouldn't I borrow from Money Market, how is it different to the Capital market? Well, there are many differences between Capital market and Money market, both markets provide money for different purposes, following diagram would be sufficient for the answer: Capital market securities are considered liquid investments because they are marketable on the stock exchanges. However, a share may not be actively traded, i.e. it may not easily find a buyerMoney market instruments on the other hand, enjoy a higher degree of liquidity as there is formal arrangement for this. The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments. Basis Capital Market Money Market Participants The participants in the capital market are financial institutions, banks, corporate entities, foreign investors and ordinary retail investors from members of the public. Participation in the money market is by and large undertaken by institutional participants such as the RBI, banks, financial institutions and finance companies. Instruments The main instruments traded in the capital market are – equity shares, debentures, bonds, preference shares etc. The main instruments traded in the money market are short term debt instruments such as T-bills, trade bills reports, commercial paper and certificates of deposit. Duration The capital market deals in medium- and long-term securities such as equity shares and debentures. Money market instruments have a maximum tenure of one year, and may even be issued for a single day. Liquidity Capital market securities are considered liquid investments because they are marketable on the stock exchanges. However, a share may not be actively traded, i.e. it may not easily find a buyer Money market instruments on the other hand, enjoy a higher degree of liquidity as there is formal arrangement for this. The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments. Safety Capital market instruments are riskier both with respect to returns and principal repayment. Issuing companies may fail to perform as per projections and promoters may defraud investors. But the money market is generally much safer with a minimum risk of default. This is due to the shorter duration of investing and also to financial soundness of the issuers, which primarily are the government, banks and highly rated companies. Expected return The investment in capital markets generally yield a higher return for investors than the money markets. The possibility of earnings is higher if the securities are held for a longer duration. Because Money market is for short duration, it doesn't provide high return on investment. CEO: Okay, great, now I understand why Capital Market is suitable to solve our problem of funding. Now, please provide me some basic idea about Capital Market. Let's know about the structure of capital market that formed the backbone of Capital market after independence and their status at present. Structure of Capital market in India Financial Institutions: evolution After independence, India realized the importance of industrialisation and opted 'industry' as its prime moving force. But to achieve this objective, there was requirement of huge investment in the form of capital. Unlike in industrialised western economies, India banking infrastructure was not developed and it was very weak, small and geographically unevenly distributed. So, to deal with this challenge, government decided to set up 'financial institutions' which could play the role of banks, till banks gain strength and presence to take the responsibility of 'project financing'. Banks at that time were weak due to low saving rate and lower deposits from public. IFCI (1948); ICICI (1955); IDBI (1964); SIDBI (1990) & IIBI (1997) were established. All of them except ICICI, (A joint venture of RBI, some foreign banks and FIs) were funded by government. But, Post-1991 Liberalisation, stock market became popular among industries and position of banks also strengthened, as a source of funds. Compared to FIs, stock market provided easy and cheaper capital. After that FIs became irrelevant. Thus, on the suggestion of Narasimhan Committee-I, government decided to convert FIs into All India Development Banks. In 2000, the government allowed ICICI to go for a reverse merger (when an elder enterprise is merged with a younger one) with the ICICI Bank. It was the first AIDB emerged with no obligation of project financing. Presently, there are only four financial institutions operating in the country as AIFIs regulated by the RBI, viz., the NABARD, SIDBI, Exim Bank and the NHB. Investment Institutions Government setup another set of investment institutions consisting of LIC (1956), the UTI (1964) and the GIC (1971). But as soon as their investment related function started fading away, government allocated them different segments. LIC is now the public sector insurance company in the life segment. GIC was been converted into a public sector re-insurance company in 2000, UTI was converted into a mutual fund company in 2002. It is now part of the Indian Mutual Fund industry and the lone such firm in the public sector competing with other private sector mutual funds. State Level Financial Institutions To facilitate growth and development at the regional level, government allowed states to set up their own financial institutions (after the states demanded so). There are many state level institutions, such as: State financial corporations (SFCs) State Financial Corporations have been established under the Financial Corporation Act, 1951. At present there are 18 SFCs operating providing long-term finance for setting up of the smaller projects within their region. The SFCs provide financial assistance by way of term loan, subscription to equity/debentures, guarantees, discounting of bills of and seed/special capital. State Industrial Development Corporations (SIDCs) The State Industrial Development Corporations (SIDCs) were setup under the Companies Act, 1956 as wholly owned undertakings of the governments with the specific objectives of promoting and developing and large industries in their respective states/union territories. Some SIDCs also offer a package of developmental services that include technical guidance, assistance in plant location and co-ordination with other agencies. Resources of State level Financial Institutions SFCs/SIDCs do not generally have large resources to meet the growing demand of industry within their regions. They raise resources by issue of share capital, issue of bonds and debenture guaranteed by State Governments. Additional resources are raised by accepting deposits from public and by borrowings from State Governments Other main resource available to these state level institutions is refinance from Industrial Development Bank of India/Small Industries Development Bank of India. Banking Industries Banking industry has emerged as a major source of fund for financing the industrial projects. We will learn about Banking industry in detail in another chapter. Insurance Companies After Independence, life and nonlife insurance businesses were nationalised by the government (in 1956 and 1970, respectively) for the purpose of facilitating nation building. But after liberalisation, there was need for the economic reforms and making industry competitive, thus the industry was opened for entry of private players in 1999. Since then many private players have entered the industry. An independent regulator was set up—the IRDA (domestic and foreign—with an FDI cap of 49 per cent). Presently, Indian insurance industry consists of one public sector life insurer (LIC) and four public sector General Insurers (subsidiaries of GIC); two specialised public sector insurers (AICIL and ECGC); one public sector re-insurer (GIC) and Private insurance companies. Security Market Securities are financial instruments issued to raise funds. The primary function of the securities markets is to enable the flow of capital from those that have it to those that need it. Securities market help in transfer of resources from those with idle resources to others who have a productive need for them. The gilt-edged market refers to the market for government and semi-government securities, backed by the RBI. The securities traded in this market are stable in value and are much sought after by banks and other institutions. The industrial securities market refers to the market for shares and debentures of old and new companies. This market is further divided into the new issues market and old capital market meaning the stock exchange. Securities market are divided into Government securities market and Industrial securities market. Government securities market for both 'old' and 'new' issues has been on 'over-the- counter market' where securities of the Union Government and State Governments are issued. An over-the-counter (OTC) market and an exchange market are the two basic ways of organizing securities markets. In an OTC market, dealers act as market-makers by quoting prices at which they will buy and sell a security, currency, or other financial products. A trade can be executed between two participants in an OTC market without others being aware of the price at which the transaction was completed. Merchant Banking As per SEBI rules, a merchant banker refers to, "any person who is engaged in the business of issue management either by making arrangement regarding buying, selling or subscribing to securities or acting as manager, consultant or rendering corporate advisory services in relation to such issue management". Merchant banks may be subsidiaries of commercial banks or may have been set up by private financial service companies or may have been set up by firms and individuals engaged in financial up by firms and individuals engaged in financial advisory business. Merchant banks in India manage and underwrite new issues, undertake syndication of credit, advice corporate clients on fund raising and other financial aspects. Since 1993, merchant banking has been statutorily brought under the regulatory framework of the Securities Exchange Board of India (SEBI) to ensure greater transparency in the operation of merchant bankers and make them accountable. CEO: Okay great, now I know that there are 'n' types of capital market, I think now I can go and invest there. Expert: No, there is more to it, there are many types of instruments through which Capital market raise funds and it is up to the borrowing companies, what type of instrument among the available options, they want to be created. Instruments of capital market Savings of the investors are generally raised through a range of complex financial products generally called capital market instruments such as shares, Debentures, bonds or any other marketable securities of a like nature issued by any company etc. Following are the various types of capital market instruments available in the Indian Capital Market: Shares The ownership capital of a company is divided into a number of indivisible units of a fixed amount. These units are known as shares As per Section 43 of the Companies A 2013, the share capital of a company limited by Shares shall be of two kinds, namely Equity share capital and Preference share capital. Equity Shares The purpose of equity instruments issued by corporations is to raise funds for the firms. It is equity ownership that allows the holders of this stock to enjoy voting rights on corporate matters. However, in case the company suffers heavy losses and ends up bankrupt, the holders of the common stock are the last ones to get their money back after creditors, bondholders, and holders of preferred stock. Preference shares Preference shares are also a type of shares issued by a company that provides a predetermined dividend to the holder unlike dividend to equity share holder where shareholder gets dividend as per the profit earned. Although dividend on the preferred stock are larger but they do not get voting power on the company matters. In case of liquidation of company, preference shareholders get to redeem their shares before the holders of the common stock. Sweat equity shares Sweat equity shares are equity shares issued by a company to its employees or directors at a discount, or as a consideration for providing know-how or a similar value to the company. Sweat equity is a form of compensation by the business to their owners and employees. It is recognition of a partner's contribution to a project in the form of effort while financial equity is the contribution in the form of capital. Example If Swati enterprises issues equity shares for raising capital than it would be selling its ownership rights to the extent the percentage of capital raised. But they don't have to worry about payments to them as they now will be participating in decision making process. But dividend will be paid as per the profit earned. If Swati Enterprises issues preference shares, it will be selling ownership rights but without any decision-making power to the holders. But they will be paid a regular and fixed amount of dividend. Debt instruments A debt instrument is used by either companies or governments to generate funds for capital-intensive projects that can be obtained either through the primary or secondary market. The relationship in this form of instrument ownership is that of a borrower – creditor and thus, does not necessarily imply ownership in the business of the borrower. The contract is for a specific duration and interest is paid at specified periods. Types of Debt Instruments are of different types like Bonds, Debentures and Government Securities (G - Secs) etc. Debentures A debenture is a long-term debt instrument used by governments and large companies to obtain funds. It is a certificate of agreement of loans which is given under the company's stamp and carries an undertaking that the debenture holder will get a fixed return (fixed on the basis of interest rates) and the principal amount whenever the debenture matures. In contrast to equity capital, which is a variable income security, the debentures are fixed income (i.e. in respect of interest) security with no voting rights. Debentures are generally freely transferrable by the debenture holder. Bonds Bonds are debt instrument, that are issued by companies and government. Major issuers of bonds are governments (Treasury bonds in US, gilts in the UK, Bunds in Germany) and firms, which issue corporate bonds. Some corporate bonds are secured against assets of the company that issued them, whereas other bonds are unsecured. By purchasing a bond, an investor lends money for a fixed period of time at a predetermined interest rate. During this period of time, investor receive a regular payment of interest semi-annually or annually. Issuing a bond increase the debt burden of the bond issuer because contractual interest payments must be paid to the borrowers. Bonds can be of following types: Government Bonds Municipal Bonds Institutions Bonds Corporate Bonds The yield on bonds are expressed commonly in two forms: Interest yield (or running yield) - The return on a bond taking account only of the coupon payments. Yield to maturity (or redemption yield)- The return on a bond taking account of the coupon cash flows and the capital gain or loss at redemption. Debt markets include: Primary markets for bonds, i.e. the markets in which newly issued instruments are bought, Secondary markets , in which existing or second hand instruments are traded. Green Bond The capital for green bond is raised to fund 'green' projects like renewable energy, emission reductions etc. First Green Bond was issued by World Bank in 2007. The first ever green bond was issued by multilateral institutions (European Investment Bank and World Bank) in 2007. The first green bond in India was issued by Yes Bank in In 2015, EXIM bank launched India's first dollar denominated green bond of $500 million. Indian Renewable Energy Development Agency Ltd has issued bonds to finance renewable energy without the tag of green bonds. India has become the seventh largest green bond market in the world. In January 2016, SEBI also released first Green Bond guidelines relating to listings, norms for raising money etc. According to SEBI, a bond shall be considered green bond if the funds raised through it will be used for renewable and sustainable energy including wind, solar, bio-energy, other sources of energy which use clean technology. Banks have also been permitted to issue green masala bonds. Rural Electrification Corporation's first green bond has opened up for trading at the London Stock Exchange. It is a Climate Bonds Initiative certified green bond. The proceeds of the bond shall be used to fund environment friendly projects in India such as solar, wind and biomass assets, as well as sustainable water and waste management projects. Through listing at the LSE, the PSU hopes to reach out to a new investor base. Blue Bonds The upcoming year will witness the first 'blue bond' issuance in India. As per Smart cities initiative, municipal bond market will be refueled for water supply projects (a category of Blue Blonds) in cities like Pune and Hyderabad. It is a type of green bond which specifically invests in climate resilient water management and water infrastructure. Masala Bonds Masala bonds are rupee-denominated bonds issued by Indian entities in the overseas market to raise funds. As of now, it is being traded only at the London Stock exchange. Masala bonds have been named so by the International Finance Corporation (IFC), an investment arm of the World Bank which issued these bonds to raise money for infrastructure projects in India. They protect investors from exchange rate fluctuations as opposed to external commercial borrowing (ECB) that have to be raised and repaid in dollar. The Union Minister of Road Transport & Highways and Shipping launched the NHAI Masala Bond (NHAI) issue at the London Stock Exchange. Sovereign Gold Bond Scheme Sovereign Gold Bonds are government securities denominated in physical gold. Gold bonds are tradable on the stock exchange and can be held in both physical or demat form. It is issued by the RBI on behalf of the Government of India These bonds carry sovereign guarantee both on the capital invested and the interest. How are Bonds different to Debentures? Bonds are more secured compared to debentures. A guaranteed interest rate is paid on the bonds that does not change in value irrespective of the profit earned by the company. Bonds are more secure than debentures. The company provides collateral for the loan. Moreover, in case of liquidation, bondholders will be paid off before debenture holders. In case of bankruptcy, Debenture holders have no collateral that a holder can claim from the company. To compensate for this, companies pay higher interest rates to debenture holders, compared to Bond holders. Government Securities Government securities, popularly known as G-Secs, are issued by Reserve Bank of India (RBI) on behalf of the central or state governments to finance fiscal deficit. These securities are absolutely risk-free and guaranteed by the government. Derivative instruments A derivative instrument is whose value is derived from the value of one or more underlying assets which can be commodities, precious metals, currency, bonds, stocks, stock indices, etc. Forwards, Futures, Options and Swaps are four most common examples of derivative instruments. The purpose of these securities is to give producers and manufacturers the possibility to hedge risks. By using derivatives both parties agree on a sale at a specified price at a later date. Derivatives market can be divided into two as follows: Exchange-traded derivatives Over-the-counter derivatives. Forwards and futures These are financial contracts that obligate the contracts' buyers to purchase an asset at a pre-agreed price on a specified future date. Both forwards and futures are essentially the same in their nature. However, forwards are more flexible contracts because the parties can customize the underlying commodity as well as the quantity of the commodity and the date of the transaction. On the other hand, futures are standardized contracts that are traded on the exchanges. Every futures contract has the following features: Buyer Seller Price Expiry Options Options contracts are instruments that give the holder of the instrument the right to buy or sell the underlying asset at a predetermined price. An option can be a 'call' option or a 'put' option. A call option gives the buyer, the right to buy the asset at a given price. This 'given price' is called 'strike price'. Similarly, a 'put' option gives the buyer a right to sell the asset at the 'strike price' to the buyer. Here the buyer of the contract has the right to sell and the seller has the obligation to buy. So, in any options contract, the right to exercise the option is vested with the buyer of the contract. The seller of the contract has only the obligation and no right. As the seller of the contract bears the obligation, he is paid a price called as 'premium'. Therefore, the price that is paid for buying an option contract is called as premium. The buyer of a call option will not exercise his option (to buy) if, on expiry, the price of the asset in the spot market is less than the strike price of the call. For eg: A bought a call at a strike price of Rs 500. On expiry the price of the asset is Rs 450. A will not exercise his call. Because he can buy the same asset from the market at Rs 450, rather than paying Rs 500 to the seller of the option. The buyer of a put option will not exercise his option (to sell) if, on expiry, the price of the asset in the spot market is more than the strike price of the call. For eg: B bought a put at a strike price of Rs 600. On expiry the price of the asset is Rs 619. A will not exercise his put option. Because he can sell the same asset in the market at Rs 619, rather than giving it to the seller of the put option for Rs 600. Swaps Swap refers to an exchange of one financial instrument for another between the parties concerned. This exchange takes place at a predetermined time, as specified in the contract. Swaps are not exchange oriented and are traded over the counter, usually the dealing are oriented through banks. Currency swaps and interest rates swaps are the two most common kinds of swaps traded in the market. CEO: Great, I didn't know we can issue that many types of instruments, now I can analyze what instrument will be best suitable for our funding needs. So, this turned out to be a huge market. Is there any authority who oversee the activities of all institutions running there? Expert: Yes, there are many authorities, that have been awarded with the power to regulate the activities of Capital market. Let's have a look at it in detail. Regulation of Capital Market The securities market is regulated by various agencies such as the Department of Economic Affairs (DEA), The Department of company affairs (DCA), the Reserve Bank of India and the SEBI. The activities of these agencies are coordinated by a high level committee on capital and financial markets. The capital market for equity and debt securities is regulated by the Securities and Exchange Board of India. The SEBI has full autonomy and authority to regulate and develop the capital market. The government has framed rules under the Securities Contracts Act (SCRA), the SEBI Act and the Depositories Act. The power in respect of the contracts for sales and purchase of government securities, money market securities and ready forward contracts in debt securities are exercised concurrently by the RBI. The four main legislations governing the capital market are as follows: The SEBI Act, 1992 which establishes the SEBI with four-fold objectives of protection of the interests of investors in securities, development of the securities market, regulation of the securities market and matter connected therewith and incidental thereto. 2.The Companies Act, 1956 which deals with issue, allotment and transfer of transfer of securities, disclosures to be made in public issues, underwriting, rights and bonus issues and payment of interest and dividends. The Securities Contracts Regulation Act, 1956 which provides for regulations of securities trading and the management of stock exchanges. The Depositories Act, 1996 which provides for establishment of depositories for electronic maintenance and transfer of ownership of demat securities. Primary and Secondary market CEO: Now I think, I know about market intermediaries, market instruments and market regulators. So, I should decide what market instrument to issue and contact with a Financial intermediary as per the rules set by the Financial regulators and I can get funding. Expert: I think you should also know about process of how market works, before you go on and start the process to get funding. There are primary markets and secondary markets for newly issued securities and old issues respectively. Let's know about them in detail. Primary markets When a company publicly sells new stocks and bonds for the first time, it does so in the primary capital market. This market is also called the new issues market. In this market, instruments of security market are traded (procured) directly between the capital raiser and the instrument purchaser. It facilitates the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. Funds raised may be used for setting up new projects, expansion, diversification, modernisation of existing projects, mergers and takeovers etc. A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, bonds and deposits. The new issue takes the form of an Initial Public Offering (IPO) or a Further Public Offer (FPO). An IPO is the process through which a company for the first time offers equity to investors and becomes a publicly-traded company. An FPO is a process by which already listed companies offer fresh equity in the company. Companies use FPOs to raise additional funds from the general public. Methods of Floatation The newly issued instrument in the Market can be floated through one of the various methods: Offer through Prospectus: Under this method for the purpose of information to the general public company issues a prospectus. Prospectus contains information about the company such as the purpose for which funds are being raised, past financial performance of the company, background and future prospects of company. This information helps the general public to decide whether to invest or not in this company. 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. 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. 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. e-IPOs: A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an E- Initial Public Offer (IPO). Secondary markets Expert: after the fresh securities have been issued. These are listed in the secondary market to change hands i.e. the buyer in the primary market can sell her/his stake in the secondary market at the current price. It solves the liquidity problem of the investor and also provide him opportunity to invest in other fresh issues. What is Secondary market? The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive investments through the process of disinvestment and reinvestment. Stock exchanges in India The stock exchanges are the important player of the capital market. They are the citadel of capital and fortress of finance. They are the platform of trading in securities and as such they assists and control the buying and selling of securities. Thus, stocks exchanges constitute of a market where securities issued by the central and state, governments, public bodies and joint stock companies are traded. Stock Market Indices The stock market index is the most important indexes of all as it a set of stocks that are representative of the market. The stock market index is a barometer of market behavior. It reflects market direction and indicates day to day fluctuations in the stock prices. The index on a day is calculated as the percentage of the aggregate market value of the set of scripts incorporated in the index on that day to the average market value of the same scripts during the base period. The stock market index is a convenient and effective product due to the following reasons: It acts as a barometer for market behavior. It is used to benchmark portfolio performance. It helps to allocate scarce resources to the best performed companies reflected through best performed scripts. It is used as a forecasting tool to predict the future movement of stock indices and also the business cycles. It is used in derivative instruments like index futures and index options. It can be used for passive fund management as in the case of index funds. There are mainly four stock exchanges in India as follow: Bombay Stock Exchange (BSE) National Stock Exchange (NSE) Over The Counter Exchange of India (OTCEI) Regional Stock Exchanges Bombay Stock Exchange (BSE): BSE emerged as premier stock exchange after the 1960s. It was established in 1875. The BSE dominated the Indian capital market accounting for more than 60 percent of the all India turnover. Until 1992, the BSE operated like a closed club of select members. On March 1995 the BSE had open outcry system of trading, the BSE turned to electronic trading whereby brokers trade using computers and technology. This system is known as the BSE online trading system. What is Sensex? Sensex, otherwise known as the S&P BSE Sensex index, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. Initially compiled in 1986, the Sensex is the oldest stock index in India. National Stock Exchange (NSE): The NSE was set up in 1992 to encourage stock exchange reform through system modernization and competition. It is an electronic screen-based system where members have equal access and equal opportunity of trade irrespective of their location in different parts of the country as they are connected through a satellite network. The NSE introduced for the first time in India, fully automated screen based trading eliminating the need for physical trading floors. The sponsors of the exchange are financial institutions, including IDBI, LIC and GIC with IDBI as its promotor. The system helps to integrate the national market and provides a modern system with a complete audit trial of all transactions. The reach of NSE has been extended to 21 cities of which six cities don't have stock exchanges of their own. It has a 50 share index and a 500 share index known as S&P CNX-50 (Nifty Fifty) and S&P CNX-500, respectively. Nifty is an index that gauges the performance of 50 stocks listed at NSE. Nifty consists of 50 heavyweight stocks from 24 different sectors. The valuation of nifty is determined based on the performance of these 50 stocks. Nifty 50 as the name suggests represents the top 50 stock of the NSE. India Index Services and Products Ltd. (IISL) does the management of the Nifty 50 index. The Nifty 50 stocks comprise around 45% traded value of all the stocks. The Over The Counter Exchange of India (OTCEI) The OTCEI was promoted jointly by the ICICI, SBI, UTI, Capital markets Ltd., Can ban Financial services Ltd., LIC, GIC. It was recognised as a stock exchange under the Securities Contracts Act 1956 in 1989. The OTCEI was incorporated as a company under section-25 of the companies act 1956 in 1990, with an authorized capital of Rs. 5 crore. The OTCEI is based on the model of national association of securities dealers' automated quotation (NASDAQ) of USA, with modifications to suit the Indian conditions. The OTCEI was the first ring less, electronic and national exchange with a screen based trading system listing an entirely new set of companies of small size. It allowed companies with a paid up capital as low as 30 lacs to get listed, It brought screen based trading system in vogue for the first time; this was quite different from the open outcry system at BSE. 4.Regional Stock Exchanges The regional stock exchanges provided investors an access to big brokers in Mumbai. They also served as a link between the local companies and local investors. They promoted trading in local scripts. This lead to a competition among issuer and they listed their securities on as many exchanges as possible to attract investors from all over the country. Each regional stock exchange followed its own practice and procedures in respect of listing and trading of securities, clearing and settlement of transaction, and risk containment measures. Following exchanges are Regional Stock Exchanges. Bombay Stock Exchange National Stock Exchange Over The Counter Stock Exchange Kolkata Stock Exchange Uttar Pradesh Stock Exchange Ahmedabad Stock Exchange Delhi Stock Exchange Pune Stock Exchange Ludhiana Stock Exchange Bangalore Stock Exchange Hyderabad Stock Exchange Saurashtra and Kachchh Stock Exchange Chennai Stock Exchange Madhya Pradesh Stock Exchange Vadodara Stock Exchange Guwahati Stock Exchange Bhubaneswar Stock Exchange Cochin Stock Exchange Magadh Stock Exchange Coimbatore Stock Exchange Jaipur Stock Exchange Mangalore Stock Exchange Advantages of listing on the stock exchange to the corporation and its shareholders are: The ability to sell shares on the stock exchange makes people more willing to invest in the company. Investors may accept a lower return on the shares and the company can raise capital more cheaply. Stock exchange provides a market price for the shares, and forms basis for valuation of a company. The information aids corporate governance, allows monitoring the management of the company. Listing makes takeover bids easier, since the predator company is able to buy shares on the stock market. The increased transparency may reduce the cost of capital. However, there are several disadvantages of listing, which include: Listing on the stock exchange is costly for the company. It requires a substantial amount of documentation to be prepared, e.g. audited and prepared according to Indian Financial Reporting Standards. It increases transparency, which may cause problems in terms of market competition and in takeover cases. Other Indexes of BSE SENSEX: BSE SENSEX or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of 30 stocks started in April, 1984. It consists of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange. These companies account for around one-fifth of the market capitalization of the BSE. The index is calculated based on a free-float capitalization method; a variation of the market cap method. The average price of the scrip is taken for the compilation of the index. It was introduced in May 1994 wit 1989-90 as the base year. This index consists of equity shares of 200 companies selected on the basis of market capitalisation, volume of turnover and strength of the companies fundamentals Dollex is nothing but BSE-200 Dollar values so that may be useful to foreign investors. This index consists of equity shares of 200 companies selected on the basis of market capitalisation, volume of turnover and strength of the companies fundamentals. It comprises of scrips of both specified and non-specified groups. In Dollex, The BSE 200 is modified by dividing the current rupee market value by rupee-dollar conversion rates. It was introduced in 1999 with the base year 1999 itself. It is treated to be a standard index covering all sections of the economy as well as the major part of capitalization. This index consists of equity shares of 500 companies selected on the basis of market capitalisation, volume of turnover and strength of the company's fundamentals. Current affairs BHARAT-22 Government of India launched its second ETF (Exchange Traded Fund) Bharat 22 which will comprise 22 stocks including those of central public sector enterprises (CPSEs), public sector banks and GOI's holdings under the Specified Undertaking of Unit Trust of India (SUUTI). The ETF will have a diversified portfolio of companies from six sectors with a 20?p on each sector and a 15?p on each stock. The new ETF will help government sell equity stakes in state-run firms and also help in achieving its objective to raise money through disinvestment in the current financial year Bharat 22: ICICI MF rolls out ETF An ETF is a type of fund that owns the underlying assets (shares of stock, bonds, oil futures, gold bars, foreign currency, etc.) and divides ownership of those assets into shares. ETFs, are similar to mutual funds because both instruments bundle together securities to offer investors diversified portfolios. Typically, anywhere from 100 to 3,000 different securities can make up a fund. Yet, the two investment types are marked by significant differences. ETFs trade throughout the trading day, like stocks, while mutual funds trade only at the end of the day at the net asset value (NAV) price. Most ETFs track to a particular index and therefore have lower operating expenses than actively invested mutual funds. Thus, ETFs may improve your rate of return on investments. Importance of ETF for government The ETF mechanism has proven to be a smart, effective way for the government to help meet its disinvestment targets, a key factor to keep fiscal deficit under control. Earlier, when the government set out to monetise their big stakes in individual PSUs, the stocks would invariably get beaten down in the run-up to the offer and also attract employee ire. The ETF route provides a solution to that by letting the government pare small stakes (2-3 per cent) in a big basket. Everyone's happy — the state gets its money; investors get a piece of PSUs and employees are glad to stay under the PSU umbrella. SEBI sets up panel to review margins on derivatives Issue: Existing margin requirements in the derivatives segment is pushing up cost of trading while not managing risk in the most efficient manner. Margins are applicable on equity derivative trades. These are part of the costs you pay in order to trade in derivatives. SEBI has set up a working group, headed by NSE Clearing Ltd., to look into the issue and submit its recommendations to the Secondary Market Advisory Committee. Findings of a study A recent study jointly conducted by Association of National Exchanges Members of India (ANMI) and consultancy firm Ernst & Young (EY) highlighted the fact that: trading in derivatives in India costs much more when compared with most of the other leading markets due to a variety of margins that are imposed on the traders. One more glaring fact is that unlike other markets where higher event-based margins are applied temporarily, Indian stock market levy a number of margins in normal course. While every other market has a single margin system or SPAN margin, India levies variety of margins. SEBI barred NSE in co-location case Issue SEBI recently found out that due to NSE co-location facility select players obtained market price information ahead of the rest of the market, enabling them to front run the rest of the market. This multi-dollar, widespread market fraud came to light when markets' regulator, the Securities and Exchange Board of India (SEBI), received the first anonymous complaint through a whistle-blower's letter in January 2015. What are NSE co-location facilities? Under the NSE co-location facility, trading members can place their servers in the exchange's data centre, where they get faster access to the price feed, helping in swift execution of trades. The NSE's co-location facility provides access to brokers for a cost. Greater access means brokers can execute trades faster. In simple language, certain brokers attached themselves directly with the NSE data centers by colluding with certain officials that provided them with the information about the changing prices before any one in the market could know. It placed them in an advantageous position compared to any one else in the market. Action taken by SEBI According to SEBI, NSE has committed a fraudulent and unfair trade practice as contemplated under the SEBI's Prohibition of Fraudulent and Unfair Trade Practices rules (PFUTP) Regulations and ordered following punishments: SEBI has barred the National Stock Exchange (NSE) from accessing the securities market for six months. It further ordered the NSE to disgorge around ₹1,000 crore — that is, ₹624.89 crore plus 12% interest from April 1, 2014 — for its alleged failure to exercise proper due diligence while offering co-location facility thereby affecting market fairness and integrity. RBI withdraws 20% limit on investments by FPIs in corporate bonds Markets regulator SEBI on Tuesday withdrew the 20 per cent limit on investments by Foreign Portfolio Investors in corporate bonds of an entity. Previously Securities and Exchange Board of India (SEBI) had mandated that no Foreign Portfolio Investors (FPIs) shall have an exposure of more than 20 per cent of its corporate bond portfolio to a single corporate. This decision was taken in order to encourage a wider spectrum of investors to access the Indian corporate debt market. Foreign Portfolio Investment (FPI) Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country. It does not provide the investor with direct ownership of a company's assets. Foreign Portfolio Investors includes investment groups of Foreign Institutional Investors (FIIs), Qualified Foreign Investors (QFIs) (Qualified Foreign Investors) and subaccounts etc. SEBI allows foreign entities in commodity derivatives market Currently, foreign entities are not permitted to directly participate in the Indian commodity derivatives market, even if they import or export various commodities from and to India. Thus, Capital markets regulator Securities and Exchange Board of India (Sebi) has allowed foreign entities to participate in the commodity derivatives segment of stock exchanges for hedging their exposures. The foreign entities that are eligible to derive benefit of this rule shall be known as eligible foreign entities (EFEs). Eligibility Minimum net worth requirement for EFEs, is at $500,000. The regulator has authorised the exchanges to frame any other criteria, too, for entry of EFEs into commodity derivatives. They will be eligible for all commodity derivatives traded on Indian exchanges except for those contracts defined as sensitive commodity. EFEs are required to fulfil the know-your-client (KYC) requirements mandated by Indian anti-money laundering laws Reason: foreign entities should be enabled to hedge their price risk in the Indian commodity derivatives market because their actual exposure to the various commodities in Indian market makes them valuable stakeholders in the value chain of such commodities and also exposes them to price uncertainty of the Indian commodity markets. This move will increase liquidity, especially in those commodities like guar gum, guar seed, mustard seeds and cardamom that are not traded in other international exchanges. It will also expand participation of foreign entities in metals commodities. BSE becomes first stock exchange in India to launch commodity derivative contracts BSE Monday became the first stock exchange in the country to launch the commodity derivative contracts in gold and silver. Till date, commodity contracts are available only on MCX and NCDEX, the two specialised commodity derivatives exchanges in the country. Reason: Out of the total exchange-traded derivatives across the globe, the size of commodity derivatives is only 22 per cent, out of which India has a negligible share of 5-6 per cent. The country is a leading producer of several commodities and the world's second largest consumer of gold, but it depends on benchmark prices from abroad. the launch of commodity derivatives platform on the BSE will help in efficient price discovery, reduce timeline and make it cost-effective. SEBI's new regulations SEBI has recently amended relevant provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to disallow listed companies from accepting request for transfer of securities which are held in physical form The shareholders who continue to hold shares and other types of securities of listed companies in physical form even after this date, will not be able to lodge the shares with company. This amendment will help in curbing fraud and manipulation risk in physical transfer of securities by unscrupulous persons. Further, with shares held in demat form will improve ease, convenience and safety of transactions for investors. Unlisted companies to issue new shares in demat form: Government Now, Unlisted public companies have to compulsorily issue new shares in demat form beginning October 2. Public unlisted companies comprise just under a lakh of the 11-lakh plus firms registered with the Registrar of Companies (RoC). Around 8.000 companies are listed across the various stock exchanges in the country. According to Companies Act 2013, a public company is formed by seven persons or more, while for a private company this number is two or more. If shares of such companies are not traded on a stock exchange, they are normally called unlisted companies. Rationale behind this move It will help in clamping down shell companies that are suspected of being conduits for illicit fund flows. There are with many risks associated with physical certificates such as loss, theft, mutilation and fraud, and these could be avoided by the decision on having shares in demat form. the move would help improve the corporate governance system by increasing transparency and preventing malpractices such as benami shareholding and back-dated issuance of shares, "exemption from payment of stamp duty on transfer" as well as ease in transfer and pledging of securities, are among the other benefits. MCX launches India's first copper options India's largest commodities exchange platform, Multi Commodity Exchange of India Limited (MCX) has launched the country's first copper options contracts This new options contract provides the optimal tool to hedge and mitigate price risk in copper for the stakeholders. The exchange had launched crude oil options earlier this month. About MCX The Multi Commodity Exchange of India Limited (MCX), India's first listed exchange, is a state-of-the-art, commodity derivatives exchange. Exchange facilitates online trading of commodity derivatives transactions, thereby providing a platform for price discovery and risk management. MCX offers trading in commodity derivative contracts across varied segments including bullion, industrial metals, energy and agricultural commodities. It is India's first exchange to offer commodity options contracts. Some Important Links: UPSC Prelims 2019 Question Paper pdf Article 300A

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