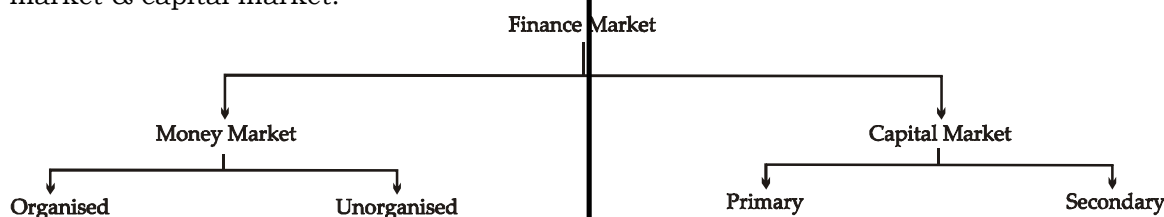


FINANCIAL SECTOR

Finance Market - Finance market is important part of finance sector. Financial market is that market, where financial transactions take place.

- ◆ On the basis of short term & long term transactions, such markets are classified as into money market & capital market.



Money Market - The cluster of financial institutions that deal in short term securities & loans, gold & foreign exchange are termed as money market.

- ◆ Ordinarily, the Indian money market is divided into parts.
 1. The organised sector.
 2. The unorganised sector.

Organised sector - It includes the SBI & associates banks, 19 nationalised banks, RRB's, co-operative banks, Non-governmental sectors & other banks.

Unorganised Sector - It includes the money lenders & indigenous bankers.

Functions of Money Market - The money market performs 3 broad functions.

1. It provides an equilibrating mechanism for demand & supply of short term funds.
2. It enables borrowers & lenders of short term funds to fulfill their borrowing & investment requirements at an efficient market clearing price.
3. It provides an avenue for central bank intervention in influencing both quantum & cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy.

Organisation of Indian Money Market - Indian money includes the following organisations.

1. **Call Money Market** - The call / Notice money market forms an important segment of the Indian money market.
 - ◆ Under the call money market, funds are transacted on overnight basis & under notice.
 - ◆ Money market funds are transacted for the period between 2 to 14 days.
2. **Banker's Acceptance Market** - A banker's is a short - term credit investment created by a non-financial firm & guarantee by a bank to make a payment. Acceptances are

traded at discounts from face value in the secondary market one advantage of a banker's acceptance is that it does not need to be held until maturity & can be sold off in the secondary markets, where investors & institutions constantly trade BAS.

Collateral loan Market - In this market, loan is often secured against collateral security, security may be in any form viz pledge mortgages etc. Thus, the market for loans secured by collateral security is called the collateral loan market.

Treasury Bill Market - Treasury bill are money market instruments to finance the short-term requirements of the govt. of India. These are discounted securities & thus are issued at a discount to face value. The return to the investor is the difference between the maturity value & issue price.

- ◆ These bills are issued by the central govt. to secure short-term loans. These bills are sold by the RBI on behalf of the govt.
- ◆ These are most liquid, because RBI is always ready to buy & discount them.

Commercial Bill Market - It is the market that deals in bills. Commercial bill is a short term, negotiable & self-liquidating instrument with low risk. It enhances the liability to make payment in a fixed date when goods are bought on credit.

- ◆ The maturity period of the bills varies from 30 days, 60 days & 90 days, depending on the credit extended in the industry.

Capital Market -

- ◆ Capital market is one of the most important segment of the Indian financial system. It is the market available to the companies for meeting their requirements of the long term funds. It refers to all the facilities & the institutional arrangement for borrowing & lending funds. In other words, it is concerned with the raising of money capital for purpose of making long-term investment.

- ◆ The market consists of a number of individuals & institutions. That canalise the supply & demand for long-term capital & claims on it. The demand for long term capital comes predominantly from private sector manufacturing industries, agriculture sector, trade & the govt. agencies. while, the supply of funds for the capital market comes largely from individual savers, corporate savings, banks, insurance, companies, specialised financing agencies & the surplus of govt.

Development of capital Market in India -

- ◆ The ratio of the transaction was increased with the share ratio & deposit system.
- ◆ The removal of the pliable but illused forward trading mechanism.
- ◆ The introduction of infotech systems in the National stock exchange (NSE) in order to cater to the various investors in different locations.
- ◆ Privatization of stock exchanges.

Stock Markets - Stock markets refers to a market place where investors can buy & sell stocks. The price at which each buying & selling transaction takes place is determined by the market focus. (i.e., demand & supply for a particular stock).

- ◆ Presently, there are 23 stock exchanges in India.
- ◆ Bombay stock exchange (BSE) the oldest stock exchange in Asia, was established in 1875. It is synonymous with Dalal street.
- ◆ BSE was corporatised & renamed BSE limited in 2005.
- ◆ In 1894, the Ahmedabad stock exchange was started to facilitate dealing in the shares of textile mills.
- ◆ In 1908, Calcutta stock exchange was started to facilitate market for shares of plantations & jute mills.

National stock exchange (NSE) - On the basis of the recommendation of high powered Pherwani committee, the National stock exchange was incorporated in 1992. By industrial development bank of India, Industrial credit & investment corporation of India, Industrial finance corporation of India, all insurance corporations, selected commercial banks & others.

NSE provides exposure to investors in two types of market, namely.

1. Wholesale debt market.
2. Capital market.

Bombay stock exchange (BSE) -

- ◆ Established in 1875.
- ◆ BSE limited is Asia's first stock exchange & one of India's leading exchange groups.
- ◆ Around 5000 companies are listed on BSE making it world's number one exchange in terms of listed members.
- ◆ BSE is the first exchange in India & second in the world to obtain an ISO 9001 : 2000 certification.
- ◆ It is also 1st in the country & 2nd in world to receive information security management system standard BS 7799-2-2002 certification for its online trading system (BOLT).
- ◆ BSE's popular equity index the SENSEX is India's most widely tracked stock market benchmark index. It is traded internationally on the EUREX as well as leading exchanges of BRICS nations.

SENSEX -

- ◆ BSE sensitive index also referred to as BSE - 30 is a free float market index of 30 well established & financially sound companies listed in Bombay stock exchange.

Advantages of Sensex -

- ◆ Greater liquidity & lesser risk of intermeditary charges due to widely spread trading mechanism across India.
- ◆ The screen-based scripless trading ensures transparency & accuracy of prices.
- ◆ Faster settlement & transfer process as compared to other exchanges.
- ◆ Shorter allotment procedure than other exchanges.

Securities & exchange board of India (SEBI) -

- ◆ It is the regulatory authority established under the SEBI Act, 1992, in order to protect the interests of the investors in securities as well as promote the development of the capital market. It involves regulating the business in stock exchanges supervising the working of stock brokers, share transfer agents, merchant bankers, underwriters etc, as well as prohibiting unfair trade practices in the securities market.

Main function of SEBI -

1. To regulate the business of the stock market & other securities market.
2. To promote & regulate the self-regulatory organisation.
3. To prohibit fraudulent & unfair trade practice in securities market.

4. To promote awareness among investors & training of intermediaries about safety of market.
5. To prohibit insider trading in securities market.
6. To regulate huge acquisition of shares & takeover of companies.

Some important share price Index of India -

1. **BSE SENSEX** - This is the most sensitive share index of the Mumbai stock exchange. This is the representative index of 30 main shares. Its base year is 1978-79. BSE is the oldest stock exchange of India, founded in 1875.
2. **BSE 200** - This represents 200 shares of Mumbai stock exchange. Its base year is 1989-90.
3. **Dollex** - Index of 200 BSE dollar value index is called DOLLEX. Its base year is 1989-90.
4. **NSE - 50** - National stock exchange has launched a new share price Index, NSE-50 in place of NSE - 100 in April 1996. NSE-50 includes 50 companies shares. This stock exchange was founded on "Ferwani committee recommendation" in 1994.

Credit Rating

- (i) **CRISIL** - It is set up in 1988. It is a credit rating agency. It undertakes the rating, fixed deposit programmes, convertible & non-convertible debentures & also credit assessment of companies.
 - (ii) **CRISIL - 500** - It is new share price index introduced by credit Rating Agency the "credit rating information services of India Limited" (CRISIL) on January 18, 1996.
- ◆ Apart from CRISIL, there is another credit rating agency called "Investment Information & Credit Rating Agency of India Limited (ICRA)". It rates debt instruments of both financial & manufacturing companies.
 - ◆ The National Stock Exchange (NSE) has launched a new version of its online trading software called "National Exchange for Automatic Trading" (NEAT).

□ □ □