Unit–I

Overview of Financial Services: nature, scope and importance Financial System and Markets: Types, Constituents and functioning, SEBI Role and functions, Overview of Foreign Markets, Financial Sector Reforms in India.

Unit–II

Introduction to Banking and Insurance services; RBI – Role and functions. Primary and secondary markets and their intermediaries: Introduction of Primary & Secondary Markets(BSE, NSE & OTCEI), Money market, Merchant banking services - new issue management, Prospectus of Public Offering , Book Building , IPO and FPO.GreenshoeOption,Underwriter, Registrar and Share Transfer Agent. Stock broking, Depositories, Custodial services,shortselling.Securities lending and borrowing services

Unit–III

Lease financing, Different types of leases – Evaluating a financial lease. Hire purchase, Consumer credit, Credit card, debit card – Factoring, Bill discounting, Forfaiting, ReverseMortgage, BNPL.

Unit–IV

Mutual Fund organization - Meaning, status, types.Venture capital financing. Credit Rating Services. Portfolio Management Services, Wealth Management.

Unit–V

Consumer Finance, Housing finance, Securitization in India: concept, nature, scope and their implications, Management of Non-Banking Financial Companies and Microfinance

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UNIT-I

OVERVIEW OF FINANCIAL SERVICES

Nature, scope and importance financial services:

Meaning of Financial Services:

Financial services refer to economic services provided by various financial institutions that deal with the management of money. It is an intangible product of financial markets like loans, insurance, stocks, credit card, etc. Financial services are products of institutions such as banking firms, insurance companies, investment funds, credit unions, brokerage firms, and consumer finance companies.

Nature of Financial Services:

Customer Oriented:

Financial services are customer-focused services that are offered as per the requirements of customers. Financial institutions properly study customer needs before designing and offering such services. They are meant to fulfill the specific needs of a customer which differs from person to person.

Intangibility:

These services are intangible which makes their marketing a challenging task for financial institutions. Such institutions need to focus on building their brand image by providing innovative and quality products to customers. Firms enjoying better credibility in market are easily able to sell off their products.

Inseparable:

Financial services are produced and delivered at the same time simultaneously. These services are inseparable and can’t be stored in advance. Here production and supply function both occurs at the same time.

Manages Fund:

Financial services are specialized at managing funds of people. These services enable peoples in allocating their idle lying funds into useful means for earning revenues. Financial services provide various means to people for converting their savings into investment

Financial Intermediation:

These services do the work of financial intermediation as it brings together the lender and borrower. Financial services mobilize the funds of people who are having enough of it and made it available to the one who are in need of it.

Market Based:

Financial services are market based which changes as per the changing conditions. It is a dynamic activity which varies as per the variations in socio-economic environment and varying needs of customers.

Distributes Risk:

Risk distribution is the key feature offered by financial services. These services transfer the risk of an individual not willing to take among different persons who all are willing to bear it. Financial institutions diversify the risk and secure people against damages by providing them various insurance policies**.**

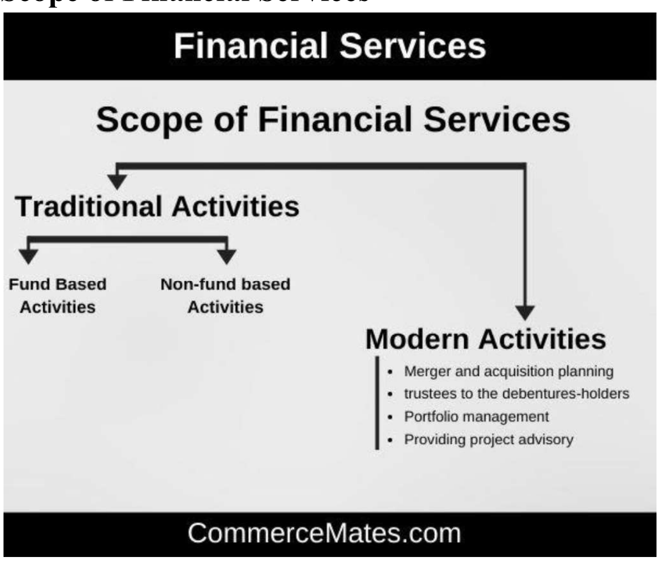
Scope of Financial Services:

Financial services consist of wide range of activities which are broadly classified into 2: –

Traditional Activities.

Modern Activities.

Scope of Financial Services



Traditional Activities

Financial intermediaries have been offering a large range of services traditionally

Related to capital and money market activities. These services are classified into 2 groups: – Fund based activities and Non-fund based activities.

Fund Based Activities.

Fund based activities comprises of activities which are concerned with acquiring funds and assets for clients. Different services covered under fund based activities are: Primary and secondary market activities, dealing in money market instruments, foreign exchange market activities and involving in hire purchase, venture capital, equipment leasing etc.

Non-fund based Activities.

These services are provided by financial intermediaries on non-fund basis and are called fees-based services. Non-fund bases activities are specialized services offered by financial institutions to customers in exchange for fees, commission, dividend and brokerage. This comprises of services such as Portfolio management, issue management, stock broking, merchant banking, credit rating, debt and capital reconstructing, bank guarantee etc.

Modern Activities

Financial intermediaries beside the traditional services offer a wide range of financial services at present. These activities are mostly in the category of non-fund based activities.

Few of the modern activities are listed below: –

- Merger and acquisition planning and helping with their smooth carry out.
- Providing guidance in capital reconstructing to corporate customers.
- Assisting in rehabilitation and reconstruction of sick companies.
- Portfolio management of large public sector corporations.
- Providing recommendations in management style and structure for attaining better results.
- Acting as trustees to the debentures-holders.
- Providing project advisory services ranging from project preparation to capital raising.
- Top of Form

SEBI Role and functions:

Introduction:

SEBI stands for Securities and Exchange Board of India. It is a statutory regulatory body that was established by the Government of India in 1992 for protecting the interests of investors investing in securities along with regulating the securities market. SEBI also regulates how the stock market and mutual funds function.

Role of SEBI:

This regulatory authority acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate the efficient and smooth working of the securities market. SEBI also plays an important role in the economy.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investors, and financial intermediaries.

1. Issuers of securities

These are entities in the corporate field that raise funds from various sources in the market. This organization makes sure that they get a healthy and transparent environment for their needs.

2. Investor

Investors are the ones who keep the markets active. This regulatory authority is responsible for maintaining an environment that is free from malpractices to restore the confidence of the general public who invest their hard-earned money in the markets.

3. Financial Intermediaries

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

Functions of SEBI:

The main primary three functions are-

Protective Function

Regulatory Function

Development Function

1. Protective Functions

- As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.
- It includes-
- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

2. Regulatory Functions

- These functions are basically performed to keep a check on the functioning of the business in the financial markets.
- These Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

3. Development Functions

- This regulatory authority performs certain development functions also that include but they are not limited to-
- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

Overview of foreign markets:

Foreign markets are any markets outside of a company's own country. Selling in foreign markets involves dealing with different languages, cultures, laws, rules, regulations and requirements. Companies looking to enter a new market need to carefully research the potential opportunity and create a market entry strategy.

- Spot Markets.
- Forward Markets.
- Future Markets.
- Option Markets.
- Swaps Markets

1. **Spot market**

   The spot market is where financial instruments, such as commodities, currencies, and securities, are traded for immediate delivery. Delivery is the exchange of cash for the financial instrument. A futures contract, on the other hand, is based on the delivery of the underlying asset at a future date.

2. **Forward markets**

   A forward market is an over-the-counter marketplace that sets the price of a financial instrument or asset for future delivery. Forward markets are used for trading a range of instruments, but the term is primarily used with reference to the foreign exchange market.

3. **Future markets**

   A futures market is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date. Futures are exchange-traded derivatives contracts that lock in future delivery of a commodity or security at a price set today.

4. **Options market**

   An 'option' is an agreement that allows (but doesn't mandate) trading between two parties to buy or sell or trade instruments like securities, ETFs, or index funds at a fixed cost and in a specified period. This market is called as options market

5. **Swaps market**

   A financial market in which organizations exchange loan agreements, etc. for ones that have a different interest rate, currency, etc. that suits them better: The cost of insuring debt investments has been soaring on the credit default swaps market.

Financial sector reforms in India:

Definition:

The financial sector constitutes the **commercial banks, non-banking financial companies, investment funds, money market**, insurance and pension companies, real estate etc.

It forms the **core of an economy** which facilitates the mobilization and distribution of financial resources.

It is engaged in providing **financial services to the customers** of the commercial and retail segments.

Need for Financial Sector Reforms

- After independence India inherited a colonial legacy that was full of various social and economic deprivations.
- The planned economic development strategy adopted based on the Mahalanobis model had its limitations that started showing in the 1980s.
- In order to achieve various economic goals, the government resorted to increased borrowings at concessional rates which lead to weak and underdeveloped financial markets in India.
- The nationalization of banks increased government control and decreased the role of market forces in the financial sector.
- Increased bureaucratic control, issues of red-tapism increased the non-performing assets.
- Turbulent international events such as the war in the Middle East and the fall of the USSR increased the pressure on the Foreign Exchange Reserves of India.

Financial Sector Reforms in India

Reforms in the Banking Sector

- Reduction in CRR and SLR has given banks more financial resources for lending to the agriculture, industry and other sectors of the economy.
- The system of administered interest rate structure has been done away with and RBI no longer decides interest rates on deposits paid by the banks.
- Allowing domestic and international private sector banks to open branches in India, for example, HDFC Bank, ICICI Bank, Bank of America, Citibank, American Express, etc.
- Issues pertaining to non-performing assets were resolved through Lok adalats, civil courts, Tribunals, The Securitisation And Reconstruction of Financial Assets and the Enforcement of Security Interest (SARFAESI) Act.
- The system of selective credit control that had increased the dominance of RBI was removed so that banks can provide greater freedom in giving credit to their customer

Reforms in the Debt Market

- The 1997 policy of the government that included automatic monetization of the fiscal deficit was removed resulting in the government borrowing money from the market through the auction of government securities.
- Borrowing by the government occurs at market-determined interest rates which have made the government cautious about its fiscal deficits.
- Introduction of treasury bills by the government for 91 days for ensuring liquidity and meeting short-term financial needs and for benchmarking.
- To ensure transparency the government introduced a system of delivery versus payment settlement.

Reforms in the Foreign Exchange Market

- Market-based exchange rates and the current account convertibility was adopted in 1993.

- The government permitted the commercial banks to undertake operations in foreign exchange.
- Participation of newer players allowed in rupee foreign currency swap market to undertake currency swap transactions subject to certain limitations.
- Replacement of foreign exchange regulation act (FERA), 1973 was replaced by the foreign exchange management act (FEMA), 1999 for providing greater freedom to the exchange markets.
- Trading in exchange-traded derivatives contracts was permitted for foreign institutional investors and non-resident Indians subject to certain regulations and limitations.

Impact of Various Reforms in the Financial Sector

- It increased the resilience, stability and growth rate of the Indian economy from around 3.5 % to more than 6% per annum.
- A resilient banking system helped the country deal with the Asian economic crisis of 1977-98 and the Global subprime crisis.
- The emergence of private sector banks and foreign banks increased competition in the banking sector which has improved its efficiency and capability.
- Better performance by stock exchanges of the country and adoption of international best practices.
- Better budget management, fiscal deficit, and public debt condition have improved after the financial sector reforms.

Conclusion:

The financial sector forms the backbone of an economy and includes the sore sectors such as banking, foreign exchange, insurance. In order to break the colonial hegemony of policies, various reforms in the financial sector were carried out that enabled the **strengthening of the** banking sector, better management of foreign reserves, etc enabled in economic growth and development.

Constituents and functioning:

Constituents:

There are three main constituents of the financial system: (a) the financial assets, (b) the financial market and (c) the financial institutions.

1. Financial Assets:

The financial assets or near-money assets are the claims to money and perform some functions of money. They have high degree of liquidity but are not as liquid as money is. Financial assets are of two types:

(a) primary or direct assets, and

(b) secondary or indirect assets.

Primary assets are the financial claims against real-sector units created by real-sector units as ultimate borrowers for raising funds to finance their deficit spending; they are the obligations of ultimate borrowers.

The examples of Primary assets are bills, bonds, equities, book debits, etc.

Secondary assets are financial claims issued by financial institutions against themselves to raise funds from the public; these assets are the obligations of the financial institutions.

The examples of secondary assets are bank deposits, life insurance policies, Unit Trust of India units, etc.

2. Financial Markets:

The financial system of a country works through the financial markets and the financial institutions. The financial markets deal with the financial assets of different types, currency deposits, cheques, bills, bonds, etc.

Financial markets perform the following functions:

(a) They create and allocate credit

(b) They serve as intermediaries in the process of mobilisation of saving,

(c) They provide convenience and benefits to the lender and borrowers,

(d) They promote economic development through a balanced regional and sectoral allocation of investible funds.

Financial markets are credit markets which cater the credit needs of individuals, firms and institutions. Since credit is required and supplied for short period and long period, the financial markets are broadly divided into two types:

(a) money market and

(b) capital market.

Money market deals with the short-period borrowing and lending of funds; in the money market, the short term securities are exchanged. Capital market deals with the long period borrowing and lending of funds; in the capital market, long-term securities are exchanged.

3. Financial Institutions:

Financial institutions or financial inter-mediaries act as half- way houses between the primary lenders and the final borrowers.

They borrow funds (or accept deposits) from those who are willing to give up their current purchasing power and lend to (or buy securities from) those who require the funds for meeting the current expenditures.

Functioning

The banking industry is the foundation of the financial services group. It is most concerned with direct saving and lending, while the financial services sector incorporates investments, insurance, the redistribution of risk, and other financial activities. Banking services are provided by large commercial banks, community banks, credit unions, and other entities.

1.Banking Segments

Banking is made up of several segments—retail banking, commercial banking, and investment banking. Also known as consumer or personal banking, retail banking serves consumers rather than corporations. These banks offer financial services tailored to individuals, including checking and savings accounts, mortgages, loans, and credit cards, as well as certain investment services.

2.Investment Services

Individuals may access financial markets like stocks and bonds through investment services. Brokers—either human or self-directed online services—facilitate the buying and selling of securities, taking a commission for their efforts. Financial advisors may charge an annual fee based on assets under management (AUM) and direct several trades in the pursuit of constructing and managing a well-diversified portfolio.

3.Insurance Services

Insurance is another important subsector of the financial services industry. Insurance services are available for protection against death or injury (e.g., life insurance, disability income insurance, health insurance), against property loss or damage (e.g., homeowners insurance, car insurance), or against liability or lawsuit.

4.Tax and Accounting Services

The sector also includes accountants and tax filing services, currency exchange and wire transfer services, and credit card machine services and networks. It also includes debt resolution services and global payment providers such as Visa and Mastercard, as well as exchanges that facilitate stock, derivatives, and commodity trades.

Accountants must also resolve any discrepancies or irregularities they find in records, statements, or documented transactions. They typically observe established accounting control procedures through an accounting system or software program.

UNIT-II

Introduction to Banking and Insurance Services

Introduction to Banking and Insurance Services

The Banking and the Insurance sector of India play a major role in the growth of the economy. Since, the initiation of these two sectors, they have gone through drastic changes catering to the changing demographics and the priorities of the population of the country.

Each year many people aspire to join the lucrative Banking and Insurance sector of India which provides ample opportunities for growth and learning. There are various agencies that conduct examinations in these two sectors. This article aims at educating you about the various agencies that conduct the examinations and the different examinations conduct.

Introduction to insurance services:

Insurance coverage can be defined as a contract in the form of a financial protection policy. This policy covers the monetary risks of an individual due to unpredictable contingencies. The insured is the policyholder whereas the insurer is the insurance-providing company/the insurance carrier/the underwriter. The insurers provide financial coverage or reimbursement in many cases to the policyholder.

The policyholder pays a certain amount called ‘premium’ to the insurance company against which the latter provides insurance cover. The insurer assures that it shall cover the policyholder’s losses subject to certain terms and conditions. Premium payment decides the assured sum for insurance coverage or ‘policy limit.

Features of Insurance Coverage:

Insurance coverage has the below mentioned salient features:

- It is a kind of risk management plan to use an insurance policy as a hedge against an uncertain loss
- Insurance coverage does not mitigate the magnitude of loss one may face. It only assures that the loss is shared and distributed among multiple people
- Various clients of an insurance company pool in their risks. Hence, they pay the premiums together. So when one or a few incur a financial loss, the claimed money is given out of this accumulated fund. This makes each client bear a nominal fee
- Insurance coverage can be provided for medical expenses, vehicle damage, property loss/damage, etc. depending on the type of insurance
- Premium, policy limit, and deductible are the main components of an insurance coverage policy. The policy buyer should check them thoroughly while buying an insurance policy.

Types of insurance:

1. Health insurance:

You can buy health insurance for yourself or for your family that may include your spouse, parents, siblings, and children. Some insurance companies have tie-ups with hospitals. So here you can use your policy number to avail of cashless services in-network hospitals. In other cases, you can claim reimbursement for hospitalization and treatments. Do check the coverage of the type of disease/illness/health issue. Also, verify what type of costs are covered.

2. Educational insurance:

Education insurance can also serve as an investment scheme. You pay premiums by the time your child is 18 years of age or attains a certain age as decided by the insurance policy. You can have a lump sum with imposed regulations that you can use for a child's educational purposes and not any other. Use an education calculator to estimate the amount you may need when the child grows up. Such calculators are often provided by insurance companies or insurance offering sites. The parent/ foster parent/legal guardian is the owner of the policy.

3. Home/Property Insurance:

If man-made or natural calamities damage your valuable property then this policy can cover the financial loss and provide monetary aid. Losses due to theft, floods, or any other mishaps can be alleviated.

4. Motor/Auto/Vehicle Insurance:

This is one of the mandatory policies in current times. First of all, it protects your valuable asset against road accidents or any other damage and covers the losses. Secondly, the traffic rules suggest you carry insurance papers while driving.

5. Travel Insurance:

You may have seen that you get an option to buy insurance for minimal costs when booking a rail or air ticket. Alternatively, you can buy travel insurance if you are a frequent flyer and especially if you travel internationally. You can claim for baggage loss, trip cancellation, or delay in flight.

RBI – ROLE AND FUNCTIONS:

The Reserve Bank of India is the backbone of the Financial System of the country. It has been entrusted by the people and the Government to control, supervise and promote the flow of money in the market. It also takes part in planning and development to maintain economic stability of the country and take the country towards growth.

Objectives of RBI

Being the backbone of the financial state of the country, RBI has various objectives as mentioned in the RBI preamble. Some of them are listed below:

The primary objectives of RBI includes:

- Addressing the issue of Banknotes
- Maintaining monetary stability in the country
- To operate the credit system and currency in the country to its own advantage
- Remain independent of the political influence: In order to maintain financial stability and promote economic growth, RBI should be free from any political pressure and refrain from corrupted activities

- Fundamental objectives: RBI should serve as a central authority and serve as:
  – Bank of all the other Commercial banks
  – Only authority who has note issuing power
  – Bank to the Government of India
- Promote Economic Growth.

Functions of RBI:

Reserve Bank of India being an apex court of the center enjoys enormous power and functions under banking system in India. It has monopoly over the issue of bank-notes and monetary system of the country. These power and functions as to issue of bank notes and currency system are governed by the Reserve Bank of India Act, 1934. Besides it the Banking Regulation Act, 1949 also empowers certain power and Function of the Reserve Bank.

Main Functions of RBI:

Main functions are those functions which every central bank of each nation performs all over the world. Basically, these functions are in line with the objectives with which the bank is set up. It includes fundamental functions of the Central Bank. They comprise the following tasks.

1. Issue of Currency Notes:

The RBI has the sole right or authority or monopoly of issuing currency notes except one rupee note and coins of smaller denomination. These currency notes are legal tender issued by the RBI. Currently it is in denominations of Rs. 2, 5, 10, 20, 50, 100, 500, and 1,000. The RBI has powers not only to issue and withdraw but even to exchange these currency notes for other denominations. It issues these notes against the security of gold bullion, foreign securities, rupee coins, exchange bills and promissory notes and government of India bonds.

2. Banker to other Banks:

The RBI being an apex monitory institution has obligatory powers to guide, help and direct other commercial banks in the country. The RBI can control the volumes of banks reserves and allow other banks to create credit in that proportion. Every commercial bank has to maintain a part of their reserves with its parent's viz. the RBI. Similarly, in need or in urgency these banks approach the RBI for fund.

3. Banker to the Government:

The RBI being the apex monitory body has to work as an agent of the central and state governments. It performs various banking function such as to accept deposits, taxes and make payments on behalf of the government. It works as a representative of the government even at the international level. It maintains government accounts, provides financial advice to the government. It manages government public debts and maintains foreign exchange reserves on behalf of the government. It provides overdraft facility to the government when it faces financial crunch.

4. Exchange Rate Management:

It is an essential function of the RBI. In order to maintain stability in the external value of rupee, it has to prepare domestic policies in that direction. Also, it needs to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. In order to maintain the exchange rate stability, it has to bring demand and supply of the foreign currency (U.S Dollar) close to each other.

5. Credit Control Function:

Commercial bank in the country creates credit according to the demand in the economy. But if this credit creation is unchecked or unregulated then it leads the economy into inflationary cycles. On the other credit creation is below the required limit then it harms the growth of the economy. As a central bank of the nation the RBI has to look for growth with price stability. Thus, it regulates the credit creation capacity of commercial banks by using various credit control tools.

6. Supervisory Function:

The RBI has been endowed with vast powers for supervising the banking system in the country. It has powers to issue license for setting up new banks, to open new branches, to decide minimum reserves, to inspect functioning of commercial banks in India and abroad, and to guide and direct the commercial banks in India. It can have periodical inspections an audit of the commercial banks in india.

• Developmental / Promotional Functions of RBI:

Along with the routine traditional functions, central banks especially in the developing country like India have to perform numerous functions. These functions are country specific functions and can change according to the requirements of that country. The RBI has been performing as a promoter of the financial system since its inception. Some of the major development functions of the RBI are maintained below.

1. Development of the Financial System:

The financial system comprises the financial institutions, financial markets and financial instruments. The sound and efficient financial system is a precondition of the rapid economic development of the nation. The RBI has encouraged establishment of main banking and nonbanking institutions to cater to the credit requirements of diverse sectors of the economy.

2. Development of Agriculture:

In an agrarian economy like ours, the RBI has to provide special attention for the credit need of agriculture and allied activities. It has successfully rendered service in this direction by increasing the flow of credit to this sector. It has earlier the Agriculture Refinance and Development Corporation (ARDC) to look after the credit, National Bank for Agriculture and Rural Development (NABARD) and Regional Rural Banks (RRBs).

3. Provision of Industrial Finance:

Rapid industrial growth is the key to faster economic development. In this regard, the adequate and timely availability of credit to small, medium and large industry is very significant. In this regard the RBI has always been instrumental in setting up special financial institutions such as ICICI Ltd. IDBI, SIDBI and EXIM BANK etc.

Primary and Secondary Markets and Their Intermediates:

Primary Market:

A primary market is a source of new securities. Often on an exchange, it's where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities. Primary markets are facilitated by underwriting groups consisting of investment banks that set a beginning price range for a given security and oversee its sale to investors.

Types of Primary Markets:

An initial public offering, or IPO, is an example of a security issued on a primary market. An IPO occurs when a private company sells shares of stock to the public for the first time, a process known as "going public." The process, including the original price of the new shares, is set by a designated investment bank, hired by the company to do the initial underwriting for a particular stock.

1. Private Placement and Primary Market

Other types of primary market offerings for stocks include private placement and preferential allotment. Private placement allows companies to sell directly to more significant investors such as hedge funds and banks without making shares publicly available. Preferential allotment offers shares to select investors (usually hedge funds, banks, and mutual funds) at a special price not available to the general public.

2. Secondary Market:

Now, let's say some of the investors who bought some of the government's bonds or bills at these auctions—they're usually institutional investors, like brokerages, banks, pension funds, or investment funds—want to sell them. They offer them on stock exchanges or markets like the NYSE, Nasdaq, or over-the-counter (OTC), where other investors can buy them. These U.S. Treasuries are now on the secondary market.

Types of Secondary Markets:

Secondary markets are further divided into two types:

- An auction market, an open outcry system where buyers and sellers congregate in one location and announce the prices at which they are willing to buy and sell their securities
- A dealer market, in which participants in the market are joined through electronic networks. The dealers hold an inventory of security, then stand ready to buy or sell with market participants.

The key distinction between primary and secondary markets:

The seller or source of the securities. In a primary market, it's the issuer of the shares or bonds or whatever the asset is. In a secondary market, it's another investor or owner. When you buy a security on the primary market, you're buying a new issue directly from the issuer, and it's a one-time transaction. When you buy a security on the secondary market, the original issuer of that security—be it a company or a government—doesn't take any part and doesn't share in the proceeds.

Primary Market vs. Secondary Market:

The primary market refers to the market where securities are created and first issued, while the secondary market is one in which they are traded afterward among investors.

1. Primary Market:

Take, for example, U.S. Treasuries—the bonds, bills, and notes issued by the U.S. government. The Dept. of the Treasury announces new issues of these debt securities at periodic intervals and sells them at auctions, which are held multiple times throughout the year. This is an example of the primary market in action.

Individual investors can buy newly issued U.S. Treasuries directly from the government via Treasury Direct, an electronic marketplace and online account system.1 This can save them money on brokerage commissions and other middleman fees.

2. Secondary Market:

Now, let's say some of the investors who bought some of the government's bonds or bills at these auctions—they're usually institutional investors, like brokerages, banks, pension funds, or investment funds—want to sell them. They offer them on stock exchanges or markets like the With equities, the distinction between primary and secondary markets can seem a little cloudier. Essentially, the secondary market is what's commonly referred to as "the stock market," the stock exchanges where investors buy and sell shares from one another. But in fact, a stock exchange can be the site of both a primary and secondary market.

BSE, NSE & OTCEI:

BSE (Bombay Stock Exchange):

BSE is the oldest and the fastest stock exchange. It was Asia's first stock exchange. BSE is an ideal choice for beginners or investors who are looking for steady, low-risk investments.

NSE (National Stock Exchange):

NSE is the leading stock exchange and was the first stock exchange that offered a screen-based system for trading. It brought transparency to Indian market trading with a fully integrated business model that provides high-quality data and services. NSE has a high trading volume than other stock exchanges. NSE is a good option for investors who take high risks.

NSE and BSE provide a safe market for both investors and companies. Both offer high liquidity, high reach and high transaction speeds. The Securities and Exchange Board of India (SEBI) is the regulatory body for stock exchanges that promotes trading and safeguards investor interests.

Bombay Stock Exchange:

Established in 1875, it is India's oldest stock exchange and holds the reputation of being the 11th largest market capitalisation value globally. It was founded by Premchand Roychand as the Native Shares and Stock Brokers' Association and is now managed by Sethurathnam Ravi. Based in Mumbai, the Bombay Stock Exchange has close to 6,000 companies listed on it and is comparable to stock exchanges in New York, London, Tokyo, and Shanghai.

BSE revamped the country's financial infrastructure and has given a much-needed boost to India's capital markets. BSE has also provided a platform for SMEs to engage in equity trading. Over time, it has extended its offerings to include clearing, risk management, and settlement services.

OTCEI:

The OTCEI is based in Mumbai, India, and operates solely over a computer network. The exchange is recognized by India's Securities Contract Regulation Act, meaning all listed stocks on the OTCEI benefit equally as other listed securities on other exchanges in India.

The exchange was established in 1990 to provide investors and companies with an additional way to trade and issue securities. It arose primarily from small companies in India finding it difficult to raise capital through mainstream national stock exchanges because they could not fulfill the stringent requirements to be listed on them.

Money Market and Merchant Banking Services:

Money Market:

Definition:

Money market basically refers to a section of the financial market where financial instruments with high liquidity and short-term maturities are traded. Money market has become a component of the financial market for buying and selling of securities of short-term maturities, of one year or less, such as treasury bills and commercial papers.

Functions of money market:

1. Financing trade:

The money market plays a crucial role in financing domestic and international trade. Commercial finance is made available to the traders through bills of exchange, which are discounted by the bill market. The acceptance houses and discount markets help in financing foreign trade.

2. Financing industry:

The money market contributes to the growth of industries in two ways:

- They help industries secure short-term loans to meet their working capital requirements through the system of finance bills, commercial papers, etc.
- Industries generally need long-term loans, which are provided in the capital market. However, the capital market depends upon the nature of and the conditions in the money market. The short-term interest rates of the money market influence the long-term interest rates of the capital market. Thus, money market indirectly helps the industries through its link with and influence on long-term capital market.

3. Profitable investments:

The money market enables commercial banks to use their excess reserves in profitable investments. The main objective of commercial banks is to earn income from its reserves as well as maintain liquidity to meet the uncertain cash demand of its depositors. In the money market, the excess reserves of commercial banks are invested in near money assets (e.g., short-term bills of exchange), which are easily converted into cash. Thus, commercial banks earn profits without sacrificing liquidity.

4. Self-sufficiency of commercial banks:

Developed money markets help commercial banks to become self-sufficient. In an emergency, when commercial banks have scarcity of funds, they need not approach the central bank and borrow at a higher interest rate. They can instead meet their requirements by from the money markets.

Money markets help central banks in two ways:

- Short-run interest rates serve as an indicator of the monetary and banking conditions in the country and, in this way, guide the central bank to adopt an appropriate banking policy,
- Sensitive and integrated money markets help the central bank secure quick and widespread influence on the sub-markets, thus facilitating effective policy implementation.

Merchant banking services - New issue Management:

Definition:

A merchant banking firm is a financial organization that provides you with an amalgamation of banking and financial consultancy services. Not only does a merchant bank help you arrange your loans, but it also offers you appropriate guidance as to how to plan and invest your finances. Running a business and maintaining its finances is not everyone's cup of tea. One has to look at a number of aspects in order to make the corporation run steadily. If you are a company owner and are looking for assistance in handling your finances, look no further than availing a merchant bank's service.

Overview of a merchant banking firm:

As per the definition given by the Ministry of Finance, a merchant banker is a person who is involved in the business of issue management, i.e. either by making arrangements for selling, buying or accepting the securities as a manager, consultant or advisor.

In India, merchant Banking firms were first introduced in the year 1967 by the Grindlays bank. Currently, there are more than 200 SEBI registered merchant banks in India.

Services of merchant banking firms:

Obtaining merchant banking services for your business can reap innumerable benefits for your business. Here is a list of services offered by them.

1. Project Counseling:

Starting from the initial phase, i.e. preparing an application to obtaining sponsors, the project is managed by a team of specialists from a merchant banking firm.

2. Issue Management:

Another service offered by merchant banks in marketing corporate securities such as corporate shares or bonds by giving them to the public. In addition to this, the pricing is also decided by Merchant bankers.

3. Underwriting of the public issue:

In this, an underwriter guarantees that in case an under subscription occurs, all the liabilities would be borne by him.

4. Managing debt and equity offerings:

It is one of the main services offered by a merchant bank. The service includes assisting businesses in obtaining funding from the market.

5. Managing portfolio:

Under this service, the securities are maintained efficiently. This ensures good returns are obtained from them along with reduced risks.

6. Loan syndication:

Merchant bankers help their clients to raise syndicated loans from various financial institutions like banks

.7.Financial advisory services and corporate counselling:

Merchant banking firms assist you in taking care of your corporation's finances. In addition to it, corporate counselling services are given to help businesses thrive.

8. Corporate restructuring / reorganisation techniques:

When one company takes over the other, a merchant bank acts as a mediator in the companies' negotiation process. A fee is charged for the merchant banks' service, ensuring that it takes place without any hassle.

Benefits of services offered by Merchant banking:

Availing of the services of merchant banks comes with innumerable benefits. Some of them are listed below.

1. Hassle-free funds for your business:

A merchant bank will help you get funds for growing your business. Additionally, you can use these funds to sail through tough times during financial distress as well.

2. Support your project ideas:

A project idea is turned into a reality by taking assistance from these experts. Merchant bankers will provide you with honest feedback and help you achieve your goals.

New issue management:

The management of issues for raising funds though various types of instruments by companies is known as Issue management. Issue management can be defined as managing the issues of corporate securities like equity shares, preference shares and debentures or bonds. Also marketing of capital issues, of existing companies, including rights issues and dilution of shares by letter of offer are included in it.

Prospectus of public offering & Book building:

Meaning of book building:

Book Building is the process by which an underwriter determines the price at which the shares must be sold in an Initial Public Offer (IPO). The process of price discovery requires the underwriter to call forth bids from various institutional investors such as fund managers and others. However, there always exists a risk of overpricing or undervaluing the shares.

Book Building Process :

Difference Between the Book Building Process and the Fixed Price Issue :

- In a book building process, the issue price is not disclosed in the beginning. In a fixed price issue, the price is decided at the beginning itself.
- The bids are made in a range in the book building process, whereas in a fixed price process there is only one price that the investors can purchase the shares at.

- The book building process is a more efficient price discovery mechanism.

Please note that the price determined in the reverse book building process is higher than the market price.

Understanding Book Building:

Book building has surpassed the 'fixed pricing' method, where the price is set prior to investor participation, to become the de facto mechanism by which companies price their IPOs. The process of price discovery involves generating and recording investor demand for shares before arriving at an issue price that will satisfy both the company offering the IPO and the market. It is highly recommended by all the major stock exchanges as the most efficient way to price securities.

The book building process comprises these steps:

1. The issuing company hires an investment bank to act as an underwriter who is tasked with determining the price range the security can be sold for and drafting a prospectus to send out to the institutional investing community.
2. The investment bank invites investors, normally large scale buyers and fund managers, to submit bids on the number of shares that they are interested in buying and the prices that they would be willing to pay.
3. The book is 'built' by listing and evaluating the aggregated demand for the issue from the submitted bids. The underwriter analyzes the information and uses a weighted average to arrive at the final price for the security, which is termed the cutoff price.
4. The underwriter has to, for the sake of transparency, publicize the details of all the bids that were submitted.
5. Shares are allocated to the accepted bidders.

IPO AND FPO:

Definition of IPO:

IPO stands for Initial Public Offering, is a process in which a private company goes public by issuing shares to the general public for the first time. The company which offers its shares to the public is called an “issuer,” and it does with the guidance of several investment banks. Once the IPO is done, the company’s shares are traded in an open market.

Types of IPO

There are two different types of IPO:

1. **Fixed Price Issue :**
   Fixed price issue means the company sets a fixed price of all their shares and mentions it in the offer document.In this type of IPO, all investors know the price of a particular share decided by the company before the company enters into public. They pay the total fixed price while subscribing to the IPO of a specific company**.**
2. **Book Building Issue :**
   The book-building issue means the company does not fix the price, but it has price bands. The price is discovered only after generating and recording the demand of an investor.

Definition of FPO:

FPO stands for Follow on Public Offer, is a process by which the company already listed on the stock exchange issues shares to the existing shareholders of the company or to new investors. The reason behind the company performing an FPO is to expand its equity base. The company uses FPO only after the company has started the process of an IPO to make their shares available to the public and to raise capital for their business.

Types of FPO :

There are two types of FPO

- **Dilutive FPO :**
  In dilutive FPO, the additional number of shares are issued by the company, but their price value of the company's share still remains the same. This decreases the share price as well as the reduction in earnings per share.
- **Non-Dilutive FPO :**
- Non-Dilutive FPO means the shareholders of the company sell their private shares in the market. Applying this method increases the number of shares available to the investors while it does not increase the number of shares for the company**.**

DIFFERENCE BETWEEN IPO vs FPO:

1. Price:

The price is dependent upon the number of shares as they increase or decrease and is m n an IPO, the price is either fixed or variable as a range, while in an FPO arket-driven.

2. Share capital:

In an IPO the share capital increases because the company decides to issue fresh capital to the public for its listing. In an IPO, alternatively, the number of shares can either increase or decrease depending upon the type of FPO it is. In a dilutive FPO, the number of shares increases, while remaining the same in a non-dilutive FPO.

3. Value:

IPOs are oftentimes more expensive to carry out than FPOs. The reason FPOs are cheaper is that the value of the company listing its shares is getting diluted further**.**

4. Risk:

IPOs are considered to be riskier than FPOs.

5. Status of the company:

A company that is unlisted issues an IPO while a company that is already listed issues an FPO.

Conclusion:

Confused about going for IPO vs FPO? The one that is worth your honest investment depends on your risk level as well as your goals. For instance, your risk levels need to be very high to invest in an IPO as you will not have many ideas about the company. Alternatively, an FPO is considered a relatively safer bet for both new investors and individual investors. Investing in an IPO requires much more research than it does to invest in an FPO.

Green Shoe Option, Underwriter:

Meaning:

The green shoe option is a special clause used in an underwriting agreement prepared in the US wherein the underwriter is under no more restrictions to sell the planned number of shares. Instead, this arrangement gains them the right to sell more shares to investors than what planned.

Advantages:

- The green shoe option helps in price stabilization for the company, market, and economy. It controls the shooting up of a company's shares due to uncontrollable demand and aligns the demand-supply equation.
- This arrangement benefits the underwriters (who sometimes act as the stabilizing agents for the company). They borrow the shares from promoters at a special price and sell them higher to investors once they go up. When prices go down, they purchase shares from the market and return them to the promoters. It is how they earn profits.
- This mechanism is also beneficial to investors as it works to stabilize prices. Thus, it makes it cleaner and more transparent to investors, helping them make a better analysis.
- It is beneficial for the markets because they intend to correct the prices of the company's securities in the market. Therefore, merely shooting up costs due to increased demand is an incorrect measure of the share's prices. Hence, the company tries to direct the investors rightly by analyzing other things rather than only demand. This helps them assess the correct share prices.

Features of Green Shoe Option

Following are the features are given below:

1. Maximum Increase:

There can be a maximum increase of 15% of the original number of shares so that the option is not mis-utilized and there are limits on its usage, to prevent the integrity of capital markets.

2. Regulated by SEC:

SEC has permitted this type of option and constantly regulate the same, therefore issuing it is within the boundaries of keeping the integrity of capital market intact.

3. Covered Short Position:

According to the SEC, the Green shoe option leads to a covered short position because it gives the underwriters the option to purchase the additional stock from the issuer of the stock.

4. Time Frame:

According to the SEC, the time during which the underwriter or the syndicate can exercise the green shoe option is mentioned in the underwriting agreement, but most of the times this time frame is 30 days.

Importance of Green Shoe Option:

- When an issue is oversubscribed, that is the number of applications received to purchase the shares is greater than the number of shares stated to be issued, the price of the shares may increase tremendously.
- This may not be a good thing for the issuer because a very high price will not make the shares trade very freely in the secondary market.
- Therefore, the issuer prefers a stable price and by way of the green shoe option, the issuer or the underwriter appointed by the issuer, is able to achieve the same and therefore keeps the price of the security within a desired range.
- This doesn't hamper the amount of capital that the company is able to raise by reducing the premium because the number of shares increases.
- Also there may be a case that the number of applications is lower, in that case the price may fall below the offered price, a situation that is known as a 'break issue'.

Registrar and Share Transfer Agent:

Meaning:

'Share transfer agent' is an agent who, on behalf of the body corporate, maintains records of holders of securities issued by such body corporate and deals with the processes of transfer and redemption of securities. It is an agent appointed by a company to maintain records of security owners. A transfer agent's principal functions are to issue and cancel certificates to reflect changes in ownership of the securities of an entity and to act as an intermediary for the company.

Main Roles of Share transfer agent:

1.Transfer of securities and record keeping for investors Inform investors of new fund offers Endorsement of certificates/for allotment/call monies.

2. Transmission, consolidation, sub-division of securities.

3. Dispatch of transferred securities and securities received for transmission /consolidation /sub-division etc, directly to the investors.

4.Cancel the name and certificate of the shareholder who had sold the shares of securities, and replace it with the new shareholder.

Feautures of registrar and share transfer agencies :

1. Maintaining Records:

Most companies appoint these agents to issue new shares to the company's shareholders. They are responsible for recording and updating shareholders' names, addresses, contact details, dividend information, etc. They are responsible for recording and updating shareholders' names, addresses, contact details, dividend information, etc. They also maintain and update individual investors' transaction balances. Agents look into whether a person has lost the share certificate and issue new share certificates.

2. Payment of dividends and interests:

One of transfer agents' most crucial responsibilities is timely dividend payment to the shareholders. They are also responsible for paying interest on the due date. The agents report the dividend and interest payments to the Internal Revenue Service for tax purposes.

3. Issue Certificates to Show Ownership Change:

Whenever an individual or entity buys a stock or bond, a certificate is provisioned to bring the ownership change. It is maintained through electronically recorded ownership certificates. If an organization does a stocksplit or dividend, the agent is responsible for recording and issuing the new shares.

4. Support Services:

The agents bridge the gap between the shareholders and the company by timely delivery of the dividends. They are responsible for mailing the annual reports **and** audited financial statements to the shareholders. Also, the agents help shareholders with materials guiding their voting rights, roles, and how to exercise them when the situation occurs.

Some legal entities or persons prefer to hold physical stock certificates rather than have a book-entry form. The physical stock might get stolen or destroyed, so in that case, the transfer agents help the investor to get it. Generally, the transfer agents provide a medallion signature guarantee or right for selling and transferring security.

5. Legal Compliance :

Transfer agents are well-versed with the complexities of the SEC rules and state regulations concerning trading. They actively implement action on behalf of their clients. They plan accordingly for any new rules brought to the market. They also assist in mergers, stock splits and rebranding, etc.

5. Corporate Action :

They also assist in corporate actions such as mergers, stock splits and rebranding, etc. For example, for corporate action like a merger, or acquisition, the agents will receive the acquired company's stock. They will also issue new shares certificates after the merger. Another example is when a company is switching from private to public, ensuring a hassle-free initial public offering (IPO).

Difference between Registrars and Transfer Agents:

A registrar and a transfer agent are authorized to assist the firms and investors in recording shares and shareholder-related data. Their roles overlap, and companies often appoint any one of the two to perform all the roles. The few differences between the two are listed below.

- Transfer agents maintain shareholders' records and cancel and issue new share certificates. In contrast, a registrar registers the details when shares are issued in an authorized register on behalf of the company.
- Registrars can be record keepers. But the transfer agents work as shareholders' record-keepers and corporate services providers.
- The work of the transfer agent is to see how many outstanding shares are present. In addition, they look at how many shares are being traded daily and their respective owners. On the other

hand, the registrar's work is to identify who has invested in the bond and who should receive the payments. At the time of maturity, the registrar's documents determine how small an amount is to be paid.

Stock Broking:

Stock broking definition:

Stockbroking is a service which gives retail and institutional investors the opportunity to buy and sell equities.

Stockbrokers will trade shares both on exchange and over-the-counter, dependent on where they can find the best price and liquidity. Stock exchanges place strict regulations on who can trade shares directly on their books, which is why most individual investors hoping to trade shares will do so via a stockbroker.

There are several different services a stockbroker can provide:

- Execution-only stockbrokers will complete orders on your behalf, but do not offer any advice
- Advisory stockbrokers will offer advice on where to trade, but only trade on orders submitted by you
- Discretionary stockbrokers will trade on your behalf, executing trades without your input.

History of Stock Broking:

Share broker as an institutionalized profession dates back to 2nd Century BC, Rome. However, post the collapse of the Roman Empire, such professions remained obsolete until the European Renaissance. It was a small-scale practice with sparse and sporadic trading of government bonds in a few Italian cities such as Venice and Genoa.

However, company stocks were not formally traded until 1602, when Dutch East India Company released the first publicly traded stocks through the Amsterdam Stock Exchange. Owing to the law of private property rights indoctrinated in the Dutch Empire, the profession of the stock broker's flourished.

OBJECTIVES OF STOCK BROKING:

Traditional or Full-time Brokers:

This kind of brokers provides a vast assortment of products and services to its customers. These services involve securities' trading, investment advice, retirement planning, management of investment portfolio, taxes on capital gains, etc. Full-time **stockbrokers** charge a hefty commission, however, given the range of their services, such cost might justify.

As was earlier mentioned, such brokers go through rigorous training and examinations to attain the job and thus have in-depth knowledge regarding the stock market. Therefore, they are adequately trained to make a bid on your behalf and steer your portfolio to its maximum earning potential and minimize risks on it.

1. Discount Brokers:

Discount or **online stock brokers** dominate the band of brokers. Along with their inexpensive nature, they also offer convenience to the laymen in terms of time and place utility. Market participants do not need to personally meet discount brokers and carry out their investment through the internet.

Investors with minimal disposable income can also start investing in the stock market through discount brokers. However, not all discount brokers offer the same level of expertise as a traditional broker and thus are a less profitable option for companies and individuals who can afford hefty investment corpus and costs.

2. Jobbers:

These are independent brokers who trade in securities for their own sake and not on behalf of other investors. They are not licensed to trade in someone else's name and cannot levy commission from others. They quote two prices on stocks, one of which is the buy price quote and the other is the sale price quote. The gap between these two prices is their profit margin.

3. Arbitrageurs :

This subset of **stockbrokers** is known to purchase securities from one stock exchange at a lower price and then sell the same at a higher price in a different stock exchange.

Despositories , custodial services & short selling:

Meaning :

The term depository refers to a facility in which something is deposited for storage or safeguarding or an institution that accepts currency deposits from customers such as a bank or a savings association. A depository can be an organization, bank, or institution that holds securities and assists in the trading of securities. A depository provides security and liquidity in the market, uses money deposited for safekeeping to lend to others, invests in other securities, and offers a funds transfer system. A depository must return the deposit in the same condition upon request.

Process of despositories :

As mentioned above, depositories are buildings, offices, and warehouses that allow consumers and businesses to deposit money, securities, and other valuable assets for safekeeping. Depositories may include banks, safehouses, vaults, financial institutions, and other organizations.

The three main types of depository institutions are credit unions, savings institutions, and commercial banks. The main source of

Types of depositories:

Funding for these institutions is through deposits from customers. Customer deposits and accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits.2

A depository's institutional function or type determines which agency or agencies are responsible for its oversight.

Credit unions are nonprofit companies highly focused on customer services. Customers make deposits into a credit union account, which is similar to buying shares in that credit union. Credit union earnings are distributed in the form of dividends to every customer.

Short Selling :

Short selling is an investment or trading strategy that speculates on the decline in a stock or other security's price. It is an advanced strategy that should only be undertaken by experienced traders and investors.

Traders may use short selling as speculation, and investors or portfolio managers may use it as a hedge against the downside risk of a long position in the same security or a related one.

Example of Short Selling for a Profit :

The trader is now "short" 100 shares since they sold something that they did not own but had borrowed. The short sale was only made possible by borrowing the shares, which may not always be available if the stock is already heavily shorted by other traders.

Example of Short Selling for a Loss` :

Using the scenario above, let's now suppose the trader did not close out the short position at $40 but decided to leave it open to capitalize on a further price decline. However, a competitor swoops in to acquire the company with a takeover offer of $65 per share, and the stock soars.

Example of Short Selling as a Hedge :

Apart from speculation, short selling has another useful purpose—hedging—often perceived as the lower-risk and more respectable avatar of shorting. The primary objective of hedging is protection, as opposed to the pure profit motivation of speculation. Hedging is undertaken to protect gains or mitigate losses in a portfolio, but since it comes at a significant cost, the vast majority of retail investors do not consider it during normal times.

Pros and Cons of Short Selling :

Selling short can be costly if the seller guesses wrong about the price movement. A trader who has bought stock can only lose 100% of their outlay if the stock moves to zero.

However, a trader who has shorted stock can lose much more than 100% of their original investment. The risk comes because there is no ceiling for a stock's price—it can rise "to infinity and beyond."

Securities Lending and Borrowing Services:

Meaning:

Securities lending is the practice of loaning shares of stock, commodities, derivative contracts, or other securities to other investors or firms. Securities lending requires the borrower to put up collateral, whether cash, other securities, or a letter of credit.

Benefits of Securities Lending:

- Securities lending is important to short selling, in which an investor borrows securities to immediately sell them.
- The borrower hopes to profit by selling the security and buying it back later at a lower price.
- Since ownership has been transferred temporarily to the borrower, the borrower is liable to pay any dividends out to the lender.
- In these transactions, the lender is compensated in the form of agreed-upon fees and also has the security returned at the end of the transaction.
- This allows the lender to enhance its returns through the receipt of these fees. The borrower benefits through the possibility of drawing profits by shorting the securities.
- Securities lending is also involved in hedging, arbitrage, and fails-driven borrowing.

- In all of these scenarios, the benefit to the securities lender is either to earn a small return on securities currently held in its portfolio or to possibly meet cash-funding needs.

Securities lending

"Securities lending" is a misleading term because in legal terms the securities are not actually lent. In fact, the securities are sold to the "borrower" under an agreement for subsequent reacquisition of equivalent securities.

The original securities may be sold onward by the borrower to third parties. Hence, absolute title passes over both the securities lent and the collateral received. The economic benefits associated with ownership such as dividends belong in the first place to the borrower (who is the legal owner), but are "manufactured" back to the lender by the borrower making equivalent payments to him.

Features of Securities lending and borrowing scheme :

- Automated screen based trading platform with online matching of trades based on price- time priority
- Tenure of lending and borrowing available upto a period of 12 months
- A facility for placing early recall request for the securities lent is provided to the lender
- A facility for the borrower to make an early repayment of securities and further relend them
- The transactions are based on fixed monthly tenures with specified reverse leg settlement dates and the tenure ranges from 1 month up to 12 months.
- The specified reverse leg settlement date is the first Thursday of the corresponding month. Each reverse leg settlement date is assigned a specific series number. Majorly securities traded in F&O segment are eligible for lending & borrowing under the scheme.

UNIT-III

LEASE FINANCING

Lease Financing:

Lease financing is a popular medium and long-term financing option in which the owner of an asset grant another person the right to use the asset in exchange for a periodic payment. The asset's owner is known as the lessor, and the user is known as the lessee. A contract is to be made between the lessor and the lessee regarding the terms and conditions of the lease. After the lease period is over, the asset goes back to the lessor (the owner). There can also be a provision in the contract regarding compulsory buying of the asset by the lessee (the user) after the lease period is over.

Advantages:

following are the benefits of lease financing from the perspective of the lessor**.**

1. Regularly Assured Income:

Lessors receive lease rentals by leasing an asset for the duration of the lease, which is a guaranteed and consistent source of income.

2. Ownership Preservation:

In a finance lease, the lessor transfers all risk and rewards associated with ownership to the lessee without transferring asset's ownership, so the lessor retains ownership.

3. Tax Advantage:

Because the lessor owns the asset, the lessor receives a tax benefit in the form of depreciation on the leased asset.

4. Profitability is high:

Leasing is a highly profitable business because the rate of return on lease rentals is much higher than the interest paid on the asset's financing.

5. Growth Possibilities:

There is a lot of room for growth here. Because leasing is one of the most cost-effective forms of financing, demand for it is steadily increasing. Even amid a depression, economic growth can be maintained. As a result, leasing has a much higher growth potential than other types of businesses**.**

B. To Lessee:

The following are the benefits of lease financing from the perspective of the lessee:

- **Capital Goods Utilization:** A business will not have to spend a lot of money to acquire an asset, but it will have to pay small monthly or annual rentals to use it. The business can use its funds for other productive purpose.
- **Tax Advantages**: Lease payments can be deducted as a business expense, allowing a company to benefit from a tax advantage.
- **Cheaper:** Leasing is a form of financing that is less expensive than almost all other options.
- **Technical Support:** Regarding the leased asset, the lessee receives some form of technical support from the lessor.

- **Friendly to Inflation:** Leasing is inflation-friendly because the lessee is required to pay a fixed amount of rent each year, even if the asset's cost rises.
- **Ownership:** After the primary period has expired, the lessor offers the lessee the opportunity to purchase the assets for a small fee.

Disadvantages:

A.To Lessor:

The following are the disadvantages of lease financing from the perspective of the lessor:

- **In the event of inflation, it is unprofitable:** Every year, the lessee receives a fixed amount of lease rental, which they cannot increase even if the asset's cost rises. So, it is unprofitable during inflation.
- **Taxation twice:** It is possible to be charged sales tax twice: The first is when the asset is purchased, and the second is when the asset is leased.
- **Greater Risk of Asset Damage:** As the ownership is not transferred, the lessee treats the asset carelessly, and there is a great chance that it will not be usable after the primary lease period ends.

B. To Lessee: The following are the disadvantages of lease financing from the perspective of the lessee:

- **Compulsion:** Finance leases are non-cancelable, and lessees must pay lease rentals even if they do not intend to use the asset.
- **Ownership:** Unless the lessee decides to purchase the asset at the end of the lease agreement, the lessee will not become the owner of the asset.
- **Costly:** Lease financing is more expensive than other types of financing because the lessee is responsible for both the lease rental and the expenses associated with asset ownership.
- **Asset Understatement:** As the lessee is not the owner of the asset, it cannot be included in the balance sheet, resulting in an understatement of the lessee's asset.

Different Types of Leases:

Lease financing is a popular medium and long-term financing option in which the owner of an asset grant another person the right to use the asset in exchange for a periodic payment. The asset's owner is known as the lessor, and the user is known as the lessee.

A contract is to be made between the lessor and the lessee regarding the terms and conditions of the lease. After the lease period is over, the asset goes back to the lessor (the owner). There can also be a provision in the contract regarding compulsory buying of the asset by the lessee (the user) after the lease period is over.

Different Types of Lease :

Depending upon the transfer of risk and rewards to the lessee, the period of lease and the number of parties to the transaction, lease financing can be classified into two categories. Finance lease and operating lease.

i. Finance Lease:

It is the lease where the lessor transfers substantially all the risks and rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. Finance lease has two phases: The first one is called primary period. This is non-cancellable period and in this period, the lessor recovers his total investment through lease rental. The primary period may last for indefinite period of time. The lease rental for the secondary period is much smaller than that of primary period.

ii. Features of Finance Lease:

From the above discussion, following features can be derived for finance lease:

1. A finance lease is a device that gives the lessee a right to use an asset.
2. The lease rental charged by the lessor during the primary period of lease is sufficient to recover his/her investment.
3. The lease rental for the secondary period is much smaller. This is often known as peppercorn rental.
4. Lessee is responsible for the maintenance of asset.
5. No asset-based risk and rewards is taken by lessor.
6. Such type of lease is non-cancellable; the lessor's investment is assured.

iii. Operating Lease:

Lease other than finance lease is called operating lease. Here risks and rewards incidental to the ownership of asset are not transferred by the lessor to the lessee. The term of such lease is much less than the economic life of the asset and thus the total investment of the lessor is not recovered through lease rental during the primary period of lease. In case of operating lease, the lessor usually provides advice to the lessee for repair, maintenance and technical knowhow of the leased asset and that is why this type of lease is also known as service lease.

iv. Features of Operating Lease:

Operating lease has following features:

1. The lease term is much lower than the economic life of the asset.
2. The lessee has the right to terminate the lease by giving a short notice and no penalty is charged for that.
3. The lessor provides the technical knowhow of the leased asset to the lessee.
4. Risks and rewards incidental to the ownership of asset are borne by the lessor.

Evaluating a financial lease:

An economic evaluation of lease would thus call for comparison of the financial costs of the lease with the costs of borrowing necessary funds to purchase the assets. If the cost of the lease is found higher than the cost of borrowing, it would be in the interest of the company to borrow and buy the asset.

1. Present Value Method:

Under this method the present value of lease rentals are compared with the present value of the cost of an asset acquired on outright purchase by availing a loan. In leasing, the tax advantage in payment of lease rentals will reduce the cash outflow.

2. Cost of Capital Method:

Under this method, the rate of cost of capital is calculated for the payments of installments and then it is compared with the cost of capital of the other available sources of finance such as fresh issue of equity capital, retained earnings, debentures, term loans etc. The lease option is chosen if the rate is lower than the cost of equity capital etc. This method does not require the prior selection of any discounting rate.

3. Bower-Herringer-Williamson Method:

Under this method, the financial and tax aspects of lease financing are considered separately.

The following steps are involved in evaluation of lease decision:

Step 1:

Make a comparison of the present value of cost of debt with the discounted value of gross amount of lease rentals. The rate of discount applicable is being the gross cost of debt capital. Then, obtain the total present value of a financial advantage/disadvantage of leasing.

Step 2:

Again compute the comparative tax benefit during the lease period and discount it at an appropriate cost of capital. The total present value is the operating advantage/ disadvantage of leasing.

Step 3: When the present value of operating advantage of lease is more than its financial disadvantage, then select the leasing. When the present value of financial advantage is more than operating disadvantages, then select the leasing.

Hire Purchase, Consumer Credit, Credit Card, Debit Card:

Hire Purchase :

Meaning:

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments. The term hire purchase is commonly used in the United Kingdom and it's more commonly known as an installment plan in the United States

Advantages of Hire Purchase Agreements :

- Like leasing, hire purchase agreements allow companies with inefficient working capital to deploy assets.
- It can also be more tax-efficient than standard loans because the payments are booked as expenses—though any savings will be offset by any tax benefits from depreciation.
- Businesses that require expensive machinery such as construction, manufacturing, plant hire, printing, road freight, transport, and engineering may use hire purchase agreements, as could startups that have little collateral to establish lines of credit.
- A hire purchase agreement can flatter a company's return on capital employed (ROCE) and return on assets (ROA).
- This is because the company doesn't need to use as much debt to pay for assets.

Disadvantages of Hire Purchase Agreements :

- Hire purchase agreements usually prove to be more expensive in the long run than making a full payment on an asset purchase.
- That's because they can have much higher interest costs. For businesses, they can also mean more administrative complexity.
- In addition, hire purchase and installment systems may tempt individuals and companies to buy goods that are beyond their means.
- They may also end up paying a very high-interest rate, which does not have to be explicitly stated.
- Rent-to-own arrangements are also exempt from the Truth in Lending Act because they are seen as rental agreements instead of an extension of credit.
- Hire purchase buyers can return the goods, rendering the original agreement void as long as they have made the required minimum payments.

1. Consumer Credit :

Consumer credit is personal debt taken on to purchase goods and services. A credit card is one form of consumer credit.

Although any type of personal loan could be labeled consumer credit, the term is more often used to describe unsecured debt that is taken on to buy everyday goods and services. However, consumer debt can also include collateralized consumer loans like mortgage and car loans.

2. Advantages of Consumer Credit:

Consumer credit allows consumers to get an advance on income to buy products and services. In an emergency, such as a car breakdown, that can be a lifesaver. Because credit cards are relatively safe to carry, America is increasingly becoming a cashless society in which people routinely rely on credit for purchases large and small.

3. Disadvantages of Consumer Credit:

The main disadvantage of using revolving consumer credit is the cost to consumers who fail to pay off their entire balances every month and continue to accrue additional interest charges from month to month. The average annual percentage rate on all credit cards was 14.75% at the end of Q1 2021 according to the Federal Reserve. A single late payment can boost the cardholder's interest rate even higher.

4. Credit card:

A credit card has become an indispensable part of our lives, with its ease of use and convenient pay-back options. The discounts, offers, and deals that a credit card offers are unmatched by any other financial products and spell a bonanza for the wise user. However, credit cards can become debt traps if not used correctly, or if you spend more than you can repay when the bill comes around.

Benefits of Credit Cards:

1. Easy access to credit:

The biggest advantage of a credit card is its easy access to credit. Credit cards function on a deferred payment basis, which means you get to use your card now and pay for your purchases later. The money used does not go out of your account, thus not denting your bank balance every time you swipe.

2. Building a line of credit:

Credit cards offer you the chance to build up a line of credit. This is very important as it allows banks to view an active credit history, based on your card repayments and card usage. Banks and financial institutions often look to credit card usage as a way to gauge a potential loan applicant's creditworthiness, making your credit card important for a future loans or rental applications.

3. EMI facility:

If you plan on making a large purchase and don't want to sink your savings into it, you can choose to put it on your credit card as a way to defer payment. In addition to this, you can also choose to pay off your purchase in equated monthly installments, ensuring you aren't paying a lump sum for it and denting your bank balance. Paying through EMI is cheaper than taking out a personal loan to pay for a purchase, such as a television or an expensive refrigerator.

4. Incentives and offers :

Most credit cards come packed with offers and incentives to use your card. These range from cash back to rewards point accumulation each time you swipe your card, which can later be redeemed as air miles or used towards paying your outstanding card dues. Lenders also offer discounts on purchases made through a credit card, such as on flight tickets, holidays or large purchases, helping you save.

5. Flexible credit:

Credit cards come with an interest-free period, which is a period of time during which your outstanding credit is not charged interest. Ranging between 45-60 days, you can avail free, short-term credit if you pay off the entire balance due by your credit card bill payment date. Thus, you can benefit from a credit advance without having to pay the charges associated with having an outstanding balance on your credit card.

6. Record of expenses :

A credit card records each purchase made through the card, with a detailed list sent with your monthly credit card statement. This can be used to determine and track your spending and purchases, which could be useful when chalking out a budget or for tax purposes. Lenders also provide instant alerts each time you swipe your card, detailing the amount of credit still available as well as the current outstanding on your card.

7. Purchase protection:

Credit cards offer additional protection in the form of insurance for card purchases that might be lost, damaged or stolen. The credit card statement can be used to vouch for the veracity of a claim, if you wish to file one.

4. DEBIT CARD:

Debit Cards make transactions fast, easy and convenient to use. Debit Cards have the ability to give you cash. They double up as ATM cards and allow you to withdraw money from an ATM. Therefore, working as an emergency fund for you.

1. Avoid fees and service charges:

Unlike credit cards, which often come with annual fees, late payment charges, substantial foreign transaction fees of up to 3%, and other costly extras, debit cards typically have few or no fees attached. If you use your debit card carefully, you can avoid incurring a fee altogether.

2. Stay accountable for your spending:

Debit cards are also called "check cards" to convey their function as a plastic check. When you charge a purchase on a credit card, you don't actually have to pay for it until the next month, and even then your minimum payment may be lower than the full balance.

3. Faster payments mean better budgeting:

Just as debit cards hold you accountable to spend responsibly, they also make it easier to stick to a budget and resist overspending. If you write a paper check, it may not be cashed for days or even weeks. In the interim you could spend more than you actually have, especially if you don't perform daily account reconciliation.

4. No interest charges:

If you're not disciplined about paying the balance off every month, paying with credit cards will usually hurt you financially. When you pay with a debit card, you avoid expensive interest charges that end up greatly increasing the price of your original item.

5. Security:

If your wallet has ever been stolen, you know the painful truth that the cash is gone forever. Debit cards protect against theft because no one can use your card at an ATM without knowing the PIN. The recent addition of chips to debit cards offers further protection. Some debit cards also offer security protection for online shopping so that only you can make purchases with your card.

6. Debit cards are linked to interest-earning accounts:

Many banks offer multiple kinds of checking and savings accounts, including interest-earning options. There's usually a minimum daily balance required, but in return you get both the benefit of earning interest and the convenience of using a debit card for cash withdrawal and purchases. Compounded monthly interest is like free money added to your account balance that is accessible through your debit card.

7. Bank and Merchant Rewards:

Have you heard of rewards credit cards? Now some debit cards have joined the rewards game. You can earn points for dollars spent and redeem your points for travel, shopping, or gift cards. The rewards are typically for purchases made using your signature, not your PIN. The process is the same as for credit cards but you benefit from no annual fee, no interest charges, and all the other debit card perks we've just mentioned.

Factoring, Bill Discounting, Forfaiting, Reverse Mortgage:

Factoring:

Definition:

Factoring is a type of finance in which a business would sell its accounts receivable (invoices) to a third party to meet its short-term liquidity needs. Under the transaction between both parties, the factor would pay the amount due on the invoices minus its commission or fees.

TYPES OF FACTORING:

Factoring is a financial tool that provides the seller of goods (client) with an advance against the accounts receivable. It improves liquidity, leads to better working capital management, and is also easier to obtain than traditional bank finance, especially for small and medium enterprises.

There are various types of factoring in financial services, and businesses can choose the one most suitable for them based on the exigencies of the businesses; factors like collateral, location of the factoring services, payment terms & the track record of the company providing the factoring services.

1. Recourse and Non-recourse Factoring:

Under recourse factoring, the factor does not assume the credit risk or the risk of default by the customer. Credit risk is the risk of customers defaulting on their payment obligation. If the customer does not pay the dues on the due date, the factor will seek recourse against the client and exercise the right to recover the amount from the client. The factor provides sales ledger management services; however, the client bears the credit risk.

2. Full-Service Factoring:

In full-service factoring (also known as full factoring), the factor performs a full range of services, including maintaining a sales ledger, sending regular statements of accounts to the client, collection of receivables, and credit control - gauging the creditworthiness of the customer, deciding credit limits and credit insurance for bearing the credit risk.

3. Domestic and Export Factoring:

Domestic factoring involves three parties - the client (the seller), the customer (the buyer) and the factor (the financial entity). All the parties are located in the same region. Domestic factoring is also far easier to operate and execute since cultural, legal and trade barriers between the trading parties are more or less similar.

In sharp contrast, factoring solutions for export transactions requires a much more deeper skill set, understanding of international trade processes, and a strong global presence and network of buyers and sellers.

Bill Discounting:

Bill Discounting is one such option, which allows a business to get quick payment for their work and meet their operating expenses without having to depend on any external agency to provide the funds.

Bill Discounting, also called Invoice Discounting, is a trading activity where a seller sells some goods or services to a buyer. The buyer has to make the payment as per the agreed credit period. Now, if the buyer needs money before that, he can approach a bank or some NBFC and 'sell' that invoice to them.

Features of Bill Discounting:

1. **Evaluating the seller and buyer:**
   Before approving the bill discounting, the bank or NBFC first checks the seller's reputation and the buyer's creditworthiness. This is done to ensure that the buyer does not default on making the payment to the bank.
2. **Making instant cash available for the buyer:**
   It is the most salient feature of bill discounting. The bank or NBFC purchases the invoice and immediately pays after discounting the bill. This makes life easy for the seller. They get an immediate payment and do not need to wait for the buyer to pay the bill.
3. **Discount Charge:**
   The difference margin between the face value of the invoice and the amount approved and disbursed by the bank is called the discount. This discount is calculated on the maturity value at a certain percentage per annum.
4. **Maturity:**
   The maturity date of a bill means the date on which payment of the invoice is due. The average maturity period is 30, 60, 90, or 120 days.

BENEFITS OF BILL DISCOUNTING:

The specific benefits of bill discounting are as follows:

1. Improves cash flow position:

All businesses, big or small, depend on cash flow to survive and grow. Bill discounting facility helps inject a quick cash flow into the business and help the businesses survive and flourish. The money received quickly may be used to pay salaries, procure raw materials for the next order, or invest in some new asset.

2. Provides instant access to cash:

For a seller, a bill discounting facility is a quick and hassle-free way of getting payment against their invoices. It helps them manage their working capital better and keep the working capital cycle short. Most financial institutions like MYND offer funds within 24 to 72 hours.

3. No collateral involved:

Bill discounting, as a process, is very simple. It does not involve much documentation. Secondly, the seller is not required to provide any collateral security to get the funds. The invoice itself is strong enough collateral to get the funds.

4. No debt incurred:

Getting funds using a bill discounting facility does not put the buyer under any kind of debt. Here, the buyers get money against the invoices, which is anyways due to them. It just helps them get the money. So, it does not create any debt liability for them.

Compared to traditional financing models, a bill discounting facility is safe from any kind of loss or damage.

5. No impact on business sheet:

Bill discounting facility does not create any tax liability. It is more of an off-the-book process. So, it has no impact on the balance sheet of the business.

FORFAITING:

Meaning :

Forfaiting is the provision of medium-term financial support for the import and export of capital goods. The forfaiter is a third party to transactions that takes on certain risks from importers and exporters in return for a margin. The forfaiter operates similarly to a central clearing counterparty in the OTC markets**.**

Advantages and Disadvantages of Forfaiting :

Advantages :

- Forfaiting eliminates the risk that the exporter will receive payment. The practice also protects against credit risk, transfer risk, and the risks posed by foreign exchange rate or interest rate changes. Forfaiting simplifies the transaction by transforming a credit-based sale into a cash transaction.
- This credit-to-cash process gives immediate cash flow for the seller and eliminates collection costs. Additionally, the exporter can remove the accounts receivable, a liability, from its balance sheet.
- Forfaiting is flexible. A forfaiter can tailor its offering to suit an exporter's needs and adapt it to a variety of international transactions.
- Exporters can use forfaiting in place of credit or insurance coverage for a sale. Forfaiting is helpful in situations where a country or a specific bank within the country does not have access to an export credit agency (ECA).
- The practice allows an exporter to transact business with buyers in countries with high levels of political risk.

Disadvantages :

- Forfaiting mitigates risks for exporters, but it is generally more expensive than commercial lender financing leading to higher export costs.
- These higher costs are generally pushed onto the importer as part of the standard pricing.
- Additionally, only transactions over $100,000 with longer terms are eligible for forfaiting, but forfaiting is not available for deferred payments.
- Some discrimination exists where developing countries are concerned compared to developed countries. For example, only selected currencies are taken for forfaiting because they have international liquidity.
- Lastly, there is no international credit agency that can provide guarantees for forfaiting companies. This lack of guarantee affects long-term forfaiting.

REVERSE MORTGAGE:

Meaning :

A reverse mortgage is a loan, in the sense that it allows an eligible homeowner to borrow money but it doesn't work the same way as a home purchase loan. A homeowner who is 62 or older and has considerable home equity can borrow against the value of their home and receive funds as a lump sum, fixed monthly payment, or line of credit. Unlike a forward mortgage—meaning the type used to buy a home—a reverse mortgage doesn't require the homeowner to make any loan payments during their lifetime.

Types of Reverse Mortgages :

There are three types of reverse mortgages. The most common is the home equity conversion mortgage (HECM). The HECM represents almost all of the reverse mortgages that lenders offer on home values below the conforming loan limit (set annually by the Federal Housing Finance Agency) and is the type that you're most likely to get, so that's the type that this article will discuss. Also called a Federal Housing Administration (FHA) reverse mortgage, this type of mortgage is only available through an FHA-approved lender.

1. Lump sum:

Get all the proceeds at once when your loan closes. This is the only option that comes with a fixed interest rate. The other five have adjustable interest rates.

2. Equal monthly payments (annuity):

For as long as at least one borrower lives in the home as a principal residence, the lender will make steady payments to the borrower. This is also known as a tenure plan.

3. Term payments:

The lender gives the borrower equal monthly payments for a set period of the borrower's choosing, such as 10 years.

4. Line of credit:

Money is available for the homeowner to borrow as needed. The homeowner only pays interest on the amounts actually borrowed from the credit line.

5. Equal monthly payments plus a line of credit:

The lender provides steady monthly payments for as long as at least one borrower occupies the home as a principal residence. If the borrower needs more money at any point, they can access the line of credit.

6. Term payments plus a line of credit:

The lender gives the borrower equal monthly payments for a set period of the borrower are choosing, such as 10 years. If the borrower needs more money during or after that term, they can access the line of credit.

BNPL:

INTRODUCTION: Buy now, pay later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them over time, usually with no interest. Using BNPL financing can be convenient, but there are also some potential traps to consider.

New Trends in BNPL :

BNPL is becoming an increasingly popular payment option, especially as consumers grapple with inflation and rising interest rates. A September 2022 report from the CFPB found that from 2019 to 2021, the number of BNPL loans originated in the United States by the five lenders it surveyed grew from BNPL.

How does BNPL work :

A BNPL transaction involves three parties: a consumer, a merchant, and a BNPL service provider, which is usually a Fintech.

1.**For consumer** :

Programs that allow you to buy now and pay later are not all the same. Each company has its terms & conditions, but in general, point-of-sale instalment loans work as follows:

- You make a purchase from a participating retailer and select the buy now, pay later option at the checkout.
- If you are approved (which takes only a few seconds), you pay a small down payment, like 25% of the total purchase price.
- The outstanding amount is then paid in interest-free instalments.
- You can pay by check or bank transfer. Or, payments can also be deducted automatically from your debit card, credit card, or bank account.

2**. For merchants :**

Merchants are always looking for ways to raise the average ticket price of their customers. Besides that, e-Commerce merchants in particular frequently face abandoned shopping carts, indicating that the consumer did not complete the purchase after all.

Customers appear to complete a purchase more frequently and for larger dollar amounts when merchants offer BNPL, so there is a strong business case for merchants to take this option into account.

3**. For BNPL providers (Fintechs) :**

publicly and may range between 2.5% and 12.5% of gross merchandise volume.

The financial services provider (lender) pays the merchant at the time of the transaction, taking on the ownership of extending credit and collecting payments from the customer over the BNPL term.

As both a payment processor and lender, BNPL providers assume the risk of consumer non-payment. To compensate for the risks, they pay merchants a percentage of the total purchase price. The lender then collects instalment payments from the customer in an amount equal to the full purchase price.

UNIT-IV

Mutual Fund Organization

Mutual Fund Organization:

Definition:

A mutual fund is a pool of money managed by a professional Fund Manager. It is a trust that collects money from a number of investors who share a common investment objective and invests the same in equities, bonds, money market instruments and/or other securities.

Organization of mutual fund :

Mutual funds have a unique structure not shared with other entities such as companies of firms. It is important for employees & agents to be aware of the special nature of this structure, because it determines the rights & responsibilities of the fund's constituents viz., sponsors, trustees, custodians, transfer agents & of course, the fund & the Asset Management Company(AMC) the legal structure also drives the inter-relationships between these constituents

SEBI :

SEBI regulates mutual funds, depositories, custodians and registrars & transfer agents in the country. The applicable guidelines for mutual funds are set out in SEBI (Mutual Funds) Regulations, 1996, as amended till date. An updated and comprehensive list of circulars issued by SEBI can be found in the Mutual Funds section of SEBI's website. Some segments of the financial markets have their own independent regulatory bodies. Wherever applicable, mutual funds need to comply with these other regulators also.

The sponsor is the promoter of the mutual fund. The sponsor establishes the Mutual fund & registers the same with SEBI.

Custodian:

Often an independent organization, it takes custody all securities & other assets of mutual fund. Its responsibilities include receipt & delivery of securities collecting income-distributing dividends, safekeeping of the unit & segregating assets & settlements between schemes. Mutual fund is managed either trust company board of trustees.

Though the trust is the mutual fund, the AMC is its operational face. The AMC is the first functionary to be appointed, & is involved in appointment of all other functionaries. The AMC structures the mutual fund products, markets them & mobilizes fund, manages the funds & services to the investors.

Other Service Providers:

1. RTA :

The RTA maintains investor records. Their offices in various centres serve as Investor Service Centres (ISCs), which perform a useful role in handling the documentation of investors. The appointment of RTA is done by the AMC. It is not compulsory to appoint a RTA. The AMC can choose to handle this activity in house. All RTAs need to register with SEBI.

2. Auditors :

Auditors are responsible for the audit of accounts. Accounts of the schemes need to be maintained independent of the accounts of the AMC. The auditor appointed to audit the scheme accounts needs to be different from the auditor of the AMC. While the scheme auditor is appointed by the Trustees, the AMC auditor is appointed by the AMC.

3. Fund Accountants:

The fund accountant performs the role of calculating the NAV, by collecting information about the assets and liabilities of each scheme. The AMC can either handle this activity in-house, or engage a service provider.

Meaning Status Types:

Definition:

Since the influential writing of Ralph Linton (1936), status and role have become the key concepts of sociology. By status, Linton meant a position in a social system involving designated rights and obligation, whereas by role he meant the behaviour oriented to the patterned expectations of others. Linton went on to state the long recognised and basic fact that each person in society inevitably occupies multiple status and each of these statuses has an associated role.

Types of Status:

Linton (1936) has noted two types of status:

(1) Ascribed status:

Statuses, which are given to us at birth (age, sex, kinship, race, caste), are known as ascribed status. These are 'assigned' to a person by society without regard for the person's unique talents or characteristics. Such ascribed characteristics cannot be changed by individual effort. These are more or less determined by the cultural situation over which he has no control initially, for example, position or status of a boy or a girl in a family is ascribed in terms both of sex and age. Likewise, Negro or Harijan are ascribed status.

Generally, ascribed statuses are determined on four bases:

(1) Sex dichotomy (male-female);

(2) Age difference (child, youth, adult);

(3) Kinship (son, brother, sister etc.); and

(4) Social factors (divorcee, widow etc.).

(2) Achieved status:

"Any social position held by an individual as a result of his or her personal accomplishments in open formal or market competition with others is known as achieved status" (.Oxford Dictionary of Sociology, 1994). It is a social position which a person attains through his own efforts, individual choice and competition.

The main bases of achieved status are:

(1) Property (jagirdar, zamindar);

(2) Occupation (doctor, engineer);

(3) Education (college graduate, illiterate);

(4) Specialisation and division of labour (foreman, mechanic);

(5) Political power (prime minister, president);

VENTURE CAPITAL FINANCING :

Definition:

Venture capital (VC) is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks, and any other financial institutions.

Venture Capital Financing :

Venture capital financing is a type of private equity investing specific to earlier-stage businesses that require capital. In return, the investor receives an equity stake in the business through the issuance of some type of security instrument.

Venture capital firms have a variety of different securities they use depending on the nature of the investment. The most common securities are convertible debt (often called convertible debentures), SAFE notes, and preferred stock.

Types of Venture Capital Financing

1. Convertible Debt :

One of the most common instruments used by venture capital investors is convertible notes.Convertible notes are short-term debt instruments designed to convert to equity at a predetermined conversion event, typically a future financing or liquidation event like an IPO (Initial Public offering) or acquisition. Furthermore, since convertible notes are loans, they also have a maturity date and an interest rate.

- **Valuation Cap**: Refers to the maximum valuation at which a convertible note will convert.
- **Discount Rate**: Refers to the discounted (percentage) rate at which the note will convert during the business' next priced round (e.g., 85% of share price).

Both valuation caps and discount rates allow note holders to receive cheaper equity by converting at a discounted valuation. The result of this is that note holders end up with a larger percentage of the company than they otherwise would.

Benefits of Using Convertible Debt :

Convertible debt is used by investors because it is simple and can be issued quickly. Unlike other securities, investors and founders aren't required to agree on a valuation of the business when negotiating the terms of a convertible note which is typically an intensive diligence process with high legal fees.

2. "SAFE" Notes:

A SAFE (Simple Agreement for Future Equity) is a kind of convertible security that allows note holders to purchase a specified number of shares for an agreed-upon price at some point in the future.

SAFE notes are similar to convertible notes in that they convert at a future financing event such as a series A. They also usually have a valuation cap or discount rate to give venture capital investors a favorable valuation when buying their equity.

Benefits of Using SAFE Notes:

SAFE notes were popularized by the now famous start-up accelerator Y-Combinator, which wanted access to a more founder-friendly security than convertible debt.

In addition to being advantageous to founders, SAFE notes are relatively easy to issue because no current company valuation is required, and there are fewer other components to the instrument that must be negotiated.

3. Preferred Equity:

Preferred equity refers to a share class within a company's shareholder equity. This kind of stock is commonly used by venture capital investors in later-stage deals and has a number of advantages in comparison to common shares.

Benefits of Using Preferred Equity

The two main reasons venture capital investors would opt for preferred equity instead of common equity are:

1) Its seniority to common shares, and

2) preferred equity may include negotiable provisions like additional voting rights and/or anti-dilution clauses.

Preferred shares are considered senior to common shares in the case of a liquidation or sale of the company. This means that if the company a VC firm has invested in is forced into a liquidation scenario (or it exits at a lower price than anticipated), owners of preferred shares will be paid out before common shareholders (although still behind creditors).

These limits the risk investors take on since there is a higher likelihood that they will be paid than if they owned common shares in the company, which fall at the bottom of the capital stack.

Credit Rating Services:

Definition:

The term credit rating refers to a quantified assessment of a borrower's creditworthiness in general terms or with respect to a particular debt or financial obligation. A credit rating can be assigned to any entity that seeks to borrow money—an individual, a corporation, a state or provincial authority, or a sovereign government.

Some of the Top Credit Rating Agencies in India are:

1.Credit Rating Information Services of India Limited (CRISIL) :

- CRISIL is one of the oldest credit rating agencies in India. It was launched in the country in 1987 following which the company went public in 1993.
- Headquartered in Mumbai, CRISIL ventured into infrastructure rating in 2016 and completed 30 years in 2017.
- CRISIL acquired 8.9% stake in CARE credit rating agency in 2017.

- It launched India's first index to benchmark performance of investments of foreign portfolio investors (FPI) in the fixed-income market, in the rupee as well as dollar version in 2018.
- The company's portfolio includes, mutual funds ranking, Unit Linked Insurance Plans (ULIP) rankings, CRISIL coalition index and so on.

2. ICRA Limited:

- ICRA Limited is a public limited company that was set up in 1991 in Gurugram.
- The company was formerly known as Investment Information and Credit Rating Agency of India Limited.
- Before going public in April 2007, ICRA was a joint venture between Moody's and several Indian financial and banking service organisations.
- The ICRA Group currently has four subsidiaries - Consulting and Analytics, Data Services and KPO, ICRA Lanka and ICRA Nepal. At present, Moody's Investors Service, the international Credit Rating Agency, is ICRA's largest shareholder.
- ICRA's product portfolio includes rating for - corporate debt, financial rating, structured finance, infrastructure, insurance, mutual funds, project and public finance, SME, market linked debentures and so on.

3. Credit Analysis and Research limited (CARE) :

- Launched in 1993, CARE offers credit rating services to areas such as corporate governance, debt ratings, financial sector, bank loan ratings, issuer ratings, recovery ratings, and infrastructure ratings.
- Headquartered in Mumbai, CARE offers two different categories of bank loan ratings, long-term and short-term debt instruments.
- The company also offers ratings for Initial Public Offerings (IPOs), real estate, renewable energy service companies (RESCO), financial assessment of shipyards, Energy service companies (ESCO) grades various courses of educational institutions.
- CARE Ratings has also ventured into valuation services and offers valuation of equity, debt instruments, and market linked debentures.
- Moreover, the company has launched a new international credit rating agency 'ARC Ratings' by teaming up with four partners from South Africa Brazil, Portugal, and Malaysia.
- ARC Ratings has commenced operations and completed sovereign ratings of countries, including India.

4. Brickwork Ratings (BWR) :

- Brickwork Rating was established in 2007 and is promoted by Canara Bank. It offers ratings for bank loans, SMEs, corporate governance rating, municipal corporation, capital market instrument, and financial institutions.

- It also grades NGOs, tourism, IPOs, real estate investments, hospitals, IREDA, educational institutions, MFI, and MNRE.
- Brickwork Ratings is recognised as external credit assessment agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India.

5. India Rating and Research Pvt. Ltd. :

- India Ratings is a wholly-owned subsidiary of the Fitch Group.
- It offers credit ratings for insurance companies, banks, corporate issuers, project finance, financial institutions, finance and leasing companies, managed funds, and urban local bodies. In addition to SEBI, the company is recognised by the Reserve Bank of India and National Housing Bank.

6. Acuite Ratings & Research Limited :

- The Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012.
- Since then, it has assigned more than 8,300 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and section of industries.
- It has its Registered and Head Office in BKC, Mumbai. Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with.

7. Infomerics Valuation and Rating Private Limited :

- An RBI-accredited and SEBI-registered credit agency, Infomerics Valuation and Rating Private Limited saw its inception by eminent finance professionals and is now run under the leadership of Mr. Vipin Mallik.
- The credit bureau strives to offer an unbiased and detailed analysis and evaluation of credit worthiness to NBFCs, banks, corporates and small and medium scale units.
- It is through their rating and grading system that they determine the credit worthiness of an organisation. Infomerics helps in reducing any kind of information asymmetry amongst investors and lenders.
- Keeping transparency as it is core value, the credit bureau makes sure to deliver comprehensive and accurate reports and records of all their clients.

PORTFOLIO MANAGEMENT SERVICES:

Definition:

Portfolio Management Service (PMS) is a facility offered by a portfolio manager with the intent to achieve the required rate of return within the desired level of risk. An investment portfolio can be a mix of stocks, fixed income, commodities, real estate, other structured products, and cash.

A portfolio manager is a licensed investment professional who specializes in analyzing the investment objectives of the investor and has a vast knowledge of the various instruments in the market. The portfolio manager is better positioned to make informed decisions for investments in securities as opposed to a layman.

Types of Portfolio Management Services :

1. **Active Portfolio Management:**
   This form of portfolio management aims at beating the performance of a market index such as Nifty. An active portfolio manager will take different positions than that of the tracking index, actively buy and sell securities as per institutional research to create more returns than the index. However, to generate an excess return, the strategy undertakes a higher level of risk.
2. **Passive Portfolio Management**:
   Such a PMS strategy aims to mimic the performance of an index by investing in the same securities with similar weights. This is known as indexing or index investing. The transaction costs, resulting from securities turnover, are low as compared to active management as the portfolio churning is at a minimum.
3. **Discretionary Portfolio Management:**
   The portfolio manager is given complete control of the portfolio and is free to adopt any strategy which is suitable to the IPS. Such PMS demand higher involvement for decision making justifying higher fees associated with discretionary portfolio management. This is the best option for clients with limited time and knowledge of investing while the investor will be responsible for choosing the recommendation and timing. This employs PMS in an advisory capacity as the final call rests with the investor instead of the portfolio manager.

Portfolio Management Process:

The portfolio management process is the means, through which the portfolio manager defines the investment objectives of the investor, translates them into achievable goals, allocates assets to achieve those goals, monitor the returns and rebalance the portfolio for any mismatch in the risk and return profile of the portfolio.

The 3 steps of the portfolio management process are:

1. **Planning:**
   Planning the first step of portfolio management and involves the making of the Investor Policy Statement (IPS). Investor policy statement defines the willingness and the ability to take risk from the investors point of view. It also sets the objectives of the investors in terms of their risk and return keeping in mind the IPS of the individuals.
2. **Execution:**
   Execution is the second step and involves allocation of the investment corpus to various asset classes and various products within the asset classes to match the risk-return profile stated in the IPS.
3. **Feedback:**
   In the third and final step of portfolio management, the portfolio manager monitors the performance of the portfolio and makes changes to the assets wherever they are falling short of their expected returns. Rebalancing of the portfolio might be done to achieve better returns or the portfolio might stay as it is if it is performing as per expectation.

WEALTH MANAGEMENT:

Introduction:

Wealth management is a branch of financial services dealing with the investment needs of affluent clients. These are specialised advisory services catering to the investment management needs of affluent clients.

Advantages of Wealth Management:

- Wealth management plans are tailored to client-specific needs. The financial products are combined to effectively reach the financial goals of the client.
- The advisory services entail the handling of client sensitive information. Investment advisors have to maintain the confidentiality of information obtained during the course of financial planning and advisory services.
- A wealth management advisor utilizes the diverse financial disciplines such as financial and accounting, and tax services, investment advice, legal or estate planning, and retirement planning, to manage an affluent client's wealth as a bundle of services.
- Wealth management practices and the corresponding services may differ from one location to another, depending on the state of the economy, per capita income and saving habits of the people.
- Wealth management is different from investment advice. The former is a more holistic approach in which a single manager coordinates all the services needed to manage their money and plan for the client's needs, including the current and future needs of the client's family.
- While most wealth managers provide services in any financial field, certain wealth managers specialize in specific areas of finance. The specialisation would be based on the area of expertise of the wealth manager.

Wealth Management Services:

Listed below are some of the most prominent services offered by wealth management firms:

1. Investment Management

Investment management includes more than just purchasing and selling financial assets and other investments.

Wealth managers will collaborate with clients to design a customized investment plan based on their objectives and risk tolerance.

Creating a short- or long-term strategy for the acquisition and sale of portfolio holdings is a component of management.

It may cover tax obligations, banking services, and budgeting responsibilities.

2. Financial Planning

Your financial goals are identified, arranged, and prioritized in a financial plan, which also lays out the activities you must take to accomplish them.

It will indicate whether you need to make changes to your spending or if you are on pace to accomplish your financial objectives.

These strategies could center on debt consolidation, opening a brokerage or bank account, starting a savings routine, or developing an investing strategy.

3. Tax Advice

Tax planning can be overwhelming if you are managing your own business and maintaining various income sources as you need to abide by federal, state, and local tax regulations.

Wealth managers can offer recommendations to reduce the taxes that must be paid to the taxing authorities by a taxpaying entity with a complex financial situation.

4. Estate Planning

Making arrangements for the management and transfer of your estate after your death by using a Will, Trust, insurance policies, and/or other tools is known as estate planning.

It has numerous facets, but you must first thoroughly review the assets in your estate. Your estate comprises everything you own, including money, investments, savings, vehicles, jewels, homes, and others.

UNIT-V

Consumer Finance and Housing Finance

Consumer Finance:

Definition:

Consumer goods have gradually gotten more expensive, and in turn, new ways to improve buying power have been introduced. There are not many things worse for a business than an interested customer leaving their store, or website, without purchasing anything. This problem is where consumer financing comes into the equation.

Consumer financing offered at the point of sale comes in a few different forms:

- Buy Now, Pay Later (BNPL) programs
- Consumer loans
- Store credit cards

Each of these has its own benefits and drawbacks, but they serve the same fundamental purpose of giving a customer that wants to buy the ability to do so.

1. BNPL Programs :

A BNPL program is a payment plan that carries low-to-no-interest, allowing customers to simply break up a purchase into multiple payments. These are usually the most desirable forms of consumer financing because they aren't reported to credit bureaus the same way unless payments are missed, and the lack of interest reduces the total cost for the consumer.

BNPL programs are also a simple and consumable concept for consumers. Since most carry no interest, it is as simple as breaking up the purchase amount into multiple even payments, which is easy for consumers to understand.

2. Consumer Loans :

Consumer loans are exactly what they sound like: A loan for a consumer good. Typically, these are advertised on merchant sites through pre-approval programs, and they are used for larger purchases. These typically carry interest, making them slightly less desirable than BNPL programs, but they are still pretty simple and the payment structure can be explained in full at the point of sale. This means that consumers know exactly what they will pay, and when, before they accept the financing agreement.

3. Store Credit Cards:

Store credit cards are credit cards that are offered by a merchant that provide benefits for purchases from that specific merchant. This can look like a higher-than-average cash back percentage, low-or-no-interest for a certain period of time, and/or a points-based system that can lead to free rewards for the consumer after making a high enough value of purchases.

While credit cards are a well-known product, they tend to be adopted less than other types of consumer financing because the interest structures on carried balances can be more complicated, and there is no way to lay out exactly what a customer will owe from the outset.

4. How Merchants Can Offer Consumer Financing:

The simplest and most efficient way for merchants to directly offer financing to their consumers is for them to partner with a lender. Each of the financing options mentioned above is typically handled almost entirely by a lending partner but offered to the consumer by the merchant. This allows the merchant to benefit from the increased sales volume and ticket size, the lender to benefit from any interest or processing fees, and the consumer to benefit from the increase in buying power.

5. Skeps Makes Consumer Financing Simple :

By partnering with Skeps, merchants can easily connect with a lender using our proprietary software platform, and implement convenient consumer financing within days. Skeps' POS financing platform offers versatile integration simple and user-friendly interface, and top-of-the-line data security for merchants looking to offer more flexible payment to , a their consumers.

Definition:

Housing Finance means loan provided to individuals for the purchase of residential house / apartment / land. The loans availed for the purpose of making improvements in house / apartment / land shall also fall under this category.

India's national housing policy insists on providing more dwelling houses to the citizens. It is only natural for the government to create institutions which can provide housing finance.

Advantages of Housing Finance

1. Among the financial services, housing finance creates employment, both directly and indirectly.
2. Industries such as cement, brick manufacturing, sanitary products, electrical fittings and glass industries experience more demand due to house construction.
3. Rural housing develops not only rural areas but prevents migration of labor to urban areas.
4. Housing finance helps in creation of more houses which results in building up more infrastructure facilities, such as roads, electricity generation, drinking water facilities, etc.
5. Factories or industrial establishments create townships by providing more housing facilities to their employees. Housing finance thereby reduces congestion in urban areas.
6. Due to housing finance, there is a vertical expansion and re building of dilapidated houses and re modelling of the existing houses.
7. Housing facilities not only improve, they also reflect the culture of the country. Chandigarh city is an example for modern housing which has been built by a French architect.
8. Non conventional energy gets popularized due to modern housing facilities which is one of the major benefits of housing finance.

Methods of Housing Finance

Commercial banks and co-operative societies are providing housing finance. Life Insurance Corporation is also in the race for housing finance.

While providing housing finance, the lender and borrower enter into an agreement under the Transfer of Property Act, whereby the house to be constructed is mortgaged along with the land to the creditors who is called mortgagee. The borrower is the mortgagor and he cannot sell the house to any third party until the loan is repaid. In other words, the financing institution has a charge on the property of the borrower until he repays the loan.

Tax benefits that boosts housing finance in India:

In order to encourage more house construction in India and to boost housing finance, the Income Tax Act provides concession to the assesses, under which INR. 30,000 can be availed as tax relief if housing loan was availed for house renovation work, and if loan was availed for construction purpose, the interest payment up to INR. 200,000 per year can be written off from the gross income and the principal paid is covered under section 80C while computing the income tax. Though the Kelkar Committee has recommended to the government to withdraw these concessions, it is doubtful as to how far government may agree to these recommendations.

SECURITIZATION IN INDIA:

Definition:

Securitization in India began in the early nineties, with CRISIL rating the first securitization program in 1991-92. Initially it started as a device for bilateral acquisitions of portfolios of finance companies. These were forms of quasi-securitizations, with portfolios moving from the balance sheet of one originator to that of another. Originally these transactions included provisions that provided recourse to the originator as well as new loan sales through the direct assignment route, which was structured using the true sale concept.

Concept of Securitization in India:

1. Mortgage Backed Securities:

The securitisation of assets historically began with, and in sheer volume remains dominated by residential mortgages. The receivables are generally secured by way of mortgage over the property being financed, thereby enhancing the comfort for investors. This is because mortgaged property does not normally suffer erosion in its value like other physical assets through depreciation. Rather, it is more likely that real estate appreciates in value over time.

(a) Auto loans:

Though securitisation was made popular by housing finance companies, it has found wide application in other areas of retail financing, particularly financing of cars and commercial vehicles. In India, the auto sector has been thrown open to international participation, greatly expanding the scope of the market. Auto loans (including instalment and hire purchase finance) broadly fulfil the features necessary in securitisation..

(b) Investments:

Investments in long dated securities as also the periodical interest instruments on these securities can also be pooled and securitised. This is considered relevant particularly for Indian situation wherein the FIs are carrying huge portfolios in Government securities and other debt instruments, which are creating huge asset-liability mismatches for the institutions. Government securities issued domestically in Indian Rupee can be bundled and used to back foreign currency denominated bonds issues

(c) Others:

Financiers of consumer durable, Corporate whose deferred trade receivables are not funded by working capital finance, etc are Originators of other asset classes amenable to securitisation. Corporate loans, in a homogeneous pool of assets, are also subject to securitization. There is virtually no known instance so far in the United States or in other countries of an ABS transaction having failed

2. Securitization of infrastructure receivables :

Securitization of wholesale assets refers mainly to the use of securitization as a technique for infrastructure funding. The availability of an efficient infrastructure framework is vital to the economic growth and prosperity of any country. Traditionally, infrastructure facilities have been developed and provided by Governments and are looked upon as basic privileges of a citizen and have thus been accorded priority for Government investment.

Nature of Securitization

- Wherever a reasonably certain sum of money will be received over a certain time, not very short, securitization possibility exists.
- In short, the scope of securitization is vast; ultimately being limited only by the consideration that assets proposed to be securitized must fundamentally be income bearing.
- Securitization is the process in which certain types of assets are pooled so that they can be repackaged into interest-bearing securities.
- The interest and principal payments from the assets are passed through to the purchasers of the securities.

Non – Banking Financial Companies and Micro Finance:

1. Nonbanking financial institution:

Anon bank financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public. However, NBFIs do facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing.

NBFIs are a source of consumer credit (along with licensed banks). Examples of nonbank financial institutions include insurance firms, venture capitalists, currency exchanges, some microloan organizations, and pawn shops. These non-bank financial institutions provide services that are not necessarily suited to banks, serve as competition to banks, and specialize in sectors or groups.

2. Risk pooling institutions:

Insurance companies underwrite economic risks associated with death, illness, damage to or loss of property, and other risk of loss. They provide a contingent promise of economic protection in the case of loss. There are two main types of insurance companies: life insurance and general insurance. General insurance tends to be short-term, while life insurance is a longer contract, ending at the death of the insured. Both types of insurance, life and property, are available to all sectors of the community. Because of the nature of the insurance industry (companies must access a plethora of information to assess the risk in each individual case), insurance companies enjoy a high level of information efficiency.

3. Contractual savings institutions

Contractual savings institutions (also called institutional investors) provide the opportunity for individuals to invest in collective investment vehicles in a fiduciary rather than a principle role. Collective investment vehicles invest the pooled resources of the individuals and firms into numerous equity, debt, and derivatives promises..

The two main types of mutual funds are open-end and closed-end funds. Open-end funds generate new investments by allowing the public buy new shares at any time. Shareholders can liquidate their shares by selling them back to the open-end fund at the net asset value. Closed-end funds issue a fixed number of shares in an IPO.

4. Other nonbank financial institutions

Market makers are broker-dealer institutions that quote both a buy and sell price for an asset held in inventory. Such assets include equities, government and corporate debt, derivatives, and foreign currencies. Once an order is received, the market maker immediately sells from its inventory or makes a purchase to offset the loss in inventory. The difference in the buying and selling quotes, or the bid-offer spread, is how the market-maker makes profit. Market makers improve the liquidity of any asset in their inventory.

Specialized sectoral financiers provide a limited range of financial services to a targeted sector. For example, leasing companies provide financing for equipment, while real estate financiers channel capital to prospective homeowners.

5. Bank/non-bank integration and supervisory integration

The banking, securities, and insurance markets have become increasingly integrated, with linkages across the markets rapidly increasing. In response, one of the most notable developments in financial sector regulation in the past 20 years has been a shift from the traditional sector-by-sector approach to supervision (with separate supervisors for banks. securities markets, and insurance companies) toward a greater cross-sector .

Microfinance:

Microfinance is a banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Microfinance allows people to take on reasonable small business loans safely, and in a manner that is consistent with ethical lending practices.

Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services.

Microfinance Loan Terms

Like conventional lenders, micro financiers must charge interest on loans, and they institute specific repayment plans with payments due at regular intervals. Some lenders require loan recipients to set aside a part of their income in a savings account, which can be used as insurance if the customer defaults. If the borrower repays the loan successfully, then they have just accrued extra savings.

Empowering women in particular, as many microfinance organizations do, may lead to more stability and prosperity for families.

Because many applicants cannot offer collateral, micro lenders often pool borrowers together as a buffer. After receiving loans, recipients repay their debts together. Because the success of the program depends on everyone's contributions, this creates a form of peer pressure that can help to ensure repayment.

Benefits of Microfinance:

- The World Bank estimates that more than 500 million people have directly or indirectly benefited from microfinance-related operations.
- The Consultative Group to Assist the Poor, a Washington-based global nonprofit organization, estimates that, as of 2021, more than 120 million people have directly benefited from microfinance-related operations.
- However, these operations are only available to some of the world's poor, while an estimated 1.7 billion people lack access to establishing basic financial accounts.
- In addition to providing micro financing options, the IFC has helped establish or improve credit reporting bureaus in developing nations.
- It has also advocated for adding relevant laws in developing countries that govern financial activities.