# Financial Market

**Classification of Financial Market:**

A financial market consists of two major segments:

- Money Market
- Capital Market.

- Capital Market is controlled by SEBI.
- While the money market deals in short-term credit, the capital market handles the medium term and long-term credit.
    - Money Market
    - Call Money
    - Treasury Bill
    - Commercial Paper
    - Certificate of Deposit
    - Trade bill
    - Capital Market
    - Securities Market

**Instruments of Money Market**

- **Call Money:** also referred to as the money at call. It deals with very short-term funds, and is demanded extremely short durations from a few hours to 1 day.
- **Notice Money**: for borrowing and lending operations of 2 to 14 days.
- **Term Money:** Lending and borrowing of funds beyond 14 days.

**Treasury Bills**

- Government Securities (G-Sec) issued by RBI on behalf of the central government to meet its fiscal deficits.
- Presently issued in three tenors, namely, 91-day, 182-day and 364-day.
- Treasury bills are zero coupon securities and pay no interest.
- Instead, they are issued at a discount a redeemed at the face value at maturity.

**Commercial Bills**

- It refers to the bill of exchange which is used to finance the short-term working capital requirements of any business.
- These are negotiable and self-liquidating financial instruments, in which the seller is the drawer while the buyer is the drawee.

**Cash Management Bills (CMB)**

- CMBs are issued by the GOI in consultation with the RBI to meet its short-term cash requirements.
- The maturity period of these bills is less than 91 days.

**Certificates of Deposits (CD)**

- Certificate of Deposit (CD) is an agreement between the depositor and the bank where a predetermined amount of money is fixed for a specific time period.
- It is issued in dematerialized (De-mat) form.
- When it matures, the principal amount along with the interest earned is available for withdrawal.

**Commercial Papers (CP)**

- CP is a short-term debt instrument issued by companies to raise funds generally for a time period up to one year.
- It is an unsecured money market instrument issued in the form of a Promissory Note (P-Note) and was introduced in India in 1990.
- Minimum maturity period of commercial paper is for 7 days and a maximum of 1 year.

**Primary Market:** IPOs, Book Building, Private Placements.

**Secondary Market:**

- Equity Market, Debt Market, Commodity Market, Futures and Options Market. (Secondary Market can be basically divided into two – spot market and forward market. Forward market has two divisions – futures and options/derivatives. Again, there are two types of options – put option and call option.)

**Non-Securities Market:**

- Mutual Funds
- Fixed Deposits
- Savings Deposits
- Post Office savings.
- Insurance

**Capital Market:**

- On capital markets, savings and investments are transferred between parties with and without a need for capital.
- Businesses, governments, and people are instances of entities seeking capital, whereas retail and institutional investors are examples of entities holding capital.
- A perfect capital market is one where credit is easily accessible at a fair price.
- The process of economic development is made easier by the presence of a healthy capital market.
- In fact, it is believed that the expansion of the financial system is necessary for economic progress.
- Market activities must be free, just, competitive, and transparent, and financial institutions must be appropriately established.
- The information the capital market delivers, as well as the services it offers, should be efficient.

**Different types of Capital Markets:**

There are two parts to the capital market:

**First Market:**

- The new issues market is another name for the primary market. New securities that are being issued for the first time are of concern.
- A primary market's main job is to make it easier for investors to send their money to business owners looking to start new ventures or grow current ones by issuing new securities.
- Those who have made investments in this market include banks, financial institutions, insurance companies, mutual funds, and private individuals.

**Primary Market:**

- A stock market or stock exchanges are other names for a secondary market.
- It is a market where existing securities can be bought and sold.
- It entices both new and existing investors to sell their positions to start a business.
- It also increases the marketability and liquidity of existing securities.
- By using the disinvestment and reinvestment process to move money towards the most fruitful investments, it also promotes economic growth.
- The trading, clearing, and settlement of securities are regulated by SEBI.
- Thanks to advancements in information technology, trading through stock exchanges is now feasible from anywhere in the nation using trading terminals.
- Over the past ten years, the secondary market has grown dramatically along with the growth of the country's primary market.

**Securities – Instruments:**

Three categories of financial market instruments exist:

- **Instruments** that are pure and distinct from one another. Examples of pure instruments include shares, bonds, and debentures.
- Instruments that are hybrids combine traits from other types of investments, such bonds and equities.
- **Derivatives:** These financial products, which are derived from one or more financial assets, have no intrinsic worth. Derivatives include, among other things, futures and options.

**Financial Market – Operations**:

- Capital markets connect individuals who have extra money with those who need it.
- The enhancement of transaction efficiency is the aim of capital markets.
- It encourages economic expansion.
- It guarantees that money is always available.
- By assuring the flow and productive use of capital, it helps to boost national GDP.

- Lowers the cost of transactions and information.
- Makes it easier for businesses and investors to trade securities.
- Protection against market risk is offered.

**Capital Market Benefits:**

- People who require capital and those who already possess it exchange money.
- Now, the transactions run more smoothly.
- Dividend income is produced in part by securities like shares.
- Investments gain significantly in value over time.
- Bank interest rates are lower than the interest rates offered by instruments like bonds.
- Investing in the stock market can result in tax advantages.
- Make room for a variety of investments.
- Securities from the capital markets may be pledged as security for bank loans.

**Bombay Stock Exchange (BSE):**

- BSE is the oldest stock exchange in Asia.
- In 1986, Sensex was introduced, as the first equity index to provide a base for identifying the top 30 trading companies of the exchange.
- It ranks amongst the top 10 most valued exchanges globally.
- It offers trading in equities, derivatives and Commodities.

**National Stock Exchange (NSE):**

- It was incorporated in 1992, become recognized as a stock exchange in 1993, and trading began on it in 1994.
- It was the first stock exchange on which trading took place electronically.
- In the year 1995-96, NSE launched NIFTY 50 Index and commenced trading and settlement in dematerialised securities.

**Multi-Commodity Exchange (MCX):**

- MCX is one of the largest commodity exchanges in the country.
- These are predominantly used by hedgers, traders, businessmen and even by companies.

- But commodities market is yet to make a mark, like equities market.

**National Commodity and Derivatives Exchange (NCDEX):**

- NCDEX is another largest commodity exchanges in the country, which started its operations around the same time as MCX.
- NCDCEX, unlike MCX, only offers Agri products for trading.

**India International Exchange (India INX):**

- Opened in January 2017, India INX is India's first international stock exchange.
- It is also a subsidiary of BSE and is located at the **International Financial Services Centre (IFSC)**, GIFT City in Gujarat.
- Currently, INX offers only derivative products including equity, currency and commodities derivatives and debt instruments including masala bond and foreign currency bond.

**NSE IFSC:**

- NSE IFSC Limited (NSE International Exchange) incorporated on 29th November 2016, is a wholly owned subsidiary of the National Stock Exchange (NSE) and is located at the International Financial Services Centre (IFSC), GIFT City in Gujarat.
- Products offerings are similar to India INX.

**Indian Commodity Exchange (ICEX):**

- ICEX is a commodity derivative exchange in India. Registered with SEBI, it is a permanent exchange and the only exchange that offers derivatives trading in diamond contracts.
- In addition to diamond contracts, ICEX also offers agri derivatives including spices, oilseeds, plantations, and cereals.

**Calcutta Stock Exchange (CSE):**

- CSE which started under Neem Tree in 1830s has come a long way now.
- It is among the oldest stock exchange and was once considered among the largest stock exchanges in the country.

- In the year 1980, it was granted permanent recognition by the Government of India under the relevant provisions of the Securities Contracts (Regulation) Act, 1956.
- CSE also had an index called CSE-40.

**Metropolitan Stock Exchange (MSE):**

- The Exchange was notified as a 'Recognized Stock Exchange' under the Companies Act by the Ministry of Corporate Affairs on December 21, 2012.
- MSE products are similar to any other stock exchange.
- It offers futures options, currency derivatives, and debt market instruments.