FINANCIAL MARKET

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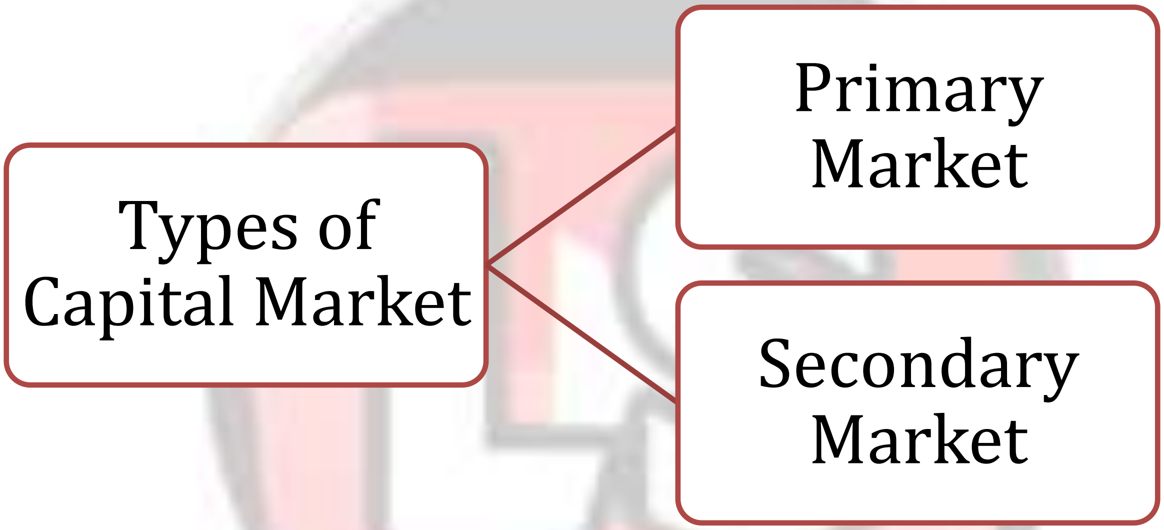
- A financial market is a **marketplace where financial assets**, such as stocks, bonds, , derivatives, currencies are bought and sold.
- These markets facilitate the **efficient allocation of resources** by enabling businesses, governments, and individuals to raise capital, manage risks, and invest funds.

CLASSIFICATION OF FINANCIAL MARKETS

CAPITAL MARKET

- Capital market is a financial market in which **long-term debt or equity-backed securities are bought and sold.**

- The main instruments traded in the capital market are – **equity shares, debentures, bonds, preference shares etc.**
- **SEBI is the regulator** of the Capital Market.



Primary Market

- In a primary market, **securities are issued for the first time** for investors to purchase.
- This trade is between the **investors and the original issuer** of securities.

- **Price of securities** is fixed by companies.
- In the primary market, the securities are issued by either **Initial Public Offer (IPO) or Further Public Offer (FPO).**

Secondary Market

- A Secondary market is a market where **investors purchase securities or assets from other investors.**
- This trade is **between the investors** and price is determined by market.
- Secondary market comprises of equity markets and debt markets.

Stock Exchanges

It is a secure place where trading is done in a systematic way. Here, the **securities are bought and sold as per well-structured rules and regulations.**

FEATURES OF STOCK EXCHANGE

- It is a platform where securities of government, corporate companies, semi-government companies **are bought and sold**.
- The exchange **does not sell and buy** bonds and shares on its own account.
- Only listed securities recorded in the exchange office **can be traded.**
- Only through **authorised brokers and members** the transaction for securities can be made.
- All the security dealings at the stock exchange **are controlled by SEBI**

MONEY MARKET

- Money Market is a financial market where **short-term financial assets** having liquidity of **one year or less are traded**.
- Instruments traded in money market are **call money, certificates of deposit, Treasury bills, commercial paper etc**.

- RBI is the **regulator** of the Money Market.

DERIVATIVES MARKET

It is financial market for derivatives, financial instruments like **futures contracts or options are traded**, which are derived from other forms of assets.

Types of Derivative Market

Over-the-counter derivatives

- Contracts that are traded directly between two eligible parties **without going through an exchange**.
- The **parameters of the contract**, like the size, maturity etc., are not standardised and are mutually agreed to between the the parties to a contract.

Exchange-traded derivatives

Derivative products that are **traded on an exchange**. The maturity and size of these products are standardized by the Exchange.

FOREIGN EXCHANGE MARKET

- The foreign exchange market or forex market is the market where **currencies are traded.**
- Foreign exchange market **facilitates exchange** of one country's currency with that of another country.
- Participants in Forex market are **banks, customers and Reserve Bank of India.**
- The traders in this market are **free to buy or sell the currencies anytime as per their own choice.**
- The foreign exchange market is a dynamic market structure. In these markets, the **currency values change every second and hour**.
- The Foreign exchange markets function 24 hours a day**. This provides the traders the possibility to trade at any time.**

INSURANCE MARKETS

- The **insurance market** is a segment of the financial market where **insurance products and services are bought and sold**.
- It is a marketplace where **individuals, businesses, and entities transfer risk to insurance companies** in exchange for a premium.
- The primary goal of the insurance market is to provide **financial protection against uncertainties, losses, and risks**.

MUTUAL FUNDS

- Mutual fund is a mechanism for **pooling resources from the public**, by issuing units to them and investing in securities.
- Mutual fund **issues units to investors** and investors of mutual funds are known as **unit holders**.
- SEBI formulates the policies and **regulates the mutual funds** to protect the interest of the investors.
- Mutual funds are run by **Asset Management Companies (AMCs)**.

COMMODITY MARKETS

- Commodity markets provide trading facilities for **raw material and primary commodities**, which are traded on regulated commodity exchanges as standardized contracts.
- Similar to an equity market where one buys or sells shares, one **buys or sells commodities in the commodity markets.**

Types of Commodity Trading Contracts

Spot trading: A spot trade is the purchase or sale of a commodity for **immediate delivery.**

Forward Contract: A forward contract is an **agreement between two parties** (counterparties) for the delivery of a physical asset (e.g., oil or gold) at a certain time in the **future for a certain price that is fixed at the time of contract.**

Future Contracts :

- A **futures contract** for commodities is a legally binding agreement to buy or sell a specific quantity and quality of a commodity at a **predetermined price on a specific future date**.

- These contracts are **standardized and traded on regulated exchanges,** ensuring uniformity and reducing counterparty risk.

Forward Vs. Futures

Comparison	Forward	Futures
Trade on organized exchanges	No	Yes
Use of standardized contract terms	No	Yes
Use of associate clearing houses to guarantee contract fulfilment	No	Yes
Require margin payments and daily settlements	No	Yes
Close easily	No	Yes
Regulated by identifiable agencies	No	Yes

The Major Actors In Commodity Market.

Speculator : A trader who enters the futures market in pursuit of profit, accepting risk in the endeavour.

Hedger: A Trader who enters the futures market to reduce some pre-existing or perceived risk exposure.

Broker : An Individual or firm acting as an intermediary by conveying customers' trade instructions.

Regulation of Commodity Market

- Commodity Markets were earlier regulated by **Forward Markets Commission (FMC).**
- FMC has since been m**erged with Securities and Exchange Board of India (SEBI)** with effect from 29th September, 2015.
- With the merger of Forward Markets Commission with SEBI, **SEBI regulates commodity derivatives markets** in India since 2015.

Function of SEBI

- Grant of **recognition or withdrawal of recognition** of any association.
- **Observing the forward markets** and taking appropriate action for regulating the Commodity Markets.
- **Collecting & publishing information** relating to trading conditions in respect of goods including information relating to demand, supply and prices.
- **Recommending improvements** in the organization and working of forward markets.
- **Undertaking inspection of books of** account and other documents of recognized/registered associations.

ROLE OF THE EMERGING MARKETS: BRICS

- BRICS refers to Brazil, Russia, India, China, and South Africa, originally **coined as BRIC in 2001 by Jim O'Neil of Goldman Sachs** to highlight key emerging economies.
- Characteristics of BRICS include **large economies, strong growth rates,** and demand for stronger political representation in global governance structures.

- Since 2008, the leaders of Brazil, Russia, India and China - the BRIC countries - **have met annually to discuss issues of global significance.**
- At their **third summit in China in 2011**, the leaders invited South Africa to join, thus becoming the BRICS.
- Each BRICS country has a **distinctive economic characteristic** Russia is a commodity-driven economy, China is a powerhouse of exports, India is a domestic demand-driven economy, Brazil has much developed economic structure and South Africa represents the fast-growing region of Africa.
- The BRICS share of the global Economy in terms of GDP grew **from 11% in 1990 to 25% in 2011.**

BRICS AS NEW STAKEHOLDER IN 21ST CENTURY GLOBAL AGENDA

- The BRICS countries are increasingly taking on a **more prominent role in shaping global policies and governance** due to their high economic growth rates, vast economic potential, and demographic advantages.

- Since their first summit, the BRICS countries (Brazil, Russia, India, China, and South Africa) have emphasized the need for a **multi-polar world order—a global system where power and influence are distributed among multiple natio**ns, rather than being concentrated in a few dominant countries.
- They started to form **a strategic alliance to reform for the 21st century the institutions of global governance** such as the World Bank, International Monetary Fund and the United Nations Security Council that have remained unchanged since **the world war of 1945.**

BRICS NEW DEVELOPMENT BANK (NDB)

- In their last summit in July 2014, BRICS leaders have approved creating the BRICS New Development Bank which would **fund long-term investment in infrastructure and more sustainable development** in the BRICS countries.
- The BRICS bank with an **authorised capital of $100 billion** (about Rs 600,000 crore) as well as a **separate contingency**

reserve arrangement of $100 billion, created jointly by Brazil, Russia, India, China and South Africa.

- The BRICS bank, **like the World Bank**, is expected to fund much needed physical and social infrastructure in the BRICS countries.
- The **contingency reserve arrangement** will act like the IMF, which provides temporary bail-out funds to **economies facing capital flight and currency crisis.**

ROLES AND FUNCTIONS OF PARTICIPANTS IN THE FINANCIAL MARKET

BANKS

- Banks participate in the **capital market and money market**. Within the capital market, banks take active part in bond markets.
- Banks also invest in **equity and mutual funds** as a part of their fund management.

- Banks also participate in the **money market as clearing houses.** Banks also deal in the foreign exchange market by purchasing/selling foreign exchange.

PRIMARY DEALERS (PDs)

- Primary dealers are entities, registered with RBI, who have the license to purchase and sell government securities.
- These entities buy government **securities directly from RBI**, aiming to resell them to other buyers.
- The Primary Dealers system in the government securities market was introduced by the RBI in 1995.

FINANCIAL INSTITUTIONS (FIs)

- Financial Institutions (FIs) provide **long-term funds for various economic activities,** such as infrastructure development, industrial growth, and social projects, helping boost overall economic progress.

- FIs raise their resources primarily by **issuing long-term bonds in the capital markets.**
- FIs also obtain funds through borrowings from **international organizations** like the International Finance Corporation (IFC), Asian Development Bank (ADB) etc.

BROKERS

- Only brokers approved by **Capital Market Regulator can operate on stock exchange.**
- Brokers perform the job of **intermediating between buyers and sellers of securities.** For their services brokers earn a fee known as brokerage.

INVESTMENT BANKERS (MERCHANT BANKERS)

- They assist companies in raising funds **through both equity (shares) and debt (bonds) routes.**
- They **help companies with all the necessary formalities**, including filing documents and ensuring compliance with regulatory bodies.

- Additionally, they advise on various aspects like book building, pricing of the issue, and organizing registrars and bankers to the issue.
- These are agencies/organisations **regulated and licensed by SEBI, the Capital Markets Regulator.**
- They can **underwrite the issue and also function as issue managers.**
- They may also **buy and sell on their own account.**

FOREIGN INSTITUTIONAL INVESTORS (FIIs)

- FiIs are **foreign based funds authorized by Capital Market Regulator** to invest in countries' equity and debt market through stock exchanges.
- Foreign Institutional Investors (FIIs) are allowed to **repatriate (transfer back) the sale proceeds of their investments** from the foreign market to their home countries, subject to certain conditions.

CUSTODIANS

- Custodians are organizations which are **allowed to hold securities on behalf of custome**rs and carry out operations on their behalf.
- They handle **both funds and securities** of Qualified Institutional Borrowers (QIBs), including FIIs.
- **Custodians are supervised by the Capital Market Regulator**. In view of their position and as they handle the payment and settlements.
- Banks are able to play the **role of custodians effectively**. Thus most banks perform the role of custodians.

DEPOSITORIES

- Depositories hold securities in **demat (electronic) form**, maintain accounts of depository participants who, in turn, maintain accounts of their customers.
- They help facilitate the **dematerialization** of physical securities, making trading, settlement, and transfer of securities more efficient and secure.

Q:1 Money market is a financial market where short-term debt instruments are bought and sold. What is the typical maturity period of these instruments?

a) Less than a year
b) Between 1 and 5 years
c) More than 5 years
d) None of the above

Q:2 Which of the following is NOT a money market instrument?

a) Treasury bills
b) Commercial paper
c) Equity Shares
d) Certificate of deposit

Q:3 Capital market deals with long-term debt and equity securities. Which of the following is a capital market instrument?

I. Equity shares
II. Preference shares
III. Debentures

IV. Treasury Bills

a) I, II, and III only
b) I, II, III, and IV
c) I and II only
d) III and IV only

Q:4 Which of the following best describes the foreign exchange market?

a) A market where stocks and bonds are traded
b) A market where short-term debt instruments are bought and sold
c) A market where currencies are exchanged and traded between countries.
d) A market where insurance policies are bought and sold

Q:5 The insurance market deals with insurance policies. Which regulatory body oversees the insurance industry in India?

a) SEBI
b) RBI
c) IRDA
d) AMFI