Money Market Chapter 30 IEIFS

Short-term financial assets with maturity ≤ 1 year

Ensures liquidity and funding for India's economy

Regulated by the Reserve Bank of India (RBI)

The Money Market's Critical Role

Essential Functions

- Bridges investors and short-term borrowers
- Maintains economic liquidity
- Core pillar of India's monetary system
- Facilitates rapid fund movement

How the Money Market Functions

Trade & Industry Funding

Provides working capital for businesses and manufacturing sectors

Government Support

T-Bills

91, 182, 364d

Enables short-term government borrowing programmes

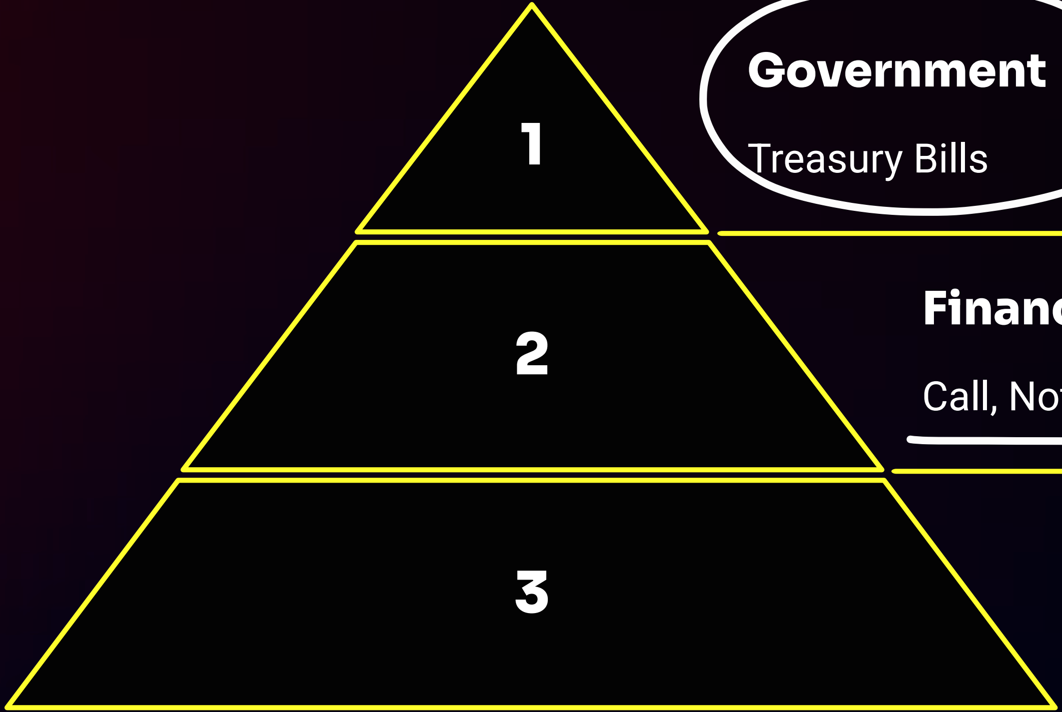
Monetary Policy Tool

Supports RBI in implementing interest rate policies

Economic Stability

Balances fund supply and demand, promoting growth

Money Market Instruments: Three Categories



Government

Treasury Bills

Call money → 1 days

Financial Institutions

Notice → 2 - 14 days

Call, Notice & Term Money

Term → 15 - 1 year

Corporate Entities

Commercial Paper & CDs

Call Money: Overnight Liquidity

1 Day Duration

Shortest-term borrowing available in money market

Interbank Only

Exclusively between scheduled commercial banks

Liquidity Management

Meets immediate cash reserve requirements

Notice Money: Short-Term Flexibility

2- 14days

Day 1

Funds borrowed

1

2

2-14 Days

Flexible term period

3

Repayment

Principal + interest

Provides banks with slightly longer working capital for temporary requirements and seasonal fluctuations

Term Money: Extended Stability

Key Features

- Duration: 15 days to 1 year
- Enables better liquidity planning
- More predictable than call/notice
- Supports medium-term strategies

liquidity ↑ int Rate

Certificate of Deposit (CD)

Negotiable Instrument

Short-term, transferable, issued by banks and financial institutions

Discount Issuance

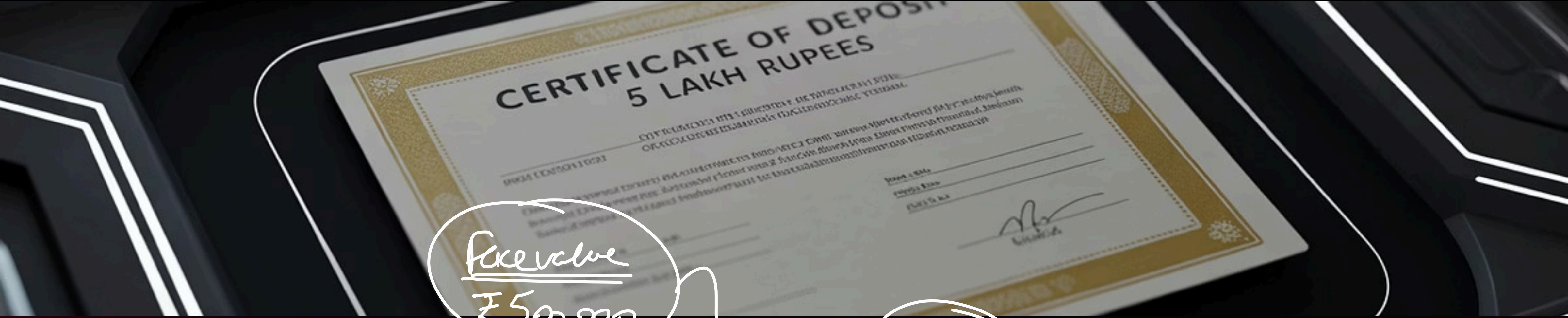
Issued below face value, redeemed at full face value at maturity

Tradeable Security

Can be bought and sold in secondary market before maturity

Investor

Individuals
Corp.
Comp.
Firm
Funds
NRI (non-repatriable



Face value ₹5,00,000

4.75lac

Issued on discount

CD: Technical Specifications

Maturity Periods

- **Banks:** 7 days to 12 months
- **FIs:** Up to 3 years

min - 7 day max. 3 years

Minimum Investment

₹5 lakh minimum

Issued in multiples of ₹5 lakh thereafter

Trading Rules

- Freely transferable
- No premature buyback
- Cannot be used as loan collateral

Treasury Bills: Government Securities

GoI → RBI

Issued at discount

Risk-Free Investment

Government Backed

Issued by Government of India via RBI

Three Maturities

91, 182, and 364 days available

Highest Safety

Zero credit risk, highly liquid

Implicit yield

T-Bills: Auction & Trading

Discount Issuance

Issued below face value; yield represents implicit interest earned

RBI Auctions [price discovery]

Competitive bidding process conducted by Reserve Bank weekly

Electronic Format

Held in dematerialised form via SGL accounts for safety

Secondary Market

Active trading available before maturity date

Demat

Issued by cos.

Commercial Paper: Corporate Funding

What is CP?

RBI

Unsecured promissory note issued by highly-rated companies for short-term funding needs

Issued at discount

Key Characteristics

- Issued in dematerialised form
- Regulated by RBI guidelines
- Market practices by FIMMDA

7days — 12months

CP Eligibility: Who Can Issue?

XYZ — CC/WC

Std

Rs

Eligible Entities

Companies, NBFCs, FIs, trusts, LLPs, and other corporates

Net Worth Requirement

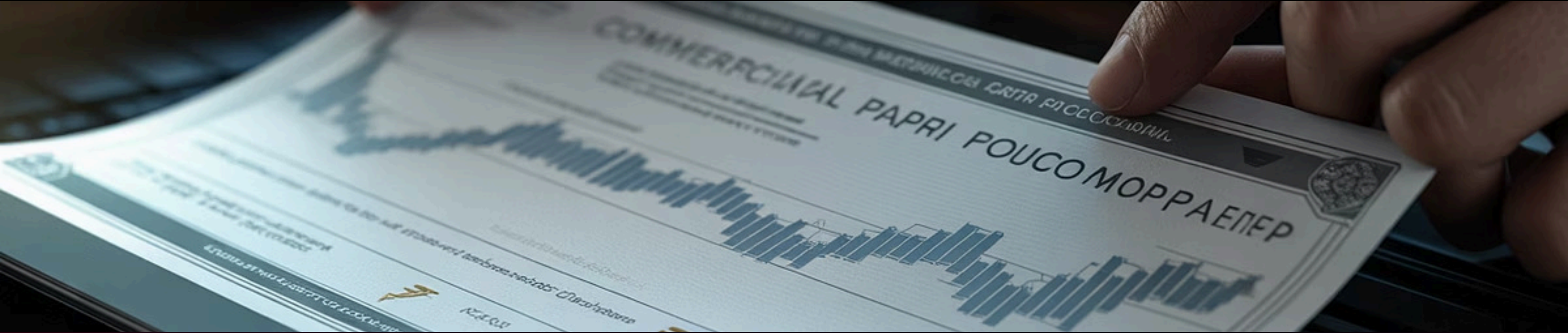
Minimum ₹100 crore tangible net worth mandatory

Asset Quality

Fund-based working capital must be classified as "standard asset"

CP > 1000Cr

CR ⇒ 2 CRA



CP Terms & Conditions

₹5L

Minimum Denomination

Issued in multiples of ₹5 lakh

7-365

Maturity Range

Days from issue (within rating validity)

<100%

Discount Pricing

Issued below face value

CP: Rating & Secondary Trading

Issue Amt > 1000Cr

Credit Rating Mandate

- **Two Ratings Required**

  From SEBI-registered agencies

- **Minimum Grade: A3**

  Ensures creditworthiness standards

CRA SEBI registered

Trading Requirements

- **OTC Reporting** FMTR-CP

  Within 15 minutes of trade

- **Buyback Allowed**

  After 30 days from issuance

Repurchase offer

securities

110

ABC Bank

XYZ Bank

Int

₹100

Repo Transactions Explained

01

Sale of Securities

Bank sells government securities to another party

02

Agreement to Repurchase

Seller commits to buy back at predetermined price and date

03

Term Period

Duration ranges from 1 day (overnight) to 1 year

04

Secured Borrowing

Collateralised by government securities held by lender

Benefits of Repo Transactions

Secured Liquidity

Collateral-backed lending reduces counterparty risk significantly compared to unsecured borrowing

Interest Earnings

Lender earns repo rate interest whilst holding government securities as security

₹110 ⟶ ₹100

5% Haircut Protection

Securities valued at 95% ensures safety margin against market fluctuations

Liquidity Adjustment Facility (LAF)

RBI's Primary Liquidity Management Tool

funds

Banks SGL RBI

Repo: Liquidity Infusion

Injection

RBI lends money to banks against government securities

Increases money supply in the system

Reverse Repo: Liquidity Absorption

RBI borrows money from banks against government securities

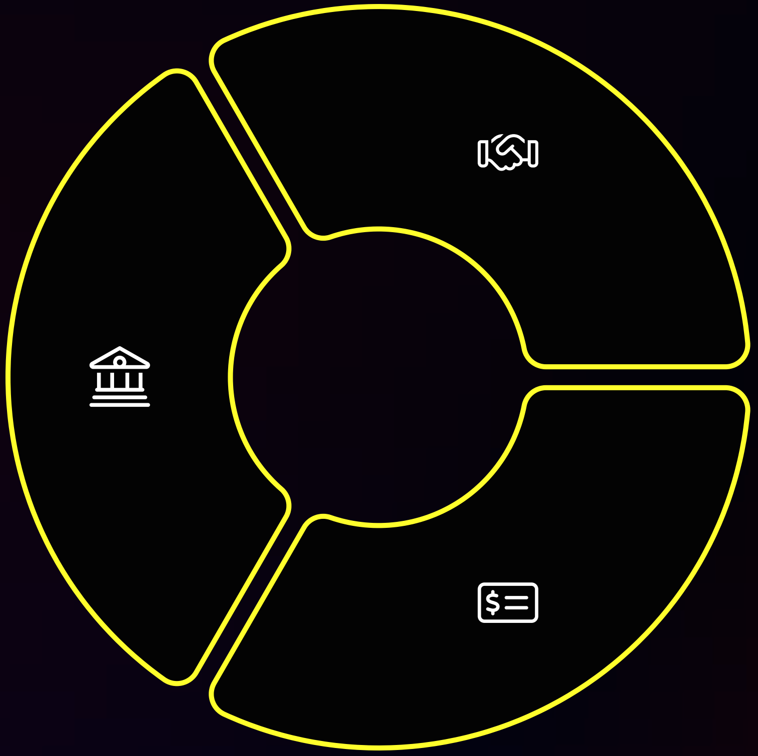
Decreases money supply in the system

Tri-Party Repo: Enhanced Security

Surplus funds

Lender Bank

Provides funds and receives securities as collateral



Tri-Party Agent

Independent intermediary managing collateral and settlements

Secure

Borrower Bank

Receives funds by pledging government securities

Reduces settlement risk, ensures transparency, and automates collateral management throughout transaction lifecycle

Bill Rediscounting & Settlement Systems

NDS

BRDS Mechanism

Rediscounting of commercial bills already discounted by banks

Provides additional liquidity to banking system

NDS Call Platform

Electronic platform operated by RBI for call/notice/term money transactions

Settlement Infrastructure

RTGS: Real-time gross settlement for large-value transactions

CCIL: Clearing Corporation acts as central counterparty