Chapter – 1
Financial System

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1.1 Introduction

The finance is considered as heart and blood of organization. Organization needs fund for various activities. The major source of finance depends upon the financial system of country. Every country is dependent on other county for some aspect. The multinational Firm has started its operation in various countries. The organization has started to find out the various sources of finance. The firm has started analyzing the various options available to increase the finance from other country. Generally it is observed that to meet the working capital requirement business need short term fund which can be raised through money market instrument and the long term fund which is require for growth purpose can be raised through capital market instrument.\(^1\)/\(^2\)

Chart – 1.1
A Chart Showing International Financial Market

1.2 International Capital Market

International capital market is that world financial center where shares, bonds, debentures, currencies, hedge funds, mutual funds and other long term

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securities are purchased and sold. International capital market is the group of different country’s capital market. The business organization in one country can increase the fund from dissimilar country through various instruments. The instrument depends upon the necessity of funds, regulatory constraint forced by country and cost of source of capital.

**Chart – 1.2**

A Chart Showing International Capital Market

1.2.1 International Equity Market

The International Equity Market provides platform for organization to raise the funds through issue of equity linked instruments in foreign market. The equity instruments issued by the organization are subject to various regulations of both countries. The funds raised through equity instruments are considered as Foreign Direct Investment. FDI can be defined as capital investment made by Non-resident in

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3 Compiled from Makkar, R. and Yadav, H.N. (2012), Strategic Financial Management, Carvinowledge Press, New Delhi, p. 984

4 Compiled Nanavati, N. and Mansuri, K. (2012), International Finance, Kumar Prakashan, Ahmedabad, pp.72-73, 95
any resident entity. The funds from International equity market can be raised through International Equities or Euro Equities, it does not represent the debt rather its represent foreign direct investment. It discusses the benefit of multiple listing of companies.5

1.2.1.1 Foreign Equity

Foreign equity means equity shares or equity linked instruments like ADRs or GDRs or IDRs. These equity instruments are generally issued to only international markets, it means without simultaneously offering in two different countries or it may issue the same inform off depositary receipt. The Foreign Equity investor may be either FDI or Portfolio Investment. The Foreign Investment may be through establishment of wholly owned subsidiary or inform of joint venture. The investment may be made by one or the other individual or Multinational Corporation.6

1.2.1.2 Euro Equity

Euro equity is a term used to describe an initial public offer occurring simultaneously in two different countries. In this type of issue the shares of company are listed in various countries rather than where the company is based. Here the shares are not listed in home country but are listed country other than home country. This method differs from cross listing. Euro-equity issue is the simultaneous sale of a firm’s shares in several different countries, with or without listing the shares on an exchange in that country. Under this issue the sales take place through investment banks. Euro-equity is issued as IPO only.

1.2.2 International Bond Market

There are two sources to raise the fund from international market. One is owner’s fund that means equity linked instrument and other is borrowed fund that means debt linked fund. The equity market provides platform to raise the fund from international market while the bond market provides the option to raise the borrowed

5 Nanavati, N. and Mansuri, K. (2012), International Finance, Kumar Prakashan, Ahmedabad, pp. 70-73

funds from international market. Generally the organization selects the bond market because to raise the funds from bond market is easier as compared to equity market.\textsuperscript{7/8}

1.2.2.1 Foreign Bond

The foreign bonds are the instrument issued by the issuer to borrow foreign currency internationally. The foreign issuer selects the foreign financial market where the bonds are issued in the currency of that country. The issuer generally obtains the underwrite facility from home country that means the foreign bonds are underwritten by the underwriters of country where they are issued. The Foreign bonds are abided by the rules and regulation of country where they are issued.

1.2.2.2 Euro Bond:

The Euro bonds are the instrument issued by the issuer to borrow foreign currency internationally. The foreign issuer selects the foreign financial market where the bonds are issued. However in these types of bonds, the bonds are denominated in the currency other than country in which they are issued. The Euro bonds are not abided by the rules and regulation of country where they are issued. These types of bonds are generally highly liquid.\textsuperscript{9}

1.2.2.3 Global Bonds

The foreign bonds and euro bonds are means to raise the currency of different country while these bonds are generally issued in several countries at the same time. These types of bonds are first issued by World Bank in the year 1990. These bonds then after become famous in issuer and many MNCs, Government and other issuer has started to issue these types of bonds. These bonds serve as low cost instrument to borrow foreign currency. They are traded on “Home Market” basis in different regions.

\textsuperscript{9} Makkar, R. and Yadav, H.N. (2012), Strategic Financial Management, Carvinoknowledge Press, New Delhi, p. 985-987
1.2.2.4 Straight Bonds

The organization can raise the foreign currency by way of issue of bonds. The straight bonds are one of the types of the bonds that help the organization to raise the foreign funds. These type of bonds are traditional bonds in which the rate of interest is fixed. This interest rate is known as “Coupon rate”. The maturity term of these bonds is longer than any other bonds; it may be up to 30 years. The types of straight bonds are, Bullet Redemption Bonds, Rising Coupon Bonds, Zero Coupon Bonds, Currency Option Bonds, Bull and Bear Bonds and Debt Warrant Bonds.

1.2.2.5 Floating Rate Bonds

The floating rate notes are one of the important types of international bonds. Under this type of bond the rate of interest is not fixed. They rate of interest is floating and keeps on changing. That’s the reason why these types of bonds are known as Floating Rate Note. These types of bonds are first issued by Italy in 1970. The interest rate is generally based on some benchmark rate. The LIBOR rate is fixed as benchmark rate and the rate of interest is quoted as premium or discount with reference to it. And it is revised periodically. These types of bonds are traded over the counter instead of stock exchange.

1.2.2.6 Convertible Bonds

The convertible bonds also one of the attractive bonds available with issuer. These types of bonds give the option of conversion to investor. The bonds are convertible into equity share later on. These types of bonds command a comparatively high market value because of its convertibility options. Majorly the issuer issue either Convertible bonds with Detachable Bonds or Automatic Convertible Bonds. Generally it is said that these types of bonds are beneficial for both investors and issuer. The market value of the convertible bonds would normally be higher than the greater of the conversion and investment values.\(^\text{10}\)

1.2.2.7 Cocktail Bonds

Another type of bond is Cocktail bonds. It is also known as mixture bonds. In this type of bonds, the bonds are denominated in currency basket. The bonds represent

the weightage average of currency. This type of bond provides currency diversification benefits to investor. Investment in international bonds is always subject to currency risks which arise from the fluctuation of currency. But in this type of bonds depreciation in one currency can be set off by appreciation in other currency.

1.3 International Money Market

The funding requirement of the organization decides the sources of capital. Generally the long term requirement may be satisfied by capital market and on the other hand short term requirement may be satisfied by money market. The international money market is the market that handles the international currency transactions between the various central banks of the nations. International Money Market is the Market where the organization of one county can raise fund through various international money market instruments and investor of country can invest in the security of organization of other country for short term.11

Chart – 1.3

A Chart Showing International Money Market Instruments

11 Compiled Nanavati, N. and Mansuri, K. (2012), International Finance, Kumar Prakashan, Ahmedabad, pp.78-83
1.3.1 EURO-Notes

One of the important instruments to raise the funds from the international money market is EURO-Notes. EURO-Notes are promissory notes issued by organizations to obtain short term funds. The first EURO-Note was issued in early 1980s. EURO-Notes are denominated in any currency other than currency of country where they are issued. It is one of the most preferable instruments by the investors because of its short term maturity feature. EURO-Note is standardized and documentation compliances are less under this issue.

1.3.2 EURO-Commercial Paper\textsuperscript{12}

Another attractive instrument in international money markets is EURO-Commercial Paper. The EURO-Commercial Paper is issued by those organizations which are highly rated organizations. EURO-Commercial paper is issued at discount and redeemed at par or they are interest bearing security. It is not issued in the currency of the county in which they are issued. They are mostly denominated in US dollar and they differs from US government’s commercial paper. The detailed features of EURO-Commercial paper differ from county to country. ECPs are issued through placement agent. And they are generally not underwritten as they are issued by highly rated company. On maturity they are settled at clearing house within 2 days.

1.3.3 Medium Term Euro-Notes

Organization may require funds for period which is more than short term and less than long term. This funding requires for medium term. The maturity ranges of Medium term Euro notes is generally higher than simple Euro Notes. The Maturity period ranging from five year to seven years and they are allowed to roll over. They are carrying fixed rate of interest and are not underwritten. Euro-MTNs have become a very popular means of raising medium term funds since they were first introduced in 1986.\textsuperscript{13}


1.3.4 EURO-Time Deposits

The EURO-Time Deposit market is considered as core of International Money Market. It has been emerged as short term deposits and loan market. Under this market banks acted as intermediaries between borrower and investors. The EURO-Time Deposit is “non-negotiable registered instrument with limited and fixed maturity period issued by issuer to raise short term funds.” In EURO-Time Deposits the investors commits funds for certain period of time at specified rate. On the date of maturity they receive sum equals to principal along with interest.

1.3.5 EURO-Credit

This is also one of the short term fund resources. It represents the medium terms loans of EURO-Currency extended by EURO-Banks to corporations, government agencies or other international organization. This EURO-credit is series of short term loans, where at the end of each period the loan is rolled over and base lending interest rate is re-priced to current LIBOR. The EURO credit loans are denominated in the currency other than home currency of EURO banks. Many times banks collectively grant the loan and share the risk. Generally, these loans carrying fixed rate of interest based on the LIBOR, many times the fluctuation rates are also preferred.

1.4 Derivatives Market\(^4\)

Derivatives means Forward, Future or Option contract of pre-determined fixed duration, linked for the purpose of contract fulfilment to the value of specified real or financial asset or to the index of securities. The international financial market allows the issuer to raise the funds from foreign market. The issuer can raise the funds in foreign currency. The funds may be in form of equity or may be in form of debt. In case of equity instrument the amount raised is not required to be repaid except in case of winding-up while on the other hand amount rose through debt instrument is required to be repaid on maturity. Here the transaction takes place in foreign currency. The foreign exchange transaction is always subject to various risks like credit risk,

\(^4\) Management Accounting and Financial Analysis, (2006), The Institute of Chartered Accountants of India, P.16.27-16.28
default risk, currency risk etc. The currency risk can be controlled by various actions. One of the known and accepted actions is Derivative Contracts. Derivatives can be defined as product whose value is derived from value of one or more basis variable called underlying asset, in contractual manner. The derivative Market Participants are generally Hedgers, Speculators and Arbitrageurs. The trading in the Derivative market is may be either OTC or may be exchange traded derivative.

1.4.1 **Forward**

A forward contract or simply a forward is non-standardizes contract between two parties to buy or sell an asset at a specified future time at price agreed upon today. Forward contracts are contracts under which one party agrees to exchange foreign currency at future date at pre-decided price. Under this contract the future currency exchange is determined in advance.\(^\text{16}\)

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1.4.2 Future

Futures contracts are special types of forward contracts in the sense that they are standardized and are generally traded on an exchange. Future contract is also used to hedge foreign exchange risk. Under future contract also the future exchange rates are fixed. These contracts are in fixed volume and not as per requirement of client. These contracts are negotiated at future exchange. Generally this contract is also related with forward contract.

1.4.3 Options

It can be defined as an option is contract that gives the holder a right, without any obligation, to buy or sell an asset at an agreed price on or before a specified period of time. An Option is a claim without any liability. It is a claim contingent upon the occurrence of certain conditions so it a contingent claims. There are two types of options contract.

1.4.3.1 Call Options

Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date.

1.4.3.2 Put Options

Puts give the buyer the right, but not the obligation to sell a given quality of the underlying asset at a given price on or before a given date.

1.4.4 Warrants

Warrants is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiry date. Warrants are frequently attached to bonds or preferred stock as a sweetener, allowing the issuer to pay lower interest rates or dividends. If the warrant holder wants to exercise warrant than he need to informs the issuer their intention to purchase the shares underlying the warrant. Generally warrants are longer dated options and traded over-the-counter.

1.4.5 Swaps

A Swap is a derivative in which counter-parties exchange cash flows of one party’s financial instruments for those of the party’s financial instrument. The swap transaction allows the party to exchange the risky cash flow with either less risky or risk free cash flow. Swaps can be used to hedge certain risk such as interest risk or currency risk etc. SWAP contracts may be

1.4.5.1 Interest Rate SWAP

Under this type of contract the cash flow on account of interest payment is exchanged. These entail swapping only the interest related cash flows between the parties in the same currency.\(^{19}\)

1.4.5.2 Currency Rate SWAP

Under this type of contract the cash flow on account of entire payment. These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than those in the opposite direction.\(^{20}\)

1.4.6 LEAPS

LEAPS are publically traded options contracts with expiration dates that are longer than one year. Generally the maturity period is one to three year. LEAPS stands for long term equity anticipations securities. They are available in two parts CALL and PUT.

1.4.7 Baskets

BASKET options are options on portfolios of underlying assets. Generally BASKET derivatives referred as mixture of all other types of derivative contracts. The underlying assets are usually a moving average of a BASKET of assets. Equity index option is a form of basket option.


1.5 INDIAN FINANCIAL SYSTEM: AN OVERVIEW

In a broad sense, finance refers to funds or monetary resources required by individuals and the government to purchase all types of assets and securities. In the term financial system the word ‘system’ implies a set of complex and closely connected or intermix institutions, agents, markets, transactions, practices, claims and liabilities in the economy. In a modern economy, finance may be defined as the provisions of money at the time when it is wanted. Today finance is the life blood of all business, trade and commerce. In the competitive environment, the ambitious plans of a businessman would remain mere dreams unless adequate money is available to convert them in to reality. In short, a financial system may be defined as a set of institutions, instruments and markets which foster savings and channels them to their most efficient use. The system consists of markets, individuals or savers, intermediaries and users of savings. In the present global context economic activity and growth are facilitated by the existence of financial system developed in terms of efficiency of the markets in mobilizing savings. The functions performed by the financial market are 21,

1.5.1 The Saving Function
As we know the public saving find their way into the hands of those in production through the financial system. Financial claims are issued in the money and capital markets which promise future income flows.

1.5.2 Liquidity Function
Money in the form of deposits offers the least risk, of all financial instruments. But its value is most eroded by inflation. That’s why one always prefers to store the funds in financial instruments like stock, bonds, debentures, etc. The financial market provides the investors with the opportunity to liquidate the investments.

1.5.3 Payment Function
The financial system offers a very convenient mode of payment for goods and services. The cheque system, credit card system is easiest methods of payments in the economy. The cost and time of transactions are drastically reduced.

1.5.4 Risk Function

The financial market provides protection against life, health and income risk. These are accomplished through the sale of life and health insurance and property insurance. The financial market provides immense opportunities for the investor to hedge himself against possible risk involved in various investment.

1.5.5 Policy Function

India is mixed economy. The government intervenes in the financial system to influence macroeconomic variable like interest rates or inflation. Modern day economy requires huge sums of money for investment in capital assets. Which are then used for providing goods and services. The funds required are so huge that it is not possible for a single government or firm to provide for such requirement. So different policies are formed to regulate and control such financial requirements.
CHART 1.5
FINANCIAL SYSTEM

Financial Institutions
- Regulatory Viz. RBI, SEBI
- Intermediaries

Financial Markets
- Organized
- Unorganized
- Term

Financial Instruments (Claims, Securities)
- Type
- Depositories
- Custodian
- Factoring
- Forfaiting
- Merchant Banking

Banking
- Non-Banking Viz. UTI, LIC, GIC etc.

Financial Instruments
- Short term
- Medium term
- Long term

Primary Market
- Equity shares
- Preference Shares

Secondary Market
- Debt and Various Combination
- Time Deposits
- Mutual Fund units
- Insurance Policy

CHART 1.6
INDIAN FINANCIAL SYSTE

Indian Financial System

Money Market
- Banking Money Market
  - Organised Banking Sector
  - Unorganised Banking Sector
- Short Term Credit Market
  - Organised
  - Unorganised
- Commercial Papers
  - Call Money Market
  - Short Term Bill Market
  - Certificate of Deposit
  - 1 & 2 Days Treasury Bills
  - Treasury Bills

Capital Market
- Gilt-Edged Market
- Industrial Securities Market
- New Issue Market
- Stock Exchange
- Development Financial Institution
- Financial Intermediaries
  - Merchant Bank
  - Mutual Fund
  - Leasing Companies etc.
  - IFCI
  - ICICI
  - SIDBI
  - UTI etc.
1.6 Money Market

A money market may be defined as the market for lending and borrowing short term funds. It is a place where the short term surplus investible funds at the disposal of banks and other financial institutions are bid by borrowers’ individuals, companies and the government. In the words of the Reserve Bank of India, a money market is, “A centre for dealings, mainly of a short term character, in monetary assets; it meets the short term requirements of the borrowings and provides liquidity or cash to lenders. It is the place where short term surplus investible funds at the disposal of the financial and the other institutions and individuals are bid by borrowers, other comprising institutions and individuals and also by the Government.”

Most major economic entities whether corporate bodies, government bodies or financial institutions face regular and recurring problems of liquidity management. It is the money market which helps them to tackle this problem. If the problem is that of cash outflow in excess of cash receipts, the deficit is met by borrowing from the money market and if the problem is that of a temporary cash inflow that the entity does not want to commit on a long term basis, the surplus can be deployed in the money market.

1.6.1 Treasury Bills

T-bills are classified depending on the period of maturity as 91-days to 364-days T-bills. Dated Government Securities (DGS) have a maturity period of over one year. Accordingly, only those DGS that are maturing within a year are included as part of the money market. In addition to the outright sale and purchase of securities, transactions involving lending and borrowing of securities also take place. T-bills are short term instruments issued by RBI on behalf of Government of India.

1.6.2 Call Money

In order to fulfill CRR requirements or to meet large cash withdrawals, banks have to often borrow short-term funds. These transactions constitute on short

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notice- the maturity period varying from 1 to 14 days. While banks can borrow as well as lend in call money market, financial institutions and mutual funds (both public and private) are only allowed to lend. In addition, corporate with a net surplus of over 20 crores are also allowed to lend money through DFHI. As the participants are mostly banks, it is called inter-bank call money market. Financial institutions such as LIC, GIC, UTI, NABARD etc. participates as lenders. DFHI and STCI operate as borrowers and lenders in this market.\footnote{Sheth, M.L. (2010), Money, Banking, International Trade and Public Finance, Lakshmi Narain Agarwal Education Publishers, Agra, pp. 276-277}

1.6.3 Commercial paper

Commercial paper is short-fund raising instrument used by corporate to meet their working capital requirements. These are negotiable instruments and have associated costs in stamp duty and fees to be paid to credit agencies who rate the credit-worthiness of the firm. The return on CPs is commensurate with the risk as ascertained by the credit rating agencies. Companies with a minimum net worth of Rs. 4 crores and minimum working capital of Rs. 4 crors are eligible to issue CPs. CPs have minimum maturity period of 15 days and a maximum of 1 years. They can be issued in multiples of Rs. 25 lakhs and for minimum issue size of Rs. 1 crore.\footnote{Vaish, M.C. (1991), Money, Banking, Trade and Public Finance, Wiley Eastern Limited, New Delhi, p. 306}

1.6.4 Bill Discounting

Bills are instruments issued by buyers of goods and services to sellers who can then sell them to banks at a discount to the face value. These bills typically have a maturity period of 90 days. If the bank needs money before the maturity of the bill, it can get the bill rediscouned with another bank on with the RBI.

1.6.5 PSU Bonds

Public Sector Unit (PSU) Bonds are secured redeemable bonds issued by Public Sector Corporations like Konkan Railway Corporation, Mahanagar Telephone Nigam Ltd. etc. As these are not guaranteed by the Government they do not have quality of SLR requirements. Investments in these Bonds are made by Financial Institution and Commercial Banks.
1.6.6 Certificate of Deposit

The RBI introduced the certificate of deposit in March, 1989 “to widen the range of money market instruments and to give investors great flexibility in the deployment of their short-term surplus funds”. A Certificate of Deposit is a front-ended negotiable term deposit certificate issued by Commercial Banks to bull depositors at market related rates. CD’s are issued by banks and financial institutions mainly for increasing their resources and lending capacities. The maturity period for a CD’s cannot be less than 90 days or more than 365 days.\textsuperscript{27}

1.7  **Capital Market**

Capital Market provides the resources needed by medium and large scale industries for investment purposes. It functions as institutional mechanism to channel long term funds from those who save to those who need them for productive purposes. The Capital Market consists of the primary market and the secondary market. The Primary market creates long term instruments through which corporate entities acquire funds, but secondary market is the one which provides liquidity and marketability to these instruments. The primary market facilitates the formation of capital. During the last 20 years or so, the capital market in India has witnessed growth in volume of funds as well as of transactions. The capital market in India is one of the emerging and promising capital markets of the world.\(^ {28}\)

The capital market usually consist of the following long term period i.e. more than one year period, financial instruments; in the equity segment equity shares, preference shares, convertible preferences shares, non-convertible preference shares etc. and in the debt segment Debenture, zero coupon bonds, deep discount bonds etc. Hybrid instruments have both the features of equity and debentures. This kind of instruments is called as hybrid instruments. Examples are convertible debentures, warrants etc.

1.7.1  **New issue Market:**

The primary market refers to the set-up which helps the industry to raise funds by issuing different types of securities. These securities are issued directly to the investors (both individuals as well as institutional).\(^ {29}\) A Company can raise its capital through issue of shares and debentures by means of Public Issues, Right Issues, Bonus Issues and Private Placement.

1.7.1.1  **Public Issues:** It is the most commonly adopted method of raising Capital direct from the public. The company issues shares or debentures for the general public and collect necessary funds.

\(^ {28}\) Rustagi, R.P. (2005), Investment Management-Theory and Practice, Sultan Chand & Sons, New Delhi, p. 272

\(^ {29}\) ibid
1.7.1.2 **Right Issues:** Is the method of raising capital from existing shareholders by offering additional securities on pro-rata basis. A company proposing to issue securities on right basis has to send a “letter of offer” to all existing shareholders specifying clearly the rate at which it is issued and the purpose for which the issue amount is going to be utilized.

1.7.1.3 **Bonus Issue:** Some companies issue ‘Bonus Shares” to its existing shareholders when the accumulated profits are very high. The shareholders don’t have to make any payments for these shares. But there are certain restrictions on the issue of bonus shares.

1.7.1.4 **Private Placement:** It is a way of selling securities privately to a small group of sophisticated investors like UTI, LIC, GIC, etc. Private companies who don’t wish to disclose information to the public seek this type of market. Small public companies also resort to private placement to avoid high cost of public issue.

1.7.2 **Stock Exchange**

A stock Exchange has been described as the mart of the world, the nerve centre of politics and finances of a nations, the barometer of its prosperity and adversity. Its forms and important part of the financial mechanism of the modern state and simulates the flow of funds into the industry. One of the most important functions of a financial market is giving an opportunity for the investor to sell securities, whenever he wants to do. If the company’s securities are listed in stock market of the country, these securities will be bought and sold by person widely scattered all over the country. It provides necessary mobility to capital and directs the flow of capital in to profitable and successful enterprise. It possesses enough business information which would enlighten the people about the economic health of trade and industry. As has been noted, secondary markets are the markets where outstanding, previously issued securities are traded. By far the most active market- and the one of most importance to financial managers- is the stock market.30

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1.7.3 Gilt – Edged Securities

Government Securities are referred to as Gilt – Edged Securities. Gilt Edged Securities imply “security of the best quality”, therefore these include all loans floated or guaranteed by the Government. In terms of redemption GES can be classified into three categories viz. short dated securities with a maturity period less than 5 years, medium dated securities with a maturity period of 5 to 10 years and long dated securities with a maturity period of more than 10 years. Being entirely risk-free, these securities carry lower interest rates than any other capital market or money market instruments. Banks are the major investors in these securities. The other participants are financial institutions, corporate and the RBI (for open market operations).

1.7.4 Merchant Banking

A Merchant Bank is an organization that underwrites corporate securities and advises clients on matters like public issue, mergers and amalgamations etc. involved in the ownership of commercial ventures. The need for the specialized Merchant Banking services for management of public issue is felt with the rapid growth in number and the size of issues made in the primary market. Their need is also felt in mobilizing funds from the public. Merchant Bankers can play a significant role in mobilizing funds from savers to invest in organizations where the investors can also get a higher rate of return.31

1.7.5 Mutual Fund

A mutual fund is a financial intermediary which acts as an instrument of investment. It collects funds from different investors to a common pool of investible funds and then invests these funds in a wide variety of investments opportunities. The investment may be diversified to spread risk and to ensure a good return to the investors. The mutual funds companies employ professionals, experts and investment consultants to conduct the investment analysis and then to select the portfolio of securities where the funds are to be invested. The small investors, who are

unable to participate in capital market, can access the stock market through the medium of mutual funds.\textsuperscript{32}

1.7.6 Leasing Companies

Lease can be defined as a right to use equipment or capital goods on payment of periodical amount. This may broadly be equated to an installment credit being extended to the person using the asset by the owner of capital goods with small variation. There are two parties to any lease transaction. Lessor is actual owner of equipment and lessee who acquire the right to use the equipment on payment of periodical amount. Lease financing is 100% financing and no payment of margin money or down payment are involved. Lessor is allowed to claim depreciation and Lessee is allowed to claim tax benefit on rental and maintenance cost if any.

References: