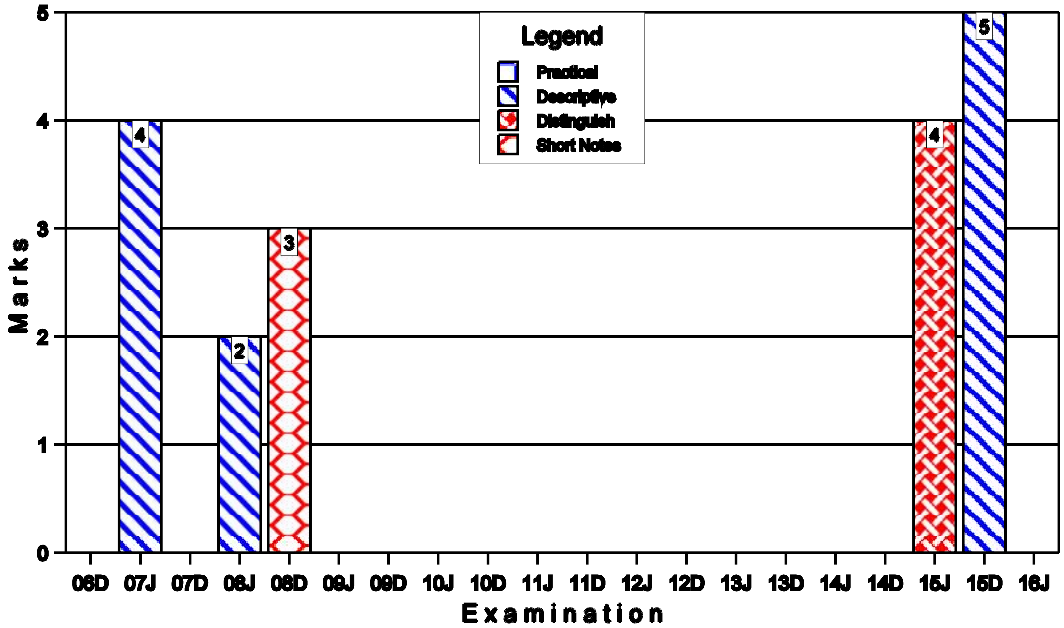
1 Agents in Financial Markets

This Chapter Includes: Financial System; RBI Banking Institutions; SEBI, NBFC Insurance Pension Plans.

Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



SHORT NOTES

2008 - Dec [4] (a) Write short note on the following:

(ii) Services of Merchant Banks. (3 marks)

Answer:

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* Questions of June - 2008 are from CS Inter Gr. II Old Course and from Dec -2008 and June 2009 onwards are from CMA Gr. III New Course.

Merchant banker may be defined as 'an institution which covers a wide range of activities such as management of customer, portfolio management, insurance, advisor or consultant etc.'

The services are many, most of them are given below:

1. Corporate counseling and Project counseling;
2. Loan management;
3. Portfolio management;
4. Managers, advisors and consultants to the issue;
5. Issue management; prospectus, marketing, pricing, post issue matters;
6. Mergers, acquisitions and takeovers as advisors and consultants
   Student may add his own point here.

DISTINGUISH BETWEEN

2015 - June [2] (c) (II) What are the differences between Merchant Banks and Commercial Banks? (4 marks)

Answer:

The differences between merchant banks and commercial banks are:

(i) Commercial banks do banking business i.e.,accept deposits and use deposits for giving loan but merchant bank work as consultancy type business i.e., helps in issue of management in issue of shares etc.

(ii) The nature of loan given by commercial bank is debt related but loan given by merchant bank is equity related.

(iii) Commercial bank does not take any risk of client but merchant bank takes risk of client.

(iv) Commercial bank acts as a financer but merchant bank acts as a financial advisor.

(v) Commercial Banks are regulated by the Banking Regulation Act, 1949 and are under the control of RBI whereas merchant banks are governed by rules and regulations framed by SEBI.

(vi) Commercial banks do mass banking with general public but merchant bank deals with a class of selected clients.

DESCRIPTIVE QUESTIONS

2007 - June [3] (a) Describe the objectives of constituting SEBI and state the composition of the SEBI Board. (4 marks)

Answer:

The preamble of the SEBI Act reads as follows:

"An Act to provide for the establishment of a Board (i.e. SEBI Board)to protect the interests of investors in securities and to promote the development of and to regulate, the securities market and for matters connected therewith and incidental thereto.''

The objectives of the SEBI Act are as follows:

1. Protection of the interests of investors in securities.
2. Promoting orderly and healthy growth of the securities market.
3. Regulation of the securities market and other incidental matters.
4. Promoting the fair dealings by the issuer of securities and ensuring a market place where they can raise funds at a relatively low cost.
5. Regulating and developing a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc. with a view to making them more competitive and professional.
6. Monitoring the activities of stock exchanges, mutual funds and merchant bankers.

Composition of the SEBI Board:

The SEBI consists of the following members:

1. A Chairman to be appointed by Central Government;
2. Two members to be nominated by Central Government;
3. One member to be nominated by the RBI;
4. Five other members of whom at least three shall be whole time members to be appointed by the Central Government.

2008 - June [5] (b) Briefly comment on the following statement:

(iii) SEBI has taken a number of steps to improve the working of the stock exchanges. (2 marks)

Answer:

SEBI has taken several steps for improving the performance, efficiency and efficacy of primary and secondary markets. It has issued various circulars, guidelines, instructions on various aspects of primary and secondary market.

It has also made several disclosures mandatory for the listed companies so as to inform the investor adequately for taking prudent decision regarding his investment. SEBI has also issued Investor Education Guide' which contains briefly the risk of corporate investment, investors rights and responsibilities, basics of trading in securities, transfer and transmission of securities, investor grievance cell, depository and its role, demat and remat of securities etc. All these steps and other steps have made the market more efficient.

2015 - Dec [1] (a) List two direct instruments and two indirect instruments used by RBI in the implementation of its monetary policy. (2 marks)

Answer:

Direct Instruments:

Cash Reserve Ratio (CRR): The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank.

Statutory Liquidity Ratio (SLR): The share of net demand and time liabilities that banks must maintain in safe and liquid assets, such as government securities, cash and gold.

Indirect Instruments:

Liquidity Adjustment Facility (LAF): Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

Open Market Operations (OMO): Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

2015 - Dec [2] (b) (II) What is the principal business of the following entities?

(i) Asset Finance Company (AFC)
(ii) Investment Company (IC)
(iii) Infrastructure Debt Fund-NBFC (IDF-NBFC) (3 marks)

Answer:

(i) **Asset Finance Company (AFC):** An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

(ii) **Investment Company (IC):** IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

(iii) **Infrastructure Debt Fund:** Non-Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.