Marks : 40	SYJC Feb' 19 Subject : Secretarial Practice Chapter – 11 & 12	Duration : 1.5 hours SET - A SOLUTION

Q.1 Fill in the blanks **(10)**

1) The market that provides short term funds is **money** market.
2) The market which is also known as the government securities market is **gilt edged** market.
3) A market where existing securities are resold or traded is called **secondary** market.
4) In money market, funds are treated for maximum period of **1** years.
5) The liquidity is **High** in case of Commercial bills.
6) The trading system on BSE is known as **BOLT**.
7) Stock exchange is a place where **securities** are bought and sold.
8) In India, Bull is also known as **tejiwala.**
9) An institution regulates and controls the activities of stock exchange is called **SEBI**.
10) BSE was established in **1875** .

Q.2 Match the pairs **(10)**

GROUP A	GROUP B
a) Treasury Bill	1) Primary market
b) Commercial bills	2) Long term credit
c) New issue	3) Mobilization of funds
d) Stock Exchange	4) Promissory note
e) Financial Market	5) Short term credit
f) SEBI	6) Secondary market
g) Stock Exchange	7) Central Government
h) BOLT	8) Deals only with brokers
i) BEAR	9) New banking institution
	10) Mutual funds
	11) Sensex
	12) Primary market
	13) Auction
	14) Screen Based Trading
	15) Optimistic about rise in price of securities
	16) Pessimistic about fall in price of securities
	17) Secondary market
	18) Machinery regulating stock exchange

Ans :- (a) – 4, (b) – 5, (c) – 1, (d) – 6, (e) – 3, (f) – 18, (g) – 17, (h) – 14, (i) – 16

Q.3 Answer the following (Any Four) **(20)**

1) Define Money Market and explain its features.

Ans: MEANING

A market where short term funds are borrowed and lent is called 'money market'. It is a market for financial assets that are close substitutes for money. The instruments dealt with in the market are liquid and can be converted quickly into cash at low' transaction cost.

FEATURES

The **features** of money market are as follows:

a) No Fixed Place for Trading of Securities/Shares:
- In money market, there is no definite place to carry out lending and borrowing operations of the securities or shares.

b) Involvement of Brokers:
- Dealings in such market can be conducted with or without the participation of brokers.
- Companies, banks, etc. may directly deal in money market.

c) Financial Assets:
- The financial assets that are dealt in the money market are close substitutes for money as these assets can be easily converted into cash without any loss in value.

d) Organizations Involved:
- The main organizations dealing in money market in India are Reserve Bank of India (RBI), State governments, banks, corporate investors etc.

e) Nature of the Market:
- It is not a single market but a collection of markets for different instruments such as commercial bills, commercial papers, certificates of deposits, government securities etc.

f) Term of Finance:
- The funds can be borrowed or lent for a maximum period of one year.

g) Source of Short Term Funds:
- Money market provides a place or a system whereby short term (for a period of less than one year) funds can be easily borrowed or lent.

2) Distinction between Money Market and Capital Market.

Ans :

NO.	Points	Money market	Capital market
1	Meaning	A market where short term funds are borrowed and lend.	A market for borrowing and lending long term capital required by business enterprise.
2	Terms of finance	It provide short term funds, in short term instruments where the maturity is measured in days, weeks, or months.	It is a market for long term instruments which is measured in years.
3	Instruments	The instrument dealt in the market are bills of exchange, treasury bills, bankers acceptance, etc.	The instrument dealt in this market are bonds, debentures, equity shares and stock.
4	Functions	Money market exist as a mechanism of liquidity adjustment i.e. a link between depositors and borrowers.	Capital market functions as a link between the investors and enterpreneurs.
5	Risk	The prices of these instruments do not fluctuate and they carry very low market risk.	The instruments are long term and subject to market fluctuations and so they carry very high financial and market risk.
6	Institution	The commercial banks are the important institutions in the money market.	The stock exchange is an important institution in the capital market.

3) Write a note on Commercial Papers.

Ans : Commercial papers : The commercial papers are debt instruments which are issued by corporate houses for raising short term financial resources from the money market. They are unsecured debts. They are issued in the form of promissory notes. They are issued at discount. Their face value is in multiples of ₹ 5 lakhs. The issuing company has to bear all expenses like dealer's fees, agency fees etc related to the uses of the commercial paper. The rates of interest vary very much as it is influenced by various factors such as state of economy, the credit rating of the instruments etc.The marketability of these instruments is influenced by the rates prevailing in call market as well as in foreign exchange market. The minimum maturity of these instruments is brought down from three months to 30 days and is further reduced to 15 days with effect from May 25^{th} , 1998.

4) Write a note on Stock Exchange.

Ans : Stock exchange is a specific place where trading of the securities is arranged in an organized method. In simple words, it is a place where shares, debentures and bonds (securities) are purchased and sold. The term securities include equity shares, preference shares, debentures, government bonds, etc. including mutual funds.

5) Define SEBI and explain its objectives and powers.

Ans : **What is SEBI?**

- SEBI (Securities Exchange Board of India) was established by Government of India in April, 1988.
- It became a statutory body under SEBI Act, 1992.
- The head office of SEBI is located at Mumbai and it also has offices at Calcutta, New Delhi and Chennai.
- It regulates and controls the activities of stock exchanges in India.
- It prohibits malpractices and unfair trading in stock exchanges.
- It also carries out the promotional activities so as to increase the trade of securities in the stock exchanges.

Objectives of SEBI:

- To promote fair dealing by the issuers of securities and to ensure a market place where companies or institutions can raise funds at a relatively low cost.
- To provide protection to the investors and protect their rights and interests so that there is a steady flow of savings into the market.
- To regulate and develop a code of conduct and fair practice by intermediaries like brokers etc. with a view to make them competitive and professional.

Explain the role of SEBI in monitoring the Stock Exchanges.

Role of SEBI in monitoring the stock exchanges is explained as below:

i. **To Register and Regulate the Work of intermediaries:**
- In the stock exchanges, various intermediaries such as stock brokers, share transfer agents, underwriters, bankers to an issue etc. possess the right to deal in securities.
- However to do so, they are required to register themselves with the SEBI.
- It is also mandatory for every intermediary to maintain a separate account for each client.
- In case of fraud, SEBI can cancel or suspend the certificate of registration granted to them.

ii. **To Take Measures for Investor's Protection:**
- To protect the interest of investors, SEBI has made certain rules and regulations which are to be followed by the financial intermediaries.
- It has also taken the initiative to impart proper education and guidance with regards to investors' investments in securities.

- For this, SEBI has set up Investor's Education and Protection Fund (IEPF) in order to make investors aware of their rights.

iii. **To Prohibit Insider Trading:**
- Insider trading refers to buying and selling of securities on the basis of information that has not been made public and is supposed to remain confidential.
- SEBI has laid down certain guidelines for the use of sensitive information so as to avoid such trading.
- By these guidelines, a person doing insider trading can be traced out and kept under close supervision.

iv. **To Promote and Regulate Self Regulatory Organizations:**
- SEBI encourages the intermediaries to form their professional associations to regulate their activities.

v. **To Register and Regulate the Collective Investment Schemes**:
- SEBI registers mutual funds, various collective investments, venture capital funds etc. and regulates their functioning. It also regulates mergers, takeovers and acquisition of companies to protect the interest of investors.

vi. **To Prohibit Unfair Trade Practices:**
- SEBI prohibits unfair trade practices in the stock exchanges which in turn help to bring transparency in the prices and brokerage charged by the brokers.

vii. **To Regulate the Business in Stock Exchange:**
- Stock exchange is a place where trading of securities is carried out.
- SEBI has laid down certain rules and regulations which are to be followed by the stock exchanges.
- This is mainly done to promote free and fair dealings in securities.

viii. **To Carry out Inspection and Audit:**
- SEBI is empowered to carry out inspection and audit of stock exchanges, intermediaries etc.

ix. **To Undertake Research and Publications:**
- SEBI usually carries out research activities on various aspects of stock exchange for its development, improvement and modernization.
- It also publishes the information regarding the same.

Powers of SEBI.

The powers of SEBI are stated as below:

i. **Can Ask to Furnish Information and Explanation:**
- SEBI may ask stock exchange or any of its members to furnish information and explanation concerning its affairs.

ii. **Calling of Periodical Returns:**
- SEBI has the power to demand or call periodical returns from the stock exchanges.

iii. **Listing of Securities:**
- SEBI is empowered to demand and ask a Public Limited Company to list its shares and play a supportive role when the market is bearish (inclined towards bear).
- When an individual investor and even speculator hesitate to transact in the stock market, it is the institutional investor who trades in bulk.
  This helps sustaining for stock exchanges.

iv. **issuing License:**
- SEBI is empowered to issue license to dealers in securities in some areas.

v. **Can Ask to Maintain Documents and Records:**
- SEBI is empowered to direct the stock exchanges to maintain the prescribed documents and records.

vi. **Amend Bye-laws:**
- SEBI has the power to approve and amend the bye-laws of the stock exchanges.

Terms relating to stock exchange

- **Listing of securities** : Listing of securities means incorporating the name of a company for its security in the official register of the stock exchange. Listing helps companies to get broader market for their securities.
- **Stock Broker** : He is a commission agent who transacts business on behalf of non-members but he himself is a member of a stock exchange who is licensed by stock exchange to buy or sell shares on his client's behalf.
- **Jobber :** A jobber is a dealer in stock exchange who carries on trading of securities in his own name. He is a professional speculator in the stock exchange. He is not permitted to deal with investors directly.
- **Bull(Tejiwaia)** : A speculator who expects the price of a particular share to rise in the future and speculates with the hope of selling them at the higher prices to earn profits. His views are optimistic.
- **Bear (Mandiwala)** : A speculator who expects fall in the price of a security. He buys at a lesser price and sells at a little higher price.
- **Stag :** The stags are those who in general do not invest in the secondary market- Instead, they prefer to make their investment in the primary markets when new issues are made.
- **Contract Note** : It is a note given by a broker to his client. It will be in a specific form. It validates the transaction. Both the broker and the client will have one copy each immediately after the transaction within 24 hours.
- **Trading Ring :** The trading or auction of shares takes place on the floor of the stock exchange which is also known as Trading Ring. Trading takes place during trading hours which is usually between 12 noon to 2.30 P.M. in most of the stock exchanges.
- **Auction :** The method of making offers and bids for shares or determining the prices of securities by auction by buyers and sellers transacting at a specified location.

6) Define Capital Market and explain its role.

Ans : Capital market is the broad term which includes Primary market, secondary market, lending institutions, bank, investors and just about anybody and everybody who is engaged in providing long term capital (equity or debt) to the industrial sector. In this market medium term and long term capital is supplied and demanded.

In Indian economy the dynamic growth of the capital market has been particularly marked during the period following the liberalization of economic policy in the industrial, financial and foreign trade sector in 1991. Though there have been shocking setbacks in certain years, the volume has no leaps and bounds.

Role of stock exchange in capital market

- **Encourages capital formation** : A common investor is attracted to capital market. Today investor is preferring to divert his surplus and savings in the securities like shares, debentures, mutual funds etc. As a result new capital formation is speeded up.
- **Resource mobilisation** : Due to continuous buying and selling of the securities the resources of the economy flow from one company to other company giving comparatively higher returns. This helps mobilisation of resources.
- **Help in rapid economic development** : The stock exchanges help in the process of rapid economic development by speeding up the process of capital formation and resource mobilization. It helps in raising the medium and long term capital for the development and expansion of the companies. New industries and commercial enterprises easily get capital funds through a stock exchange.
- **Flexibility in investments** : The stock exchanges provide liquidity to the investment made in the securities. As there are multiple options, investors can flexibly go on switching their investment where it is more beneficial.

- **Value addition to the securities :** Listing of shares on a stock exchange adds to the prestige and reputation to companies. With the advantage of 'listed shares it can raise loans from corporate sector.

FUNCTIONS OF STOCK EXCHANGE :

Presence and vibrant functioning of a stock exchange is necessary for a developing economy. It reflects healthy financial and investment conducive atmosphere in the economy.

The Indian securities market is considered as one of the most promising emerging markets. It is one of the top eight markets of the world. The stock exchange plays a vital role in the process of raising resources for the development of corporate sector. In the absence of the stock exchange it would be impossible for private enterprises, industries and entrepreneurs to survive and grow. A stock exchange performs various important functions as discussed below.

1. **Liquidity :** It is the stock exchange that provides liquidity to private investment in corporate enterprises. It provides marketability along with liquidity to the product called securities. In other words, the facility of stock exchange provides a two-way outlet as it transforms money into investment and vice versa without much delay.
2. **Promotes capital formation** : A stock exchange motivates the investors to invest their savings in the securities of the reputed companies. Stock exchange is the market where buying and selling of securities continually goes on. As a result, capital flows continually into business field. Thus, formation of capital goes on.
3. **Fair evaluation of securities** : A stock exchange like any other market provides a mechanism for evaluating the prices of securities through the basic law of demand and supply.
   Stock exchange prices help to check the real worth of the securities in the market. The prices quoted on stock exchange are provided with wide publicity through electronic as well as print media. The working of stock exchanges is on line which help investors keep in touch with price update and know real worth of their investment.
4. **Protects investors interest :** All the transactions in the stock exchanges are effected and controlled by the Securities Control (Regulation) Act 1956. The stock exchanges protect the interests of the investors through the strict enforcement of their rules and regulations.
   The malpractices of the brokers are punishable with heavy fine, suspension of their membership and even imprisonment.
5. **Economic Barometer :** A stock exchange serves as a reliable barometer of a country’s economic status. Stock exchanges support and promote industrial development. It stimulates investment in productive sector which accelerates the process of economic development of the country.
6. **Motivation to Management:** A stock exchange allows the trading of listed securities only. Listing procedure requires to comply with certain guidelines for protecting the interests of investors and obviously are under strict supervision of stock exchange. If companies do not comply with the rules and regulations of the exchange, the shares of a company can be delisted. To avoid such unfavorable and undesirable consequences every company manages its affairs more cautiously and effectively.
7. **Best utilization of capital** : The stock exchange regulates and controls the flow of investment from unproductive to productive, uneconomic to economic, unprofitable to profitable enterprises. Thus, savings of the people arc channalised into industry yielding good returns and underutilization of capital is avoided. As the stock exchange provides an account of price variations of the securities listed on it (upward or downward fluctuations) it would be an opportunity for the investors to switch their investments. This would keep companies performing in the best possible way.