Economics Class Notes for IAS and PCS

Chapter 7: Stock Market

Stock
➢ Stock Exchange provide a platform for trading of share.
➢ Stock Market deal debenture, Mutual fund (MF) & government securities (not Commercial Paper/ Certificate Deposit)
➢ Stock Exchange provide an organized market for transaction like – BSE, NSE etc.
➢ Demutualization – when management & ownership are separated & prevent inside trading
SEBI
➢ Regulate Capital Market (debt, equality), working of stock exchange, act as intermediate such as – Broker, Merchant Bank, approved for MF & register FII. ➢ Provide educational Training, Prohibit unfair Trading, Impose penalty, Regulate security market. ➢ HQ is in Mumbai & 3 Regional office – New Delhi, Calcutta, Mumbai ➢ It formed in 1992 and got statutory status. ➢ It have quasi judiciary and legislative body
Primary Market
➢ Issue of new securities directly by company to investors. Companies, government, Public sector can obtain funding through sale of new stock. New Issue called "IPO (Initial Public Offering)". ➢ If company already issue shares & is going to market with new issue called "FPO (Follow on Public Offer)".
➢ **Secondary Market –** One a newly issued stocks listed on stock exchange which are already issued in IPO.
➢ **Bear –** Market is good, ➢ **Bull –** Market will go good ➢ **Gilt** – Band issued by central base on behalf of government ➢ **Blue chip –** Show of comparison that most valuable companies
➢ **Preference Stock** – Generally issued by company to bank, so that retail investor one eligible when company closed, Preference stock one go Ist who holder of it.
➢ **Systematic Risk** – If risk came, whole system got affected. Test by RBI.
➢ **Rolling Settlement –** Mechanism of setting trades, traders done on a single day. (1-2 days)

Commodity Exchange

- Commodity exchange are institution which provide platform for trading in commodity futures. Presently Regular by FMC (Forward market Commission) allow future trading.
- FMC set up in 1953, consist of 2 – 4 member and HQ at Mumbai,
- Commodity Exchange shifted to finance Minister over seen by ministry of consumer affair, Public distribution and Govt. of India.

PN (Participatory Note)

- It is instrument for making investment in stock market. FII use this for facilitate to participate of over funds like – Hedge fund who one not eligible and registered with SEBI, who can not directly invest., they can be invest by PN
- But SEBI restrict limit PN that a single FII can issue.
- PN needs register with SEBI.

Off shore

- outside country, hedge fund
- Investment fund open to only a limit drag of investors. They one mostly unregulated. It is not allowed India & they do not disclose date required by SEBI.

- **ADR –** American Depository Receipt. It is route is taken as non USA companies one not eligible to listing US stock exchange by Issue share.
- **GDR –** Indian companies are allowed to raise equity capital in International market by Global Depository Receipt. It designated in Dollar/ other foreign currency.
- **IDR –** India Depository Receipts – whey they one allowed, issued to non-listed company in India.

QFI

- Qualified Foreign Investors – May be same charity/ university fund/ other insured company. A resident of country that is member of FATF or member of go which in turn in member of global body against money laundry & terror funding.
- QIF allowed in 3 : Mutual Fund, Equities & corporal debt.
- Not need disclose details (some hidden transparency) commercial paper.

- **FATF –** Financial Action Task Force, is an inter-governmental organization in 1989. Combat of money laundry & terror finance.
- HQ at OECD in Paris.

ETF

- Electronic funds transfer (EFT) is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.
- People get gold and save in Bank so it's better to get ETF of this gold so bank invest into hedge fund.
- Benefits:
  - Liquidity essay
  - Satisfy
  - Not waiting till transfer
- Also called "E – gold"

Government think Public sector as ETF.

FII (Foreign Institutional Investors)

- One organization which invest huge money in finance asset like – debt, MF, Pension fund etc.
- Foreign are not allowed directly so it purchase on by FII through PIS (Portfolio Investment Scheme)
- FII called hot money investment.
- SEBI prescribed norms for FII
- FII can issue in Pensions fund, investment bank , Mutual Fund
- FDI (Foreign direct Investment) can buy all share of company but FII not

  FII cannot buy share of company & can buy MF, Debenture, Securities of govt., equity.

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