Financial Mkt:

- Defn: Institution to connect investors & borrowers for transfer of capital.

- Functions of Financial Mkt.
  - → Link b/w savers & fundraisers
  - → Mvt. of funds quickly, safely, timely
  - → Risk redn by diversified set of portfolio to investors
  - → price discovery ⇒ allocative efficiency
  - → Depth (↑ in financial assets as % of GDP) + Breadth (More entities involved)
  - → Monetary policy Transmission

- History of Indian financial system
  - → 1951 to 1991
    - → Nationalization
      - → RBI: 1949
      - → SBI: 1955 (Imperial Bank erstwhile)
      - → LIC: 1956 (Life Insurance sector Natl. ↓ by merging existing players)
      - → 1969: 14 Banks
      - → 1972: GIC (General Insurance sector Natl.)
      - → 1980: 6 banks

      Dono steps & unke rationale explain in desc.
    - → Development on new institutions (DFIs)
      - → IFCI: 1948 (first)
      - → ICICI: 1955
      - → IDBI: 1964
      - → SIDBI: 1990
      - → UTI: 1964 (MF govt-owned)

      Full forms देख लेना

      Kuch ache points bhi likh dena like Shroff Comm. (1953) recomm. to banks to underwrite corporate bonds. Also ARC by RBI in 1963

* Tight regulatory regime
- → FERA 1973
- → MRTP 1969

  Inke objectives pta hi h
- → Securities Contract (Regulation) Act 1956

  Highly govt. regulated stock mkts.
- → Companies Act 1956

  (protection of SHs from exploitation & fraud by mgt.)

Problems खुद लिख सकते हो

Post 1991 Reforms (N-I & N-II comm. Recomm.)

These can be used to supplement ur answer in a Q on 1991 LPG reforms, KEEP IN MIND

- **Banking sector** (N-I & N-II recomm. Gmzd dT d2T)
  - Prudential measures : Asset classification, loan provisioning, capital adequacy, acc. stds., mkt discipline etc.
  - Privatization + autonomy to PSBs
  - Interest rate dereg.
  - CRR & SLR ↓
  - DRT, ARC, SARFAESI
  - BFS, CAMELS → RBS etc. (you can write)

Setting up Credit Info Bureau (CIBIL) for credit scores to banks & CCIL for settlement

- **Primary mkt. reforms**
  - FII allowed (MF, Pension funds, Gsec. etc.)
  - Access to global fund : ADR, GDR, FCCB, ECB etc.
  - Credit Rating Agencies set up eg. CARE, CRISIL, ICRA
  - SEBI → statutory status

3 major functions: Origination, Underwriting, Distribution

- **Secondary mkt. reforms**
  - Setting up NSE (1992) (1st dematerialized stock exchange of India) & NSCCL (its clearing corp.)
  - Demutualization
  - Dematerialization : Thru Depositories
  - MF : open to pvt. sector in 1992 — General reform, not linked only to sec. mkt.
  - T+1 settlement (T+0 Beta) → 2023
  - IPEF under SEBI (2001)

3 major functions: Nexus b/w savings & investment, Cont. price formation, Liquidity to Investors

- **Debt Mkt. reforms**
  - Administered interest rate on Gsecs ✗ → price discovery
  - PDs allowed (class of NBFIs)
  - Repo, LAF, MSF introduced
  - NDS ⇒ anonymous screen-based Gsec. trading
  - CCIL ⇒ counter party risk ✗
  - FIIs allowed in Gsec.

You can also write abt recent reforms in Corpo Debt Mkt. & Retail Direct Scheme if short of content

- Forex mkt. reforms
  - Floating (managed) exchange rate from 1993
  - current Acc. convertibility from 1994
  - FERA → FEMA Most imp reform
  - Partial capital Acc. convertibility (LRS)
  - Authorized entities to deal in forex

3 major functions:
Transfer of Purchasing Power (or simply currency conversion),
Credit function (external loans, imports),
Hedging & speculation (avoid forex risk or gamble using forward and swap like instruments)

3 forex risks:
Transaction Risk (Exchange rate)
Economic or Operational Risk
Translation Risk (Accounting)

- Other reforms
  - Insurance sector Dereg. + IRDA in 1999 (Malhotra Committee)
  - NBFCs brought under RBI reg.
  - PFRDA in 2003 ⇒ Pension sector

Types of risks in bonds (active recall all of them & one-line explanation):

-Default risk
-Market interest rate risk
-Liquidity risk
-Inflation risk
-Reinvestment risk

Corporate Bond Market

- Importance
  - supplement banking system
  - corpo requirement for loans to undertake long-term investment
  - depth to financial mkts.
- Why underdeveloped?
  - supply side issues
    - Crowding out by Gsecs (zero default risk)
    - Inertia (habit) : pvt. placements + bank loans (cheaper, faster, less reg.)
    - underdeveloped infra → High entry barrier
      - Info asymmetry (no real time data unlike stock mkts)
  - Demand side issues
    - India developing country ⇒ persistent ↑ inflation ⇒ erodes returns from fixed interest corpo bonds
    - Absence of broad investor base
      - Lack of CG in corpo → confidence ↓
      - Insolvency messy → confidence ↓
    - Companies reluctance to offer ↑ interest rate (since most in growing stage, small)
- Govt. steps
  - FPI ceiling from 9% to 15%. (Write govt. did this in consultation with RBI) ⇒ 15% of outstanding corpo bonds could be held by FPI
  - IBC ⇒ timely insolvency
  - Investor charters (rights & resp of investors) + GRM
  - Backstop facility (Budget 2021-22) ⇒ secondary fund to invest in 'Investment grade' corpo bonds in times of stress