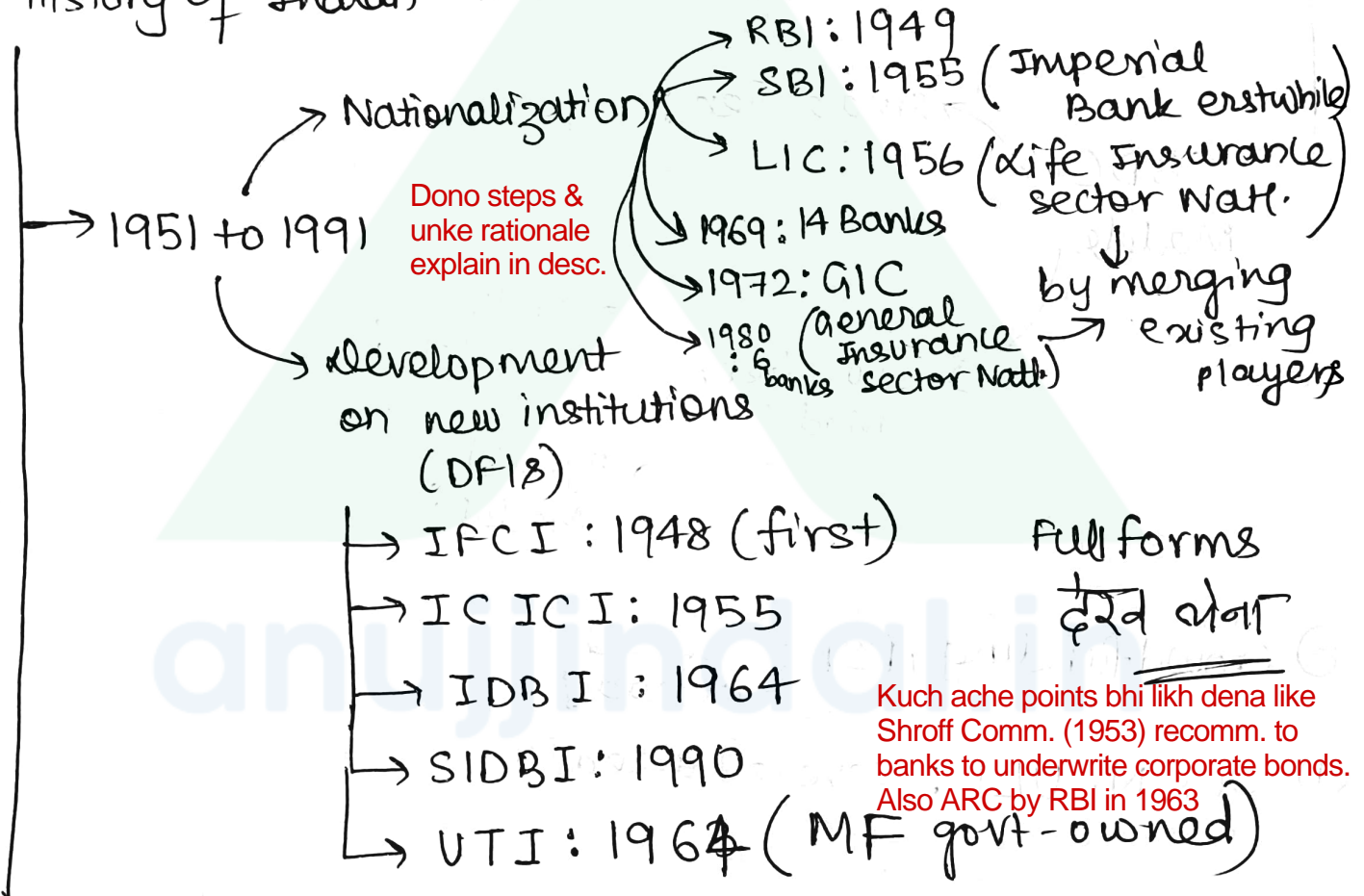


Financial Mkt.

- 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



- * Tight regulatory regime
- FERA 1973
 - MRTP 1969
 - Securities Contract (Regulation) Act 1956
 - Companies Act 1956
- Inke objectives pta hi h
- Highly govt. regulated stock mkt.
- (protection of SHs from exploitation & fraud by mgt.)
- Problems रुढ़त गैर रुढ़त संकत हूँ

Post 1991 Reforms (N-I & N-II Comm.)

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

Recomm.

Banking sector

(N-I & N-II recomm. Gmrdt dkt)

Prudential measures: Asset classification, loan provisioning, capital adequacy, acc. stds., mkt discipline etc.

Privatization + autonomy to PSBs

Interest rate dereg.

CRR & SLR ↓

DRT, ARC, SARFAES

BFS, CAMELS → RBS etc. (you can write)

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

Primary mkt. reforms

3 major functions: Origination, Underwriting, Distribution

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

Secondary mkt. reforms

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

setting up NSE (1992) & NSCL (1st dematerialized stock exchange of India) (its clearing corp.)

Demutualization

Dematerialization: Thru Depositories

MF: open to Pvt. sector in 1992

T+1 settlement (T+0 Beta) → 2023

IPEF under SEBI (2001)

General reform, not linked only to sec. mkt.

Debt Mkt. reforms

Administered interest rate on Gsecs X → price discovery

PDS allowed (class of NBFIs)

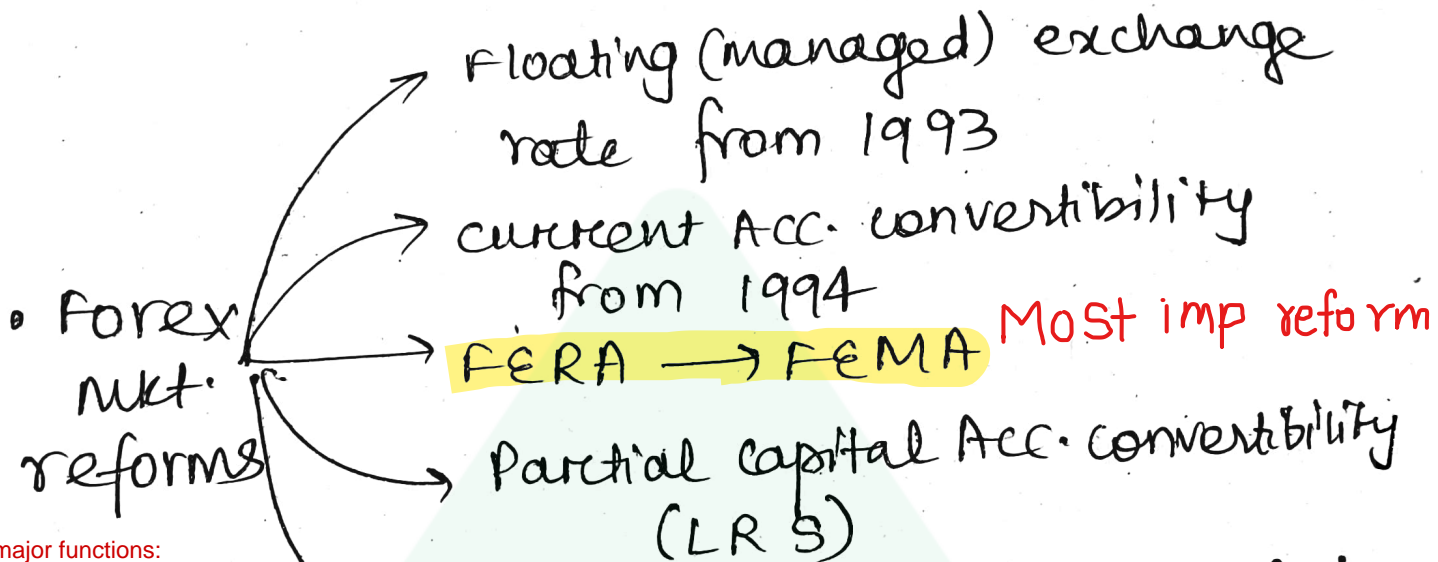
Repo, LAF, MSF introduced

NDS ⇒ anonymous screen-based Gsec. trading

CCIL ⇒ counter party risk X

FII allowed in Gsec.

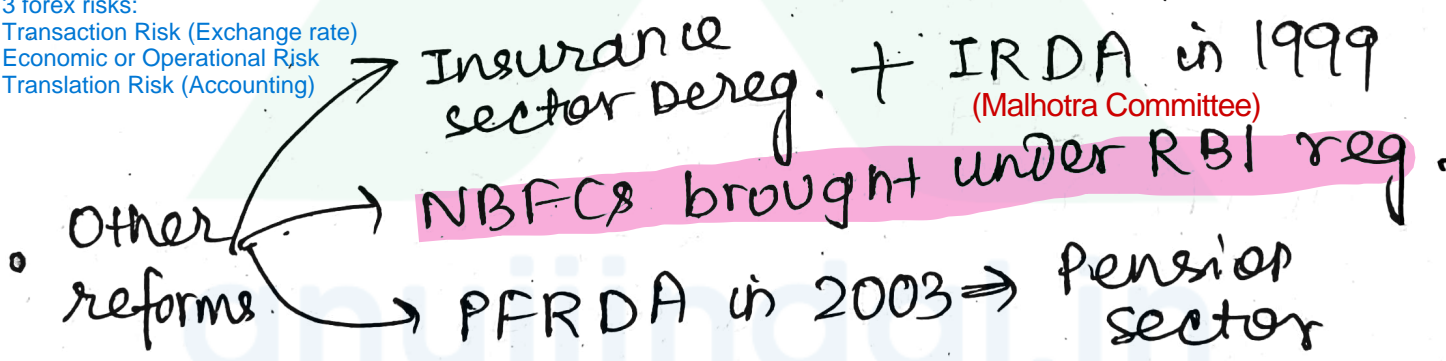
You can also write abt recent reforms in Corpo Debt Mkt. & Retail Direct Scheme if short of content



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)

→ Authorized entities to deal in forex



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 mkt.

Why underdeveloped?

supply side issues

- Crowding out by Gsecs (zero default risk)
- Inertia: Pvt. placements + bank loans (habit) (cheaper, faster, less req.)
- underdeveloped infra → High entry barrier
- ↳ Info asymmetry (no real-time data unlike stock mkt)

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) + GRM of investors

Backstop facility (Budget 2021-22) ⇒ secondary fund to invest in 'Investment grade' corpo bonds in times of stress.