**CHAPTER - 10**

**FINANCIAL MARKET**

Q1. \_\_\_\_\_\_\_\_\_\_ is a market where short-term debt instruments that are highly liquid are issued that are highly liquid are issued and actively traded every day. (1)

(a) Money Market

(b) Capital Market

(c) New Issues Market

(d) Stock Market

Q2. The document prepared in the process of online trading of securities that is legally enforceable and helps to settle disputes/ claims between the investor and the broker : (1)

(a) Broker- client agreement

(b) Trade confirmation slip

(c) Contract note

(d) Demat account

Q3. In which year the SEBI was established by the Government of India? (1)

(a) 1980

(b) 1988

(c) 1992

(d) 1993

Q4. Which of the following is not the function of SEBI ? (1)

(a) Registration of brokers and sub-brokers

(b) Undertaking measures to develop financial markets

(c) Prohibition of insider trading

(d) Holding the securities in electronic form

Q5. Raghav’s friend Raman works as a Chartered Accountant in Solutions Ltd. Raman in a meeting with the Board of Directors of the Company came to know that the firm would soon be declaring a Bonus issue which would result in increase in the price of shares. Considering this, Raman advised Raghav to purchase the shares of Solutions Ltd., who acted on his advice and bought the shares before time. Which function of SEBI can control such malpractices? (1)

(a) Protective functions

(b) Regulatory functions

(c) Development functions

(d) All of the above

Q6. A stock exchange is a market in which existing securities are resold or traded . Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues .The function of a stock exchange highlighted above is : (1)

(a) Spreading of equity cult

(b) Providing liquidity and marketability to existing securities

(c) Contributes to capital formation and economic growth

(d) Both (b) & (c)

Q7. List down some protective functions of SEBI. (3)

Q8. What are the objectives of SEBI? (4)

Q9.What are the functions of a Stock Exchange? (4)

Q10. Antra wants to buy shares of CD Enterprises through her broker Khush. She has a Demat account and a bank account for cash transactions in the securities market. Discuss the subsequent steps involved in the screen-based trading for buying and selling of securities in this case. (6)

Q11. What are development and regulatory functions of SEBI? (6)

**Answers**

Ans 1. (a) Money Market

Ans 2. (c) Contract note

Ans 3. (b) 1988

Ans 4. (d) Holding the securities in electronic form

Ans 5. (a) Protective functions

Ans 6. (d) Both (b) & (c)

Ans 7. Protective Functions

• Prohibition: SEBI prohibits fraudulent and unfair trade practices. It prevents the spreading of misleading and manipulative statements which are likely to affect the working of the securities market. SEBI educates the investors by providing them valuable information regarding various securities and companies so as to enable them to make wise investment decisions.

• Checks on Insider Trading: Insider trading refers to a situation where an individual connected with the company leaks out crucial information regarding the company. Such information may adversely affect its share prices. SEBI keeps a strict check on such insider trading.

• Promotion and Protection: SEBI encourage fair trade practices and promotes a code of conduct for the intermediaries. It undertakes step for investor protection and education. It also checks the manipulation of price of securities.

Ans 8. The Securities and Exchange Board of India was established in 1988 in order to encourage an orderly and healthy growth of the securities market. SEBI was set with an overall objective of investor protection and to promote the development and regulation of the functions of the securities market. The following are the listed objectives.

(i) Regulation: The main objective of SEBI was to regulate the functioning of the stock exchange and the securities market. It aims at providing a place where the issuers of securities (i.e. companies) can raise funds in an easy and confident manner.

(ii) Protection: SEBI educates the investors by providing them valuable information regarding various securities and companies. It provides them with the guidelines related to efficient investment. It provides them adequate and reliable information about the companies and thereby, helps them in taking wise and informed investment decisions.

(iii) Prevention: To combat the malpractice in trading of securities was the basic reason for the establishment of SEBI. Malpractice such as insider trading, violation of rules and regulations, non-adherence to Companies Act, etc. erodes the confidence of investors. SEBI aims at checking these malpractice by creating a balance between the self regulation of a business and the legal statutory regulations.

(iv) Code of Conduct: Through efficient regulation, SEBI aims at developing a code of conduct for fair trade practices by intermediaries such as brokers, merchant bankers, underwriters, etc. This helps in making them competitive and professional.

Ans 9. The functions of a stock exchange are as follows:

1. It provides a platform to trade securities. A stock exchange offers easy conversion of securities to cash and also conversion of securities.

2. It helps in establishing prices for the assets of monetary nature which are traded. It is a common place for buyer and seller interactions, and prices of securities are determined based on supply and demand.

3. There are safety regulations in the stock market. Trade is conducted within a defined legal framework which ensures fairness in transactions.

4. In a stock market, there is continuous buying and selling of stocks, which helps in enhancing capital formation and supports economic growth.

5. As share prices keep changing, it indicates the corresponding changes in economic conditions, an economic recession will see share prices fall, while a boom in the market will contribute to a price increase.

Ans 10. The following steps are involved and are discussed in a sequential manner:

1. Investor wishing to buy or sell any type of security has to approach a broker or sub-broker and make an agreement. The investor needs to sign the broker-client agreement and fill the client registration form prior to starting trading in securities. Also, some essential details need to be filled which include the following:

i. PAN number

ii. Date of birth and address

iii. Educational qualification and the occupation

iv. Residential status

v. Bank account details

vi. Depository account details

2. The next step is the opening of a Demat account or a Beneficial owner account with a depository participant for transferring securities in Demat form, and also, a bank account needs to be opened for performing cash transactions in the market.

3. An order is placed by the investor with the broker for buying and selling shares. Information should be provided about the number of shares and the price of shares that need to be bought. The broker issues an order confirmation slip to the investor once the order is placed.

4. Broker goes online and connects with the stock exchange for matching shares and the prices which are available for the share.

5. When shares can be either bought or sold as per the price mentioned by the investor, the broker will be notified about that, and the order will be processed electronically. On the transaction being done, the broker will issue a trade confirmation slip for the investor.

6. Once the trade is executed, a contract note will be issued by the broker in 24 hours. The contract note contains details of the shares that are bought or sold, their price, the time and date of the deal and finally, the brokerage charges. It is an important document which can be produced in a court of law for settling disputes. Each transaction is assigned a unique order code number by the stock exchange. This number is printed on the contract note.

7. After this step, the investor, on receiving the contract note, needs to pay for the shares that were bought and deliver the shares that are sold. The broker will make the payment or deliver the shares to the exchange. It is known as pay-in day.

8. Cash gets paid, or securities are delivered during the pay-in day. This is done before T+2 day as the deal gets settled and finalised on the T+2 day. The settlement follows the rolling settlement basis, which is on T+2 day. T refers to the trade date.

9. Exchange delivers the shares or makes payments to the broker on T+2 day. The broker has to make payment to the investor within 24 hours of payout, as already the payment is received by the broker from the exchange.

10. Delivery of shares by brokers can be in the form of a Demat, which is added directly to the investor’s account or in the case of securities purchase, the amount is transferred electronically to the Demat account of the investor.

Ans 11. Regulatory Function: Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.

b. Regulating the process of taking over of a company.

c. Conducting inquiries and audit of stock exchanges.

d. Regulates the working of stock brokers, merchant brokers.

Developmental Function: Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.

2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.

3. By making the underwriting an optional system in order to reduce cost of issue.