

Financial Services

1. Define Financial Services

Financial service is part of financial system that provides different types of finance through various credit instruments, financial products and services. In financial instruments, we come across cheques, bills, promissory notes, debt instruments, letter of credit, etc. In financial products, we come across different types of mutual funds extending various types of investment opportunities. In addition, there are also products such as credit cards, debit cards, etc. In services we have leasing, factoring, hire purchase finance etc., through which various types of assets can be acquired either for ownership or on lease. There are different types of leases as well as factoring too. Thus, financial services enable the user to obtain any asset on credit, according to his convenience and at a reasonable interest rate.

2. Define Financial System

A financial system is a set of institutions, such as banks, insurance companies, and stock exchanges, which permit the exchange of funds. Financial systems exist on firm, regional, and global levels. Borrowers, lenders, and investors exchange current funds to finance projects, either for consumption or productive investments, and to pursue a return on their financial assets. The financial system also includes sets of rules and practices that borrowers and lenders use to decide which projects get financed, who finances projects, and terms of financial deals.

3. Who are the participants in financial services?

Banking Services - Commercial banking services are the foundation of the financial services. The operations of a commercial bank include the safekeeping of deposits, issuance of credit and debit cards, and the lending of money. The banking industry is most concerned with direct saving and lending while the financial services sector incorporates investments, insurance, the redistribution of risk, and other financial activities. Banks earn revenue primarily on the difference in the interest rates charged for credit accounts and the rates paid to depositors. Financial services like these primarily earn revenue through fees, commissions, and other methods like the spread on interest rates between loans and deposits.

Investment Services - Individuals may access financial markets like stocks and bonds through investments services. Brokers (either human or self-directed online) facilitate the buying and selling of securities and take a commission for their service. Financial advisors may charge an annual fee based on assets under management and direct several trades in the pursuit of constructing and managing a well-diversified portfolio. Robo-advisors are the latest incarnation of financial advice and portfolio management, with fully-automated algorithmic portfolio allocations and trade executions. Hedge funds, mutual funds and investment partnerships invest money in the financial markets and collect management fees in the process. These organizations require custody services for trading and servicing their portfolios, as well as legal, compliance and marketing advice. There are also software vendors that cater to the investment fund community by developing software applications for portfolio management, client reporting and other back-office services. Private equity funds, venture capital providers and angel investors supply investment capital to companies in exchange for ownership stakes or profit participation. Venture capital was especially important to tech firms in the 1990s. Much of what goes on behind the scenes in the making of big deals is attributed to this group.

Insurance Services - Insurance is another important subsector of the financial services industry. In the United States, an insurance agent differs from a broker. The former is a representative of the insurance carrier, while the latter represents the insured and shops around for insurance policies. This is also the realm of the underwriter, who assesses the risk of insuring clients and also advises investment bankers on loan risk. Finally, reinsurers are in the business of selling insurance to the insurers themselves to help protect them from catastrophic losses.

Tax and Accounting Services - The vast financial services sector also includes accountants and tax filing services, currency exchange and wire transfer services, and credit card machine services and networks. It also includes debt resolution services and global payment providers such as Visa and MasterCard, as well as exchanges that facilitate stock, derivatives and commodity trades.

4. State the types of lease in financial services

Capital lease - A capital lease is a lease in which the lessor only finances the leased asset, and all other rights of ownership transfer to the lessee. This results in the recordation of the asset as the lessee's property in its general ledger, as a fixed asset.

Operating lease - Operating lease is a contract wherein the owner, called the Lessor, permits the user, called the Lessee, to use of an asset for a particular period which is shorter than the economic life of the asset without any transfer of ownership rights.

Sale and lease back - Off balance sheet financing in which an owner sells an asset or property to a leasing firm and, at the same time, leases it (as a lessee) on a long-term basis to retain exclusive possession and use. Although this arrangement frees capital tied up in a fixed asset, the original owner loses depreciation and tax benefits. Also called leaseback.

Leveraged lease- A leveraged lease or leased lender is a lease in which the lessor puts up some of the money required to purchase the asset and borrows the rest from a lender. The lender is given a senior secured interest on the asset and an assignment of the lease and lease payments.

Domestic and International lease - The Domestic Lease and International Lease are the types of leases classified on the basis of the places where the parties to the lease agreement reside. The lease is the agreement between the lessor and the lessee; wherein the lessor grants permission to the lessee to use his property in return for periodical rental payments.

5. Define IMF – International Monetary Fund

The International Monetary Fund (IMF) is based in Washington, D.C., and currently consists of 189 member countries, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting power.

The IMF's website describes its mission as "to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."

6. Who are the Regulators of Financial Services in India?

RBI as an apex monetary institution: Established in April, 1935 in Calcutta, the Reserve Bank of India (RBI) later moved to Mumbai in 1937. After its nationalization in 1949, RBI is presently owned by the Govt. of India. It has 19 regional offices, majorly in state capitals, and 9 sub-offices. It is the issuer of the Indian Rupee. RBI regulates the banking and financial system of the country by issuing broad guidelines and instructions.

Role of RBI:

- Control money supply
- Monitor key indicators like GDP and inflation
- Maintain people's confidence in the banking and financial system by providing tools such as 'Ombudsman'
- RBI Security
- Formulate monetary policies such as inflation control, bank credit and interest rate control

SEBI as a regulatory body for the securities market: Securities Exchange Board of India (SEBI) was established in 1988 but got legal status in 1992 to regulate the functions of securities market to keep a check on malpractices and protect the investors. Headquartered in Mumbai, SEBI has its regional offices in New Delhi, Kolkata, Chennai and Ahmedabad.

Role of SEBI

Protect the interests of investors through proper education and guidance

Regulate and control the business on stock exchanges and other security markets

Stop fraud in capital market

Audit the performance of stock market

Insurance Regulatory and Development Authority of India (IRDAI) - IRDAI is an autonomous apex statutory body for regulating and developing the insurance industry in India. It was established in 1999 through an act passed by the Indian Parliament. Headquartered in Hyderabad, Telangana, IRDA regulates and promotes insurance business in India.

Forward Market Commission of India (FMC): Headquartered in Mumbai, FMC is a regulatory authority governed by the Ministry of Finance, Govt. of India. It is a statutory body, established in 1953 under the Forward Contracts (Regulation) Act, 1952. The commission allows commodity trading in 22 exchanges in India. The FMC is now merged with SEBI.

Pension Fund Regulatory and Development Authority (PFRDA): Established in October 2003 by the Government of India, PFRDA develops and regulates the pension sector in India. The National Pension System (NPS) was launched in January 2004 with an aim to provide retirement income to all the citizens. The objective of NPS is to set up pension reforms and inculcate the habit of saving for retirement amongst the citizens.

7. What are the different types of Financial Services?

Capital markets services: Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions.

Brokerage services: A broker is an individual or a firm that charges a fee or commission for executing buy and sell orders submitted by an investor. A broker also refers to the role of a firm when it acts as an agent for a customer and charges the customer a commission for its services.

Foreign exchange services: Foreign Exchange (FOREX) refers to the foreign exchange market. It is the over-the-counter market in which the foreign currencies of the world are traded. All levels of traders, from central banks to speculators, trade currencies with one another.

It includes: *Currency exchange* (currency exchange rate is the rate at which one currency will be exchanged for another),

Wire transfer (Wire transfer, bank transfer or credit transfer is a method of electronic funds transfer from one person or entity to another. A wire transfer can be made from one bank account to another bank account or through a transfer of cash at a cash office),

Remittance (A remittance is funding that is sent or transferred to another party, usually one in another country. Remittances can be sent via a wire transfer, mail, draft, or check).

Investment services: Investment Services means any services which involve (A) the management of an investment account or fund (or portions thereof or a group of investment accounts or funds), or (B) the giving of advice with respect to the investment and/or reinvestment of assets or funds (or any group of assets or funds).

It includes, Investment management (investment management refers to the handling of financial assets and other investments—not only buying and selling them).

Hedge fund management (A hedge fund is an investment fund that pools capital from accredited investors or institutional investors and invests in a variety of assets, often with complicated portfolio-construction and risk management techniques).

Custody services (A service in which a brokerage or other financial institution holds securities on behalf of the client. This reduces the risk of the client losing his/her assets or having them stolen. They are also available to the brokerage to sell at the client's demand).

Other Financial Services

- i. Credit & Debit cards
- ii. Credit card machine services and networks
- iii. Intermediation or advisory services (A financial intermediary is an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment banks, mutual funds and pension funds. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economies of scale involved in commercial banking, investment banking and asset management. Although in certain areas, such as investing, advances in technology threaten to eliminate the financial intermediary, disintermediation is much less of a threat in other areas of finance, including banking and insurance).
- iv. Private equity (Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors provide the capital for private equity, and the capital can be utilized

to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet).

- v. Venture capital (Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise).
- vi. Angel investment (An angel investor is usually a high net worth individual who provides financial backing for small startups or entrepreneurs. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages).
- vii. Conglomerates (A conglomerate is a corporation made up of a number of different, seemingly unrelated businesses. In a conglomerate, one company owns a controlling stake in a number of smaller companies which conduct business separately).
- viii. Financial market utilities (Financial market utilities (FMUs) are multilateral systems that provide the infrastructure for transferring, clearing, and settling payments, securities, and other financial transactions among financial institutions or between financial institutions and the system).

8. Who is a Financial Advisor?

A Financial Advisor manages assets and offers advice on behalf of a client.

9. Differentiate Banking industry and Financial Services?

The banking industry is most concerned with direct saving and lending while the financial services sector incorporates investments, insurance, the redistribution of risk, and other financial activities. Banks earn revenue primarily on the difference in the interest rates charged for credit accounts and the rates paid to depositors. Financial services like these primarily earn revenue through fees, commissions, and other methods like the spread on interest rates between loans and deposits.

10. What is Development bank/DFI/DFC

A financial institution that provides risk capital for economic development projects on non-commercial basis. They are often established and owned by governments or charitable institutions to provide funds for projects that would otherwise not be able to get funds from commercial lenders.

11. What is CAMELS rating system?

CAMELS is a rating system developed in the US that is used by supervisory authorities to rate banks and other financial institutions. It applies to every bank in the U.S and is also used by various financial institutions outside the U.S. Each factor is assigned a weight as follows:

- Capital adequacy 20 %
- Asset quality 20%
- Management 25%
- Earnings 15%
- Liquidity 10%
- Sensitivity 10%

12. Define NBFC (Non-Banking Financial Company)

A company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business but does not include any institution whose principal business includes agriculture, industrial activity or the sale, purchase or construction of immovable property.

Types of NBFCs

- **AFC (Asset Finance Company)** - a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic, such as automobiles, tractors, lathe machines, cranes, generator sets, earth moving and material handling equipment, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic

activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

- **IC (Investment Company)** - Any company which is a financial institution carrying on as its principal business with the acquisition of securities
- **LC (Loan Company)** - Any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company
- **IFC (Infrastructure Finance Company)** – Companies which deploy a minimum of three-fourths of their total assets in infrastructure loans
- **IDF-NBFC (Infrastructure Debt Fund: Non- Banking Financial Company)** - A company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through Multiple-Currency bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs
- **NBFC-Factors** – In a principle business of factoring. Factoring is a financial transaction and a type of debtor finance.
- **Gold Loan NBFCs in India**
- **RNBC (Residuary Non-Banking Companies)** - a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company. These companies are required to maintain investments as per directions of RBI, in addition to liquid assets

13. What is the meaning of Fee Based Financial Services?

Financial services can be defined as the products and services offered by institutions like banks of various kinds for the facilitation of various financial transactions and other related activities in the world of finance like loans, insurance, credit cards, investment opportunities and money management as well as providing information on the stock and other issues like trends. Fee based financial services are those which are paid for a flat fee rather than commission.

14. What is venture capital?

Venture capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. For startups without access to capital s, venture capital is an essential source of money. Risk is typically high for investors, but the downside for the startup is that these venture capitalists usually get a say in company decisions.

15. What is the difference between mergers and acquisition?

A merger occurs when two firms, usually equal in size decide to continue business as a single firm rather than being owned and operate as separate entities. In order for a merger to happen, both companies should surrender their stocks so that a new company can be formed and new stock can be issued.

In an acquisition, one company will purchase the other. In an acquisition, the company that acquires the target company will be entitled to target company's all the assets, properties, equipment, offices, patents, trademarks, etc. The acquirer will either pay in cash to acquire the firm or provide shares in the acquirer's firm as compensation.

16. What is the meaning of forfeiting?

Method of export trade financing, especially when dealing in capital goods or with high risk countries. In forfeiting, a bank advances cash to an exporter against invoices or promissory notes guaranteed by the importer's bank. The amount advanced is always 'without recourse' to the exporter, and is less than the invoice or note amount as it is discounted by the bank. The discount rates depend on the terms of the invoice/note and the level of the associated risk.

17. What is the meaning of bills?

A bill is a promissory note drawn by seller from buyer which undertakes liability to pay certain amount to bearer or specified person on or after maturity period.

18. What is a lease agreement?

Written or implied contract by which an owner of a specific asset such as a parcel of land, building, equipment, or machinery grants a second party the right to its exclusive possession and use for a specific period and under specified conditions, in return for specified periodic rental or lease payments.

19. What is the meaning of factoring?

Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount. A business will sometimes factor its receivable assets to meet its present and immediate cash needs. Forfaiting is a factoring arrangement used in international trade finance by exporters who wish to sell their receivables to a forfaiter. Factoring is commonly referred to as accounts receivable factoring, invoice factoring, and sometimes accounts receivable financing.

20. State the de-merits of factoring?

- It is very costly.
- In factoring there are three parties: The seller, the debtor and the factor.
- It helps to generate an immediate inflow of cash.
- Here the full liability of debtor has been assumed by the factor.
- Factor has the right to take any legal action required to recover the debts.

21. What is portfolio management?

The art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return is called as portfolio management. Portfolio management refers to managing an individual's investments in the form of bonds, shares, cash, mutual funds etc so that he earns the maximum profits within the stipulated time frame. Portfolio management refers to managing money of an individual under the expert guidance of portfolio managers.

22. What is domestic factoring?

Domestic factoring means purchase, funding, management and collection of short term accounts receivable arising from supply of goods and services to domestic buyers. Goods are delivered on open account credit terms up to 180 days.

23. State the advantages of venture capital?

Business expertise: Aside from the financial backing, obtaining venture capital financing can provide a start-up or young business with a valuable source of guidance and

consultation. This can help with a variety of business decisions, including financial management and human resource management.

Additional resources: In a number of critical areas, including legal, tax and personnel matters, a VC firm can provide active support, all the more important at a key stage in the growth of a young company. Faster growth and greater success are two potential key benefits.

Connections: Venture capitalists are typically well connected in the business community. Tapping into these connections could have tremendous benefits.

24. Explain the Financial Markets and its key players

Financial Market refers to a marketplace, where creation and trading of financial assets, such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country's economy. It acts as an intermediary between the savers and investors by mobilizing funds between them. For example, the stock market (stock market or share market is the aggregation of buyers and sellers of stocks, which represent ownership claims on businesses; these may include securities listed on a public stock exchange, as well as stock that is only traded privately,) or the bond market (a financial market where participants can issue new debt, known as the primary market, or buy and sell debt securities, known as the secondary market).

Financial markets can also be broken down into capital markets, money markets, primary markets, and secondary markets.

Functions of Financial Market

1. It facilitates mobilization of savings and puts it to the most productive uses.
2. It helps in determining the price of the securities. The frequent interaction between investors helps in fixing the price of securities, on the basis of their demand and supply in the market.
3. It provides liquidity to tradable assets, by facilitating the exchange, as the investors can readily sell their securities and convert assets into cash.
4. It saves the time, money and efforts of the parties, as they don't have to waste resources to find probable buyers or sellers of securities. Further, it reduces cost

by providing valuable information, regarding the securities traded in the financial market.

5. The financial market may or may not have a physical location, i.e. the exchange of asset between the parties can also take place over the internet or phone also.

By Nature of Claim

Debt Market: The market where fixed claims or debt instruments, such as debentures or bonds are bought and sold between investors.

Equity Market: Equity market is a market wherein the investors deal in equity instruments. It is the market for residual claims.

By Maturity of Claim

Money Market: The market where monetary assets such as commercial paper, certificate of deposits, treasury bills, etc. which mature within a year, are traded is called money market. It is the market for short-term funds. No such market exists physically; the transactions are performed over a virtual network, i.e. fax, internet or phone.

Capital Market: The market where medium and long term financial assets are traded is a capital market. It is divided into two types:

Primary Market: A financial market, wherein the company listed on an exchange, for the first time, issues new security or already listed company brings the fresh issue.

Secondary Market: Alternately known as Stock market, a secondary market is an organized marketplace, wherein already issued securities are traded between investors, such as individuals, merchant bankers, stock brokers and mutual funds.

By Timing of Delivery

Cash Market: The market where the transaction between buyers and sellers are settled in real time.

Futures Market: Futures market is one where the delivery or settlement of commodities takes place at a future specified date.

By Organizational Structure

Exchange Traded Market: A financial market, which has a centralized organization with the standardized procedure.

- **Over-the-Counter Market:** The over-the-counter (OTC) market is an example of a secondary market. An OTC market handles the exchanging of public stocks not listed on the NASDAQ, New York Stock Exchange or American Stock Exchange. Companies with stocks trading on the OTC market are usually smaller organizations, as this financial market requires less regulation and is less expensive to be traded on.
- **Financial Markets for Bonds:** A bond is a security in which an investor loans money for a defined period of time at a pre-established rate of interest. Bonds are not only issued by corporations but may also be issued by municipalities, states, and federal governments from around the world. Also referred to as the debt, credit or fixed-income market, the bond market sells securities such as notes and bills issued from the United States Treasury.
- **Derivatives Market:** The derivatives market is a financial market that trades securities that derive its value from its underlying asset. The value of a derivative contract is determined by the market price of the underlying item. This financial market trades derivatives including forward contracts, futures, options, swaps, and contracts-for-difference.
- **Foreign Exchange (Forex) Market:** The forex market is a financial market where currencies are traded. This financial market is the most liquid market in the world, as cash is the most liquid of assets. The interbank market is the financial system that trades currency between banks.

Players of the Financial Market

1. **The individuals:** These are net savers and purchase the securities issued by corporates. Individuals provide funds by subscribing to these security or by making other investments.
2. **The Firms or corporates:** The corporates are net borrowers. They require funds for different projects from time to time. They offer different types of securities to suit the risk preferences of investors'. The funds raised by issue of securities are

invested in real assets like plant and machinery. The income generated by these real assets is distributed as interest or dividends to the investors who own the securities.

3. **Government:** Government may borrow funds to take care of the budget deficit or as a measure of controlling the liquidity, etc. Government may require funds for long terms (which are raised by issue of Government loans) or for short-terms (for maintaining liquidity) in the money market. Government makes initial investments in public sector enterprises by subscribing to the shares, however, these investments (shares) may be sold to public through the process of disinvestments.
4. **Regulators:** Financial system is regulated by different government agencies. The relationships among other participants, the trading mechanism and the overall flow of funds are managed, supervised and controlled by these statutory agencies. In India, two basic agencies regulating the financial market are the Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI). Reserve Bank of India, being the Central Bank, has the primary responsibility of maintaining liquidity in the money market. It undertakes the sale and purchase of treasury bills T-Bills on behalf of the Government of India. SEBI has a primary responsibility of regulating and supervising the capital market. It has issued a number of Guidelines and Rules for the control and supervision of capital market and investors' protection. Besides, there is an array of legislation's and government departments also to regulate the operations in the financial system.
5. **Market Intermediaries:** There are a number of market intermediaries known as financial intermediaries or merchant bankers, operating in financial system. These are also known as investment managers or investment bankers. The objective of these intermediaries is to smoothen the process of investment and to establish a link between the investors and the users of funds. Market intermediaries help investors to select investments by providing investment consultancy, market analysis and credit rating of investment instruments.
6. **Lead Managers:** In a syndicate, an underwriting firm immediately subordinate to the managing underwriter. A syndicate is a group of underwriters responsible for placing a new issue of a security with investors. Every syndicate is a temporary

arrangement. The lead manager is assigned the second-largest part of the new issue for placement. A lead manager is also called an arranger.

7. **Bankers to the Issue:** Bankers to the issue, as the name suggests, carries out all the activities of ensuring that the funds are collected and transferred to the Escrow accounts (Account in which funds are accumulated for specific disbursements. Where an accountholder makes monthly or other periodic deposits, and authorizes the bank to withdraw funds to pay for certain fixed obligations such as taxes, rent and insurance premium).
8. **Registrar and Share Transfer Agents:** Registrar or transfer agents are the trusts or institutions that register and maintain detailed records of the transactions of investors for the convenience of mutual fund houses.
9. **Depositories:** A Depository is an organization which holds investors' securities in electronic form. The depository also provides services related to various transactions in such securities.
10. **Clearing Corporations:** A clearing corporation is an organization associated with an exchange to handle the confirmation, settlement and delivery of transactions. Clearing corporations fulfill the main obligation of ensuring transactions are made in a prompt and efficient manner. Clearing corporations are also referred to as "clearing firms" or "clearing houses."
11. **Share brokers:** A stockbroker is a professional who executes buy and sell orders for stocks and other securities on behalf of clients. A stockbroker may also be known as a registered representative, investment adviser or simply, broker and associated with a brokerage firm and handle transactions for retail and institutional customers alike.
12. **Credit Rating Agencies:** An independent company that evaluates the financial condition of issuers of debt instruments and then assigns a rating that reflects its assessment of the issuer's ability to make the debt payments. Potential investors, customers, employees and business partners rely upon the data and objective analysis of credit rating agencies in determining the overall strength and stability of a company.

13. **Underwriters:** Underwriting is the process through which an individual or institution takes on financial risk for a fee. The risk most typically involves loans, insurance, or investments. The term underwriter originated from the practice of having each risk-taker write their name under the total amount of risk they were willing to accept for a specified premium.
14. **Custodians:** A custodian is a financial institution that holds customers' securities for safekeeping in order to minimize the risk of their theft or loss. A custodian holds securities and other assets in electronic or physical form. Since they are responsible for the safety of assets and securities that may be worth hundreds of millions or even billions of dollars, custodians generally tend to be large and reputable firms. A custodian is sometimes referred to as a "custodian bank."
15. **Portfolio Managers:** A portfolio manager manages mutual funds and other investment funds, such as hedge or venture funds. He or she is usually an experienced investor, broker, fund manager, or trader with general industry knowledge and a track record of results. Portfolio managers often have a specific investment approach, such as a focus on active or passive investments.
16. **Mutual Funds:** A mutual fund is a trust that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds.

Governments: The US Treasury and state and local governments raise large sums in the money market. The Treasury raises funds in the money market by selling short-term obligations of the U.S. government called Treasury bills. Bills have the largest volume outstanding and the most active secondary market of any money market instrument. Because bills are generally considered to be free of default risk, while other money market instruments have some default risk, bills typically have the lowest interest rate at a given maturity. State and local governments raise funds in the money market through the sale of both fixed- and variable-rate securities. A key feature of state and local securities is that their interest income is generally exempt from federal income taxes, which makes them particularly attractive to investors in high income tax brackets.

Corporations: Nonfinancial and nonbank financial businesses raise funds in the money market primarily by issuing commercial paper, which is a short-term unsecured

promissory note. In recent years an increasing number of firms have gained access to this market, and commercial paper has grown at a rapid pace. Business enterprises—generally those involved in international trade—also raise funds in the money market through bankers acceptances. A banker's acceptance is a time draft drawn on and accepted by a bank (after which the draft becomes an unconditional liability of the bank). In a typical bankers acceptance a bank accepts a time draft from an importer and then discounts it (gives the importer slightly less than the face value of the draft). The importer then uses the proceeds to pay the exporter. The bank may hold the acceptance itself or rediscount (sell) it in the secondary market.

Government-Sponsored Enterprises: Government-sponsored enterprises are a group of privately owned financial intermediaries with certain unique ties to the federal government. These agencies borrow funds in the financial markets and channel these funds primarily to the farming and housing sectors of the economy. They raise a substantial part of their funds in the money market.

Money Market Mutual Funds and Other Short-Term Investment Pools: Short-term investment pools are a highly specialized group of money market intermediaries that includes money market mutual funds, local government investment pools, and short-term investment funds of bank trust departments. These intermediaries purchase large pools of money market instruments and sell shares in these instruments to investors. In doing so, they enable individuals and other small investors to earn the yields available on money market instruments. These pools, which were virtually nonexistent before the mid-1970s, have grown to be one of the largest financial intermediaries in the US.

25. What is Term Loans?

If your business needs a sum of money to buy equipment or real estate up front, you need a term loan. This is a loan set to terms, meaning there is a set interest rate, down payment or collateral, monthly payments, and a term of months or years that consistent payments will be made through.

Businesses in the startup phase must provide a lot of documentation, business planning, and personal collateral for a bank to be willing to risk lending the funds to your new business. Operations in the growth and expansion stage typically see better results because they have consistent profits or rising sales to prove they have a good chance of repaying the loan.

26. Explain Lines of Credit

A different type of lending is done through a line of credit. Just like you can tap the equity in your home to finance a purchase, a bank can lend against the value of something in your business as collateral to help finance your operations. Lines of credit are usually more fluid since you may not need to use the maximum of what you are allowed to borrow.

27. Who are the different types of Investors?

Investors are the lenders in any market. Investors can be of two kinds:

Retail Investors: Retail investors: Retail investors are those individuals who participate in markets for their personal account and not for another company or organization.

Institutional Investors: Institutional investors: An institutional investor is an entity, company, mutual fund, insurance corporations, brokerage, or other such group that has a large amount of money or assets to invest. These firms typically represent investors who might be retail or other firms.

Financial Intermediaries: These are institutions or individuals which facilitate to channel funds between surplus and deficit agents and thus often act as middlemen.

28. Explain the term Broker

A broker is a commissioned agent of a buyer (or seller) who facilitates trade by locating a seller (or buyer) to complete the desired transaction. A broker does not take a position in the assets he or she trades in – that is, the broker does not maintain inventories in these assets. The profits of brokers are determined by the commissions they charge to the users of their services (the buyers, the sellers, or both).

For example, if seller X wants to sell 100 shares of Reliance but does not know where to find a buyer who will be willing to buy 100 shares at the price he is offering, X can contact a broker. The broker will find a seller who is willing to buy 100 shares of Reliance at the price being offered. Once the transaction is completed the broker will get a commission for brokering the deal. However the broker will not hold any inventories i.e., the broker will not buy shares either from the market or from other sellers and hold them till he gets a buyer to offload the same. If contacted by a buyer or seller, he will have located a corresponding buyer or seller to complete the transaction.

29. Explain Underwriting

Guaranteeing corporations that the securities on offer will be fully subscribed to. This is in return for what is called as underwriting fees. For example, if company A wants to go public, it can directly go to the end investors with their shares. However there is no guarantee that it will be able to find investors who are willing to buy their shares (especially if the company is not well known or new). Here the investment bank steps in and agrees to buy all the shares at an agreed price if people do not subscribe to the same. They will then sell these shares in the market (using their distribution chain) for a higher price making a profit on the margin.

30. Explain Market Makers

A market maker is an intermediary who is willing and ready to buy and sell securities. The market maker provides a two way quote in the market, thus creating a market for the securities.

Let us imagine a hypothetical situation where there is only one buyer and one seller for security X on any given day. If this security is traded on the exchange, and the exchange is open for 6 hours, then for the trade to happen, the buyer and seller need to meet at a common time on the exchange. If the timing does not match, then the trade will not take place, even though a buyer and a seller exist for the security.

It is in these cases that a market maker is useful. By providing a two way quote, he buys from the seller and later during the day, he sells the securities to the buyer, thus creating a market. The market maker earns from the Bid-Ask spread. The more liquid the security, the narrower is the Bid-Ask spread. Thus market makers help to create liquidity and efficiency in the market.

31. Define Depository

A bank or company which holds securities deposited by others, and where exchanges of these securities take place is defined as a depository. It can also be defined as an organization where the securities of an investor are held in electronic form, at the request of the investor through the medium of a Depository Participant.

A depository can be compared to a bank for shares. Just as a bank holds cash in your account and provides all services related to the transaction of cash, a depository holds securities in electronic form and provides all services related to transaction of shares /

debt instruments. A depository interacts with clients through a Depository Participant (DP) with whom the client has to maintain a Demat Account. When a transaction happens in the security exchange, the depository is instructed to transfer the shares from the seller's account to the buyer's account (this is similar to the payment process in a bank where the payment is transferred from the buyer's account to the seller's account).

32. Define a Clearing House

A clearing house takes responsibility for settling the obligations for the respective counter-parties on maturity of the trades as well as during their tenure. This ensures that trades done through exchanges have a very low settlement risk.

33. Who are the Information Providers?

Information providers provide live and historical quotes for all exchanges, newsroom information, technical charts, financial analyses, etc. Reuters and Bloomberg are major information providers across the world for financial data. Live information on prices and market movements helps to make the markets more transparent by providing reliable information to investors, on the basis of which they can take decisions.

34. Who are Rating Agencies?

A credit rating agency is an organization that rates the ability of a person or company to pay back a loan. These are independent professional firms that conduct in-depth research on companies and securities issued by them. The rating given by a credit rating agency is important because it affects the perceived risk element incorporated into interest rates that are applied to loans. For example, if the bonds of company A have a low rating then the company will have to give a higher interest payout on these bonds in order to compensate for the risk an investor takes by investing in a bond with low rating (indicating higher risk of default by issuer).

Ratings are done at three levels:

Firm level rating: Rating of the entity itself

Rating of its long-term debt

Rating of its short-term debt