Call money and commercial bill market

Global Financial Market

As all the Financial Markets in India together form the Indian Financial Markets, all the Financial Markets of Asia together form the Asian Financial Markets; likewise all the Financial Markets of all the countries of the world together form the Global Financial Markets. Financial Markets deal with trading (buying and selling) of financial securities (stocks and bonds), commodities (valuable metals or food grains), and other exchangeable and valuable items at minimum transaction costs and market efficient prices. Financial Markets can be domestic or international. The Global Financial Markets work as a significant instrument for improved liquidity.

Financial Markets can be categorized into six types:

- Capital Markets: Stock markets and Bond markets
- Commodity Markets
- Money Markets
- Derivatives Markets: Futures Markets
- Insurance Markets
- Foreign Exchange Markets

The Financial Markets play a major role in the Global Economy because it helps businesses to raise capital (in capital markets), they facilitate transferring of risk (in derivative markets), and they help international trade (in currency markets) to prosper. The International Stock Markets form a major part of the Global Financial Markets. The Amsterdam Stock Exchange is the oldest stock exchange, which started operating in continuous trade in the earlier part of the 17th Century.

Some of the Important Stock Exchanges of the world are:

- The New York Stock Exchange (merged with Euro next): The New York Stock Exchange (NYSE) is a stock exchange based in New York City, USA that was incorporated in 1817. In terms of dollar volume, it is the largest stock exchange in the world, and in terms of the number of companies listed it is the second largest stock exchange in the world. The NYSE is also known as the Big Board. The indexes used in the NYSE are the NYSE Composite Index and the Dow Jones Industrial Average Index. The NYSE functions under NYSE Euro next, the formation of which was the result of NYSE's merger with Archipelago Holdings and Euro next.
- Tokyo Stock Exchange: The Tokyo Stock Exchange (TSE), incorporated in 1949, is located in Tokyo, Japan. In terms of monetary volume, The Tokyo Stock Exchange is the second largest stock exchange in the world, only next to New York Stock Exchange. The indexes used in the TSE are Nikkei 225, Topix, and J30.
- NASDAQ: The National Association of Securities Dealers Automated Quotations, or NASDAQ, is an electronic stock market based in New York City, USA that was incorporated in 1971. The NASDAQ Stock Market, Inc. is the owner and regulator of NASDAQ. The main index used in NASDAQ is the NASDAQ Composite.
- London Stock Exchange: Established in 1801, the London Stock Exchange (LSE) is one of the oldest and largest stock exchanges in the world. In terms of market capitalization, the London Stock Exchange was ranked 4th among all the other important stock exchanges in the

world in March 2007. The London Stock Exchange is located in Paternoster Square near St. Paul's Cathedral, London. The stock market index of London Stock Exchange is the Footsie (FTSE).

- Euro next (merged with NYSE): Founded in 2000, Euro next N. V. is a pan-European Stock Exchange, which is based in Paris. In terms of market capitalization, Euro next ranks as the fifth largest stock exchange in the world. There was a merger of Euro next with the NYSE Group, which led to the formation of NYSE Euro next and it is the first global stock exchange. The main indexes used in Euro next are the Euro next 100 Index and the Next 150 Index.
- The Bombay Stock Exchange (BSE): Located in Mumbai, India and founded in 1875, the Bombay Stock Exchange is the oldest stock exchange of Asia. The main index of BSE is called the BSE Sensex (Sensitive Index) or the BSE 30. In terms of volume of transactions, the BSE was ranked as one of the top five stock exchanges in the world in 2005. Some terms that are used in the Global Financial Markets are:
- Geek, a Quant
- Grim
- Nerd, a Quant
- Quant
- Big Swinging Dick
- Rocket Scientist
- White Knight

Today equity research has become a specialized activity, although confined to a very small segment of the market. It would be a little early to consider equity research as an independent business segment, but at the same time it must be appreciated that the value of equity research is being felt by the market. This is an interesting stage in the growth and development of equity research, especially in a situation where the traditional individual investor is unwilling to pay for vital stock related information while the institutional investor is already paying for research reports. The phenomenal growth of the financial markets over the last quarter of a century has meant that the very character of investment has changed with ever larger scales of market capitalization. The emergence of the Fund Manager as a new value addition in investment related financial services is actually a part of the growth and development of the institutional investor. The fund manager's sole objective is to ensure maximum returns for his clients whose money he invests working in tandem with research inputs. The fund manager and his client are a vital part of the institutional investment process sustained by an advanced and research driven approach to capital market investment. Equity research still has some time to develop as a sustainable business model, but like any other research activity it has its limitations in developing into a booming business. Institutional investors are willing to pay ever higher amounts for in-depth and precise research in accordance with their requirements. Some of the modes of equity research are:

- Fundamental Analysis
- Technical Analysis
- Securities Market Analysis
- Index Momentum Analysis
- Securities Momentum Analysis

- Securities Chart Analysis

India N Financial Market

India Financial market is one of the oldest in the world and is considered to be the fastest growing and best among all the markets of the emerging economies. The history of Indian capital markets dates back 200 years toward the end of the 18th century when India was under the rule of the East India Company. The financial market in India today is more developed than many other sectors because it was organized long before with the securities exchanges of Mumbai, Ahmadabad and Kolkata were established as early as the 19th century. By the early 1960s the total number of securities exchanges in India rose to eight, including Mumbai, Ahmadabad and Kolkata apart from Madras, Kanpur, Delhi, Bangalore and Pune. Today there are 21 regional securities exchanges in India in addition to the centralized NSE (National Stock Exchange) and OTCEI (Over the Counter Exchange of India). The corporate sector wasn't allowed into many industry segments, which were dominated by the state controlled public sector resulting in stagnation of the economy right up to the early 1990s. Thereafter when the Indian economy began ' liberalizing' and the controls began to be dismantled or eased out, the securities markets witnessed a flurry of IPOs that were launched. This resulted in many new companies across different industry segments to come up with newer products and services.

A remarkable feature of the growth of the Indian economy in recent years has been the role played by its securities markets in assisting and fuelling that growth with money rose within the economy. This was in marked contrast to the initial phase of growth in many of the fast growing economies of East Asia that witnessed huge doses of FDI (Foreign Direct Investment) spurring growth in their initial days of market decontrol. During this phase in India much of the organized sector has been affected by high growth as the financial markets played an all-inclusive role in sustaining financial resource mobilization. Many PSUs (Public Sector Undertakings) that decided to offload part of their equity were also helped by the well-organized securities market in India. The launch of the NSE (National Stock Exchange) and the OTCEI (Over the Counter Exchange of India) during the mid 1990s by the government of India was meant to usher in an easier and more transparent form of trading in securities. The NSE was conceived as the market for trading in the securities of companies from the large-scale sector and the OTCEI for those from the small-scale sector. While the NSE has not just done well to grow and evolve into the virtual ' backbone' of capital markets in India the OTCEI struggled and is yet to show any sign of growth and development. The integration of IT into the capital market infrastructure has been particularly smooth in India due to the country's world class IT industry. This has pushed up the operational efficiency of the Indian stock market to global standards and as a result the country has been able to capitalize on its high growth and attract foreign capital like never before.

Potential Of India Financial Market

India Financial Market helps in promoting the savings of the economy – helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply. The various other types of Indian markets help in the functioning of the wide India financial sector.

Features Of Financial Market In India:

- India Financial Indices – BSE 30 Index, various sector indexes, stock quotes, Sensex charts, bond prices, foreign exchange, Rupee & Dollar Chart
- Indian Financial market news
- Stock News – Bombay Stock Exchange, BSE Sensex 30 index, S&P CNX-Nifty, company information, issues on market capitalization, corporate earnings statements
- Fixed Income – Corporate Bond Prices, Corporate Debt details, Debt trading activities, Interest Rates, Money Market, Government Securities, Public Sector Debt, External Debt Service
- Foreign Investment – Foreign Debt Database composed by BIS, IMF, OECD,& World Bank, Investments in India & Abroad
- Global Equity Indexes – Dow Jones Global indexes, Morgan Stanley Equity Indexes
- Currency Indexes – FX & Gold Chart Plotter, J. P. Morgan Currency Indexes
- National and Global Market Relations
- Mutual Funds
- Insurance
- Loans

- Forex and Bullion

Indian Money Market

AS PER RBI DEFINITIONS

" A market for short terms financial assets that are close substitute for money, facilitates the exchange of money in primary and secondary market".

Indian money market was highly regulated and was characterized by limited number of participants. The limited variety and instruments were available. Interest rate on the instruments was under the regulation of Reserve Bank of India. The sincere efforts for developing the money market were made when the financial sector reforms were started by the government.

Money markets are the markets for short-term, highly liquid debt securities. Examples of these include bankers' acceptances, repos, negotiable certificates of deposit, and Treasury Bills with maturity of one year or less and often 30 days or less. Money market securities are generally very safe investments, which return relatively; low interest rate that is most appropriate for temporary cash storage or short term time needs. The National Stock Exchange, where the stocks of the largest Indian. Corporations are traded, is a prime example of a capital primary market. Regarding timing, there is no hard and fast rule on this, but when describing debt markets, short term generally means less than one year, intermediate term means one to five years, and long term means more than five years.

The Nature Of Money Markets

In this we define money markets broadly to include all financial instruments easily converted to means of payment that are used by governments, financial institutions and nonfinancial institutions for short-term funding or placements. By convention, we limit our scope to instruments of less than one year maturity.

The most important function of a money market is to provide a means whereby economic units can quickly adjust through cash positions. For all economic units (business, household's financial institutions or governments) the timing of cash inflows is rarely perfectly synchronized or predictable in the short run. In addition to facilitating the liquidity management of economic actors, money markets fulfill a number of additional economic functions:

1. Interest rates on money market instruments serve as reference rates for pricing all debt instruments;

2. Governments or central banks use money market instruments as tools at monetary policy;

3. Short-term interbank markets, finance longer-term lending when financial intermediaries transform maturities.

Features Of Money Market

- It is a market purely for short-terms funds or financial assets called near money.

- It deals with financial assets having a maturity period less than one year only.
- In Money Market transaction cannot take place formal like stock exchange, only through oral communication, relevant document and written communication transaction can be done.
- Transaction has to be conducted without the help of brokers.
- It is not a single homogeneous market, it comprises of several submarket like call money market, acceptance & bill market.
- The components of Money Market are the commercial banks, acceptance houses & NBFC (Non-banking financial companies).
- It is not a single market but a collection of markets for several instruments.
- It is a need-based market wherein the demand & supply of money shape the market.
- Money market is basically over-the-phone market.
- Dealing in money market may be conductive with or without the help of brokers.
- It is a market for short-term financial assets that are close substitutes for money.
- Financial assets which can be converted into money with ease, speed, without loss & with minimum transaction cost are regarded as close substitutes for money.

The Major Players Of Money Market

- Reserve Bank of India

- SBI DFHI Ltd (Amalgamation of Discount & Finance House in India and SBI in 2004)
- Acceptance Houses
- Commercial Banks, Co-operative Banks and Primary Dealers are allowed to borrow and lend.
- Specified All-India Financial Institutions, Mutual Funds, and certain specified entities are allowed to access to Call/Notice money market only as lenders
- Individuals, firms, companies, corporate bodies, trusts and institutions can purchase the treasury bills, CPs and CDs.

Money Market Instruments

Money market instruments take care of the borrowers' short-term needs and render the required liquidity to the lenders. The varied types of India money market instruments are treasury bills, repurchase agreements, commercial papers, certificate of deposit, and banker's acceptance.

Treasury Bills (T-Bills) – Treasury bills were first issued by the Indian government in 1917. Treasury bills are short-term financial instruments that are issued by the Central Bank of the country. It is one of the safest money market instruments as it is void of market risks, though the return on investments is not that huge. Treasury bills are circulated by the primary as well as the secondary markets. The maturity periods for treasury bills are respectively 3-month, 6-month and 1-year. The price with which treasury bills are issued comes separate from that of the face value, and the face value is achieved upon maturity. On maturity, one gets the interest on the buy value as well. To be specific, the buy value is determined by a bidding process, that too in auctions.

Repurchase Agreements – Repurchase agreements are also called repos. Repos are short-term loans that buyers and sellers agree upon for selling and repurchasing. Repo transactions are allowed only among RBI-approved securities like state and central government securities, T-bills, PSU bonds, FI bonds and corporate bonds. Repurchase agreements, on the other hand, are sold off by sellers, held back with a promise to purchase them back at a certain price and that too would happen on a specific date. The same is the procedure with that of the buyer, who purchases the securities and other instruments and promises to sell them back to the seller at the same time.

Commercial Papers – Commercial papers are usually known as promissory notes which are unsecured and are generally issued by companies and financial institutions, at a discounted rate from their face value. The fixed maturity for commercial papers is 1 to 270 days. The purposes with which they are issued are – for financing of inventories, accounts receivables, and settling short-term liabilities or loans. The return on commercial papers is always higher than that of T-bills. Companies which have a strong credit rating, usually issue CPs as they are not backed by collateral securities. Corporations issue CPs for raising working capital and they participate in active trade in the secondary market. It was in 1990 that Commercial papers were first issued in the Indian money market.

Certificate of Deposit – A certificate of deposit is a borrowing note for the short-term just similar to that of a promissory note. The bearer of a certificate of deposit receives interest. The maturity date, fixed rate of interest and a fixed value – are the three components of a certificate of deposit. The term is generally between 3 months to 5 years. The funds cannot be withdrawn instantaneously on demand, but has the facility of being liquidated, if a certain amount of penalty is paid. The risk associated with certificate of deposit is higher and so is the return (compared to T-bills). It was in 1989 that the certificate of deposit was first brought into the Indian money market.

Bankers Acceptance – A banker's acceptance is also a short-term investment plan that comes from a company or a firm backed by a guarantee from the bank. This guarantee states that the buyer will pay the seller at a future date. One who draws the bill should have a sound credit rating. 90 days is the usual term for these instruments. The term for these instruments can also vary between 30 and 180 days. It is used as time draft to finance imports, exports.

It depends on the economic trends and market situation that RBI takes a step forward to ease out the disparities in the market. Whenever there is a liquidity crunch, the RBI opts either to reduce the Cash Reserve Ratio (CRR) or infuse more money in the economic system. In a recent initiative, for overcoming the liquidity crunch in the Indian money market, the RBI infused more than Rs 75, 000 crore along with reductions in the CRR.

Call Money Market

The call money market consists of overnight money and money at short notice for periods up to 14 days. It essentially serves the purpose of equilibrating the short-term liquidity position of banks. The call money market as a significant component of the money market possesses a few special characteristics:-

(1) Call money is an instrument for ultra-short period management of funds and is easily reversible.

(2) It is primarily a " telephone" market and is therefore, administratively convenient to manage for both borrowers and lender.

(3) Being an instrument of liability management, it provides incremental funds and adds to the size of balance sheet of banks.

From the macro-side, developed call money market helps to smoothen the fluctuations in the reserve-deposit rations of banks thereby contributing to the stability of the money-multiplier process. A stable money multiplier in turn serves as a reliable means of monetary regulation and policy guide. From the micro angle, short-run borrowing by banks improves the efficiency of funds management in two ways. One way, it enables banks to hold higher reserve-deposit ratio than would be possible otherwise. In another way, it allows some banks to permanently increase their pool of investible funds. Hence, active well-organized call money market improves the funds management practices of banks which in turn further their overall efficiency and profitability.

The money market continued to remain orderly during Q2 of 2009-10. Reflecting the surplus liquidity conditions, the call rate hovered around the lower bound of the informal LAF corridor during the Q2 of 2009-10). The call rate averaged 3. 25 per cent in Q2, which was marginally higher than 3. 22 per cent in Q1. Interest rates in the collateralized segments of the money market – the market repo and the collateralized borrowing and lending obligation moved in tandem with the call rate during Q2 but remained below the call rate. The weighted average interest rate in the collateralized segment of the money market marginally increased to 2. 7 per cent during Q2 of 2009-10 from 2. 4 per cent during Q1. Transaction volumes in CBLO and market repo segments continued to remain high during Q2 of 2009-10 reflecting the easy liquidity and active market conditions. Banks as a group are the major borrowers in the collateralized segment whereas mutual funds (MFs) continue to remain the single largest lender of funds in that segment. In fact, more than 75 per cent of the lending in the collateralized segment was contributed by the MFs in Q2, reflecting their continued enhanced lending capacity. The collateralized market remained the predominant segment of the money market, accounting for more than 80 per cent of the total volume in the money market in Q2.

Source= http://www. rbi. org. in/scripts/BS_ViewBulletin. aspx? Id= 10690#t56

Objective of call Money Market

- To provide a parking place to employ short   term surplus funds.
- To provide room for overcoming short term deficits.
- To enable the central bank to influence and regulate liquidity in the economy through its intervention in this market.

- To provide a reasonable access to users of short-term funds to meet their requirement quickly, adequately at reasonable cost.

Importance of call Money Market

- Development of trade & industry.
- Development of capital market.
- Smooth functioning of commercial banks.
- Effective central bank control.
- Formulation of suitable monetary policy.
- Non inflationary source of finance to government.
- To provide help to the industry and trade.

some guidelines regarding call money market by r. b. i

- It may be recalled that in the annual policy Statement of April 2008, the intention to move towards a pure inter-bank call/notice money market by gradually phasing out non-bank participation was highlighted. Accordingly, in stage I, non-bank participants are allowed to lend, on average in a reporting fortnight, up to 85 per cent of their average daily lending during 2007-08.
- Subsequently, in the annual policy Statement of April 2008, it was stated that RBI would announce the date of effectiveness of stage II, wherein non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call/notice market during 2007-08, depending on the date when NDS/CCIL becomes fully operational.
- In view of the encouraging developments in the functioning of NDS/CCIL, it is desirable to accelerate the progress of moving towards

a pure inter-bank call/notice money market and facilitate further deepening of repo/term money market. Accordingly, it has been decided that effective from the fortnight beginning June 14, 2007, under stage II, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call/notice money market during 2007-08.

- However, in case a particular non-bank institution has genuine difficulty in deploying its excess liquidity, RBI may consider providing temporary permission to lend a higher amount in call/notice money market for a specific period on a case by case basis.
- To facilitate monitoring of your operations in call/notice money market on a daily basis, you are requested to continue to submit the daily return in time to the Principal Monetary Policy Adviser, MPD, RBI as per the extant practice.

Current market rate = 2. 10% – 3. 30%

Commercial Bill Market

Bills of exchange are negotiable instruments, drawn by the seller (drawer) of the goods on the buyer (drawee) of the goods for the value of the goods delivered. These bills are known as trade bills. Trade bills are called commercial bills when they are accepted by commercial banks. If the bill is payable at a future date and the seller needs money during the currency of the bill, he may approach his bank to discount the bill. The maturity proceeds or face value of a discounted bill from the drawee is received by the bank. If the bank needs funds during the currency of bill, it can rediscount the bill that has been already discounted by it in the commercial bill rediscount market at the available market discount rate. The RBI introduced the Bills Market scheme (BMS) in 1952 and the scheme was later modified into the New Bills Market Scheme (NBMS) in 1970. Under the scheme, commercial banks can rediscount the bills, which were originally discounted by them, with approved institutions.

With the intention of reducing paper movements and in a bid to facilitate multiple rediscounting, the RBI introduced an instrument called Derivative Usance Promissory Notes (DUPN). Consequently, the need for the physical transfer of bills has been waived and the bank that originally discounts the bills only draws DUPN. These DUPNs are sold to investors in convenient lots of maturities (from 15 days up to 90 days) on the basis of genuine trade bills, discounted by the discounting bank.

Commercial bill is a short term, negotiable, and self-liquidating instrument with low risk. It enhances he liability to make payment in a fixed date when goods are bought on credit. According to the Indian Negotiable Instruments Act, 1881, bill or exchange is a written instrument containing an unconditional order, signed by the maker, directing to pay a certain amount of money only to a particular person, or to the bearer of the instrument. Bills of exchange are negotiable instruments drawn by the seller (drawer) on the buyer (drawee) or the value of the goods delivered to him. Such bills are called trade bills. When trade bills are accepted by commercial banks, they are called commercial bills. The bank discounts this bill by keeping a certain margin and credits the proceeds. Banks, when in need of money, can also get such bills rediscounted by financial institutions such as LIC, UTI, GIC, ICICI and IRBI. The maturity period of the bills varies from 30 days, 60 days or 90 days, depending on the credit extended in the industry.

Characteristics Of Commercial Bill

- Securities offered to the public must be registered with the Securities and Exchange Commission according to the Securities Act of 1933. Registration requires extensive public disclosure, including issuing a prospectus on the offering. It is a time-consuming and expensive process. Most commercial paper is issued under Section 3(a) (3) of the 1933 Act which exempts from registration requirements short-term securities as long as they have certain characteristics.
- Commercial paper is typically a discount security (like Treasury bills): the investor purchases notes at less than face value and receives the face value at maturity. The difference between the purchase price and the face value, called the discount, is the interest received on the investment.
- Commercial paper is, occasionally, issued as an interest-bearing note (by request of investors). The investor pays the face value and, at maturity, receives the face value and accrued interest. All commercial paper interest rates are quoted on a discount basis.
- The exemption requirements have been a factor shaping the characteristics of the commercial paper market. The following are requirements for exemption: – The maturity of commercial paper must be less than 270 days. In practice, most commercial paper has a maturity of between 5 and 45 days, with 30-35 days being the average maturity.

- Many issuers continuously roll over their commercial paper, financing a more-or-less constant amount of their assets using commercial paper. The nine-month maturity limit is not violated by the continuous rollover of notes, as long as the rollover is not automatic but is at the discretion of the issuer and the dealer. Many issuers will adjust the maturity of commercial paper to suit the requirements of an investor.
- That proceeds from commercial paper issues be used to finance " current transactions," which include the funding of operating expenses and the funding of current assets such as receivables and inventories. Proceeds cannot be used to finance fixed assets, such as plant and equipment, on a permanent basis.
- A safekeeping agent hired by the investor held the certificates, until presented for payment at maturity. The " settling" of the transaction, (the exchange of funds for commercial paper first at issuance and then at redemption, occur in one day. On the day the commercial paper is issued and sold, the investor receives and pays for the notes and the issuer receives the proceeds. On the day of maturity, the investor presents the notes and receives payment. Commercial banks, in their role as issuing, paying, and clearing agents, facilitate the settling of commercial paper by carrying out the exchanges between issuer, investor, and dealer required to transfer commercial paper for funds.

Types Of Commercial Bills:

Commercial bill is an important tool finance credit sales. It may be a demand bill or a usance bill. A demand bill is payable on demand, that is immediately at sight or on presentation by the drawee. A usance bill is payable after a specified time. If the seller wishes to give sometime for payment, the bill would be payable at a future date. These bills can either be clean bills or documentary bills. In a clean bill, documents are enclosed and delivered against acceptance by drawee, after which it becomes clear. In the case of a documentary bill, documents are delivered against payment accepted by the drawee and documents of bill are filed by bankers till the bill is paid.

Commercial bills can be inland bills or foreign bills.

Inland bills must (1) be drawn or made in India and