JAIPURIA INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM (G)

TRIMESTER (Batch 2020-22)

END-TERM EXAMINATIONS, OCTOBER 2021

Set-I

Course Name	Financial Market & Services	Course Code & Title	**FIN 403**
Max. Time	**2 hours**	Max. Marks	**40 Marks**

INSTRUCTIONS:

- Answer in your own language and be precise else you will lose time.
- This Question Paper Contains two parts. Both parts and all questions from both parts are compulsory. All parts of a question should be answered in one place.
- No need to use MS Word or any other editor for writing theory or application related answers.
- There is no negative marking.
- Use of calculators/MS Excel is allowed.

PART A – CASES **[30 MARKS]**

Please read the following and answer the questions that follow: [5X6=30 Marks]

Part 1. Commercial Papers and Discounted Instruments

1. **Commercial Paper (CP)** is an unsecured money market instrument issued in the form of a promissory note. CP, as a privately placed instrument, was introduced in India in 1990 with a view to enable highly- rated corporate borrowers to diversify their sources of short-term borrowing and to provide an additional instrument to investors. Subsequently, Primary Dealers (PDs) and all-India Financial Institutions (FIs) were also permitted to issue CP to enable them to meet their short-term funding requirements. The guidelines for the issue of CP, incorporating all the amendments issued till date, are given below for ready reference.

2. Eligibility for Issue of CP

(a) Companies, PDs and FIs are permitted to raise short-term resources through CP.
(b) A company would be eligible to issue CP provided:
(i) the tangible net worth of the company, as per the latest audited balance sheet, is not less than 5 crore;
(ii) the company has been sanctioned working capital limit by bank/s or FIs; and

(iii) the borrowal account of the company is classified as a standard asset by the financing bank/institution.

1. Explain the utility of Commercial Papers for Corporates as borrowing instrument and compare borrowing though CP Versus borrowing through a Bank. [6 Marks]

Part 2: Settlements and Trading

(a) All OTC trades in CP shall be reported within 15 minutes of the trade to the reporting platform of Clearcorp Dealing System (India) Ltd.(CDSIL).
(b) OTC trades in CP shall be settled through the clearing house of the National Stock Exchange (NSE), i.e., the National Securities Clearing Corporation Limited (NSCCL), the clearing house of the Bombay Stock Exchange (BSE), i.e., Indian Clearing Corporation Limited (ICCL), and the clearing house of the MCX-Stock Exchange, i.e., MCX-SX Clearing Corporation Limited (CCL), as per the norms specified by NSCCL, ICCL and CCL from time to time.
(c) The settlement cycle for OTC trades in CP shall either be T+0 or T+1.

2. Describe the meaning of the term "Settlement of a Security". Explain the meaning of T+0 and T+1 settlement and the reason for this procedure of settlement. [6 marks]

Part 3: Call Money Markets

There is an inverse relationship between call rates and short-term money market instruments such as certificates of deposit and commercial papers. When call rates peak to a high level, banks raise more funds through certificates of deposit. When call money rates are lower, many banks fund commercial papers by borrowing from the call money market and earn profits through arbitrage between money market segments.

A large issue of government securities also affects call money rates. When banks subscribe to large issues of government securities, liquidity is sucked out from the banking system. This increases the demand for funds in the call money market which pushes up call money rates. Similarly, a rise in the CRR or in the repo rate absorbs excess liquidity and call rates move up.

The call money market and the foreign exchange market are also closely linked as there exist arbitrage opportunities between the two markets. When call rates rise, banks borrow dollars from their overseas branches, swap them for rupees, and lend them in the call money market. At the same time, they buy dollars forward in anticipation of their repayment liability. This pushes forward the premia on the rupee– dollar exchange rate. It happens many a times that banks fund foreign currency positions by withdrawing from the call money market. This hikes the call money rates.

3. "There is an inverse relationship between call rates and short-term money market instruments such as certificates of deposit and commercial papers."

Interpret this statement and indicate the key message underlying this statement.

[6 Marks]

Part 4: Equity Markets

1. The issuer shall, in consultation with lead book runner, determine the issue price based on the bids received.
2. On determination of the price, the number of specified securities to be offered shall be determined (*i.e.*, issue size divided by the price to be determined).
3. Once the final price (cut-off price) is determined, all those bidders whose bids have been found to be successful (*i.e.*, at and above the final price or cut-off price) shall be entitled for allotment of specified securities.
4. Retail individual investors may bid at 'cut off' price instead of their writing the specific bid price in the bid forms.
5. The lead book runner may reject a bid placed by a qualified institutional buyer for reasons to be recorded in writing provided that such rejection shall be made at the time of acceptance of the bid and the reasons therefore shall be disclosed to the bidders.

Necessary disclosures in this regard shall also be made in the red herring prospectus.

4. Explain the role of Lead Book runner and Issuer in the process of IPO. Distinguish between Primary and Secondary Markets [6 Marks]

Part 5: Debt Markets

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 stipulates that the Reserve Bank cannot participate in the primary auctions of government securities from April 1, 2006. Due to this, the responsibility of supporting government securities auctions has shifted to the primary dealers (PDs). PDs are expected to play an active role in the government securities market, both in its primary and secondary market segments. In order to enable PDs to perform their role effectively, the RBI has cast certain obligations upon PDs.

The major roles and obligations of PDs are:
1. PDs are required to support primary market auctions for issue of Government dated securities and Treasury Bills as per the minimum norms for underwriting commitment, bidding commitment and success ratio as prescribed by RBI from time to time.
2. PDs should offer two-way prices (market making) in Government securities, through the Negotiated Dealing System-Order Matching (NDS-OM), over-the-counter market and recognized Stock Exchanges in India and take principal positions in the secondary market for Government securities.

5. "The responsibility of supporting government securities auctions has shifted to the primary dealers (PDs)". Explain the role played by PDs in supporting government securities auction.

[6 Marks]

PART B – SECURITY ISSUANCE [10 MARKS]

6. Distinguish between Price Based and Yield Based Auction for government securities and illustrate examples of each. [5+5 MARKS]