Secondary Stage

In Accordance with NCF 2023

11

CBSE

A Textbook of

Financial Markets Management

Skill Education | CODE 805

FULLMARKS

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PREFACE

Financial Skills are indispensable abilities that enable learners to make well-informed judgments and decisions regarding money management. These skills play a crucial role in enhancing quality of life and living standards by promoting practices such as budgeting, disciplined saving, and intelligent use of credit for important life milestones like home purchasing, education planning, marriage, retirement, etc. In the 22nd century, possessing strong financial skills will be essential for navigating the complexities of an increasingly interconnected and dynamic global economy.

This book has been meticulously crafted to provide learners with a clear and comprehensive understanding of various aspects of financial management. It covers topics ranging from the basics of trading to the intricacies of different investment products such as equity, futures, and options. By delving into these concepts, learners will gain the knowledge and confidence to navigate the world of investment and trading practices effectively, ultimately empowering them to make sound financial decisions that contribute to their long-term financial well-being.

Your feedback and suggestions for further improvement of the book are highly valued.

–Publishers

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	Total	**90**	**40**
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Unit-1: Markets and Financial Instruments

1 Investment

Learning Outcomes

1.1 Investment

1.2 Options Available for Investment

1.1 Investment

Your income is typically divided into spending and savings. Instead of leaving your savings idle, you should choose to invest them to generate returns in the future. This practice is known as investment.

1.1.1 Need of investment

Investment serves several purposes, including:

- Earning returns on your unused funds.
- Accumulating a specific sum for a particular life goal.
- Preparing for an uncertain future, such as dealing with inflation, which erodes the purchasing power of money over time.

To illustrate, if there is a 6% inflation rate over the next two decades, an item costing ₹ 100 today would cost ₹ 321 in 20 years. Thus, considering inflation is crucial for long-term investment, and the goal should be to outpace the inflation rate, ensuring that your investment grows in real terms. In case of your investment's after-tax return is lower than the inflation rate, the value of your assets diminishes.

1.1.2 When to start investment

Starting investments at an early stage is advantageous. It grants your investments more time to grow, capitalizing on the compounding effect. The key principles for all investors are as follows:

- Start investing at an early stage.
- Maintain a regular investment habit.
- Think long term, not short term investments.

1.1.3 Care one should take while investing

Prior to making any investment, there are essential steps to guarantee the safety of your investments. The following are 12 vital steps for investment:

(*i*) Obtaining written documents explaining the terms and conditions of investment.

(*ii*) Reading and comprehending these documents.

(*iii*) Ensuring the investment's legitimacy.

(*iv*) Understanding the costs and benefits associated with it.

(*v*) Assessing the risk-return profile of the investment.

(*vi*) Understanding the liquidity and safety aspects.

(*vii*) Determining if it aligns with your specific financial goals.

(*viii*) Comparing it with other investment opportunities.

(*ix*) Assessing its compatibility with your existing investments.

(*x*) Conducting transactions only through authorized intermediaries.

(*xi*) Seeking clarifications about the intermediary and the investment, and proceeding only if you are comfortable.

(*xii*) Exploring options in case something goes wrong, and then making an informed investment decision.

1.1.4 Interest

Interest is the cost incurred when you borrow money, essentially the fee for using a lender's funds. Interest is generally calculated as a percentage of the principal amount borrowed. The interest rate may either remain fixed for the loan's duration or be variable based on the loan terms.

1.1.5 Factors that Determine Interest Rates

Interest rates come in various forms, such as those offered by banks to depositors, the rates at which banks lend to borrowers, government bond rates, small savings scheme rates like NSC and PPF, and corporate fixed deposit rates. These interest rates are primarily influenced by macroeconomic factors, including:

- Demand for money.
- Money supply.
- Government borrowing levels.
- Inflation rates.

The policies set by the Reserve Bank of India and the government plays a role in determining these variables.

1.2 Options Available for Investment

Managing personal finances effectively involves making informed decisions about investments. These decisions depend on several factors, including investment duration, risk tolerance, and financial goals. In this extensive guide, we will explore various short-term and long-term financial investment options, providing a detailed overview of each choice. By the end of this comprehensive article, you will have a comprehensive understanding of the diverse investment avenues available to you.

1.2.1 Various Short-term Financial Options Available for Investment

Short-term financial investment options are well-suited for individuals seeking quick returns with relatively low risk. This section will discuss three primary short-term financial instruments: Savings Bank Accounts, Money Market/Liquid Funds, and Fixed Deposits with Banks.

Savings Bank Accounts: A savings bank account is often the first financial product individuals open. These accounts offer low interest rates, typically ranging from 4% to 6% per annum. While they provide easy access to funds, they are not known for substantial returns. However, they offer marginally higher interest compared to fixed deposits.

Savings accounts are the most basic form of a bank account, where individuals can deposit their money securely and access it as needed. While the interest rates are low, they offer a safe place to park your money and maintain liquidity.

Money Market or Liquid Funds: Money market or liquid funds are specialized forms of mutual funds that invest in extremely short term fixed income instruments. These funds prioritize liquidity and aim to protect the capital, subsequently targeting maximization of returns. Money market funds generally provide better returns than savings accounts but yield lower returns compared to bank fixed deposits.

Money market funds are a popular choice for investors looking for a balance between liquidity and returns. These funds invest in highly liquid, low-risk assets, making them a safe choice for short-term investments.

Fixed Deposits with Banks: Fixed deposits with banks, often referred to as term deposits, are designed for low-risk investors looking for secure investment options. The minimum investment period for bank fixed deposits is typically 30 days, and these are considered for 6-12 month investment durations. In general, the interest rates on deposits lasting less than 6 months tend to be lower than returns from money market funds.

Fixed deposits are a go to choice for conservative investors. They provide capital protection and predictable returns, making them a popular option for those who prefer safety over high returns.

1.2.2 Various Long-term Financial Options Available for Investment

Long-term financial investment options cater to individuals with extended investment horizons and a willingness to take on higher risks for potentially greater returns. In this section, we will delve into various long-term investment avenues, including Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits, Bonds and Debentures, Mutual Funds, and Life Insurance Policies.

Post Office Savings Schemes: Post Office Savings Schemes, particularly the Post Office Monthly Income Scheme (POMIS), are suitable for risk-averse investors seeking a steady income. POMIS offers an interest rate of 8.4% per annum, paid on a monthly basis. Investors can begin with a minimum investment of ₹ 1,000 and make additional investments in multiples of ₹ 1,500. The maximum investment limit is ₹ 4,50,000 for a single account and ₹ 9,00,000 for joint accounts within a year. POMIS has a maturity period of 6 years, and it offers a 10% bonus at the time of maturity. While premature withdrawals are allowed for deposits older than one year, a 5% deduction from the principal amount is levied, and 10% bonus is forfeited.

Post Office Savings Schemes, especially POMIS, provide a secure, fixed income stream for investors. They are well-suited for retirees or those looking for periodic income.

Public Provident Fund (PPF): Public Provident Fund (PPF) is a long-term savings instrument with a maturity period of 15 years and an attractive interest rate of 8.7% per annum, compounded annually. Individuals can open a PPF account through a nationalized bank at any time during the year. It remains open throughout the year for depositing money. PPF also offers tax benefits on the amount invested, with the interest earned being tax-free. Withdrawals from a PPF account are permissible every year from the seventh financial year after opening the account, limited to 50% of the balance at credit at the end of the 4th year immediately preceding the withdrawal year or at the end of the preceding year, whichever is lower.

Public Provident Fund is a government-backed savings instrument that is highly favoured for its attractive returns and tax benefits. It is an excellent choice for long-term financial planning and wealth accumulation.

Company Fixed Deposits: Company Fixed Deposits are short to medium term borrowings by companies, typically ranging from six months to five years. These deposits offer fixed interest rates payable monthly, quarterly, semi-annually or annually. They may also come in the form of cumulative fixed deposits where the entire principal, along with interest, is paid at the end of the loan period. The interest rates for company fixed deposits usually vary between 8% and 12% per annum, with the interest received being subject to tax deductions. Company Fixed Deposits offer investors a compromise between fixed income and a slightly higher risk profile. They are suitable for those seeking stable returns with slightly better interest rates than bank fixed deposits.

Bonds and Debentures: Bonds and Debentures are fixed-income (debt) instruments issued with the aim of raising capital for a specific period, typically exceeding one year. These instruments are issued by various entities, including central or state governments and corporations. Bonds represent a promise to repay the principal along with a fixed rate of interest on a predetermined maturity date. Debentures are similar instruments issued by companies and can be categorized as convertible, non-convertible, or partly convertible.

Convertible debentures offer the holder the option to convert them into equity on maturity. Non-convertible debentures are fully repaid upon maturity, and partly convertible debentures offer both redemption and conversion options at the holder's discretion.

Bonds and debentures are considered excellent for diversifying a portfolio and balancing risk. They are favoured by investors with a longer investment horizon and a taste for fixed income securities.

Mutual Funds: Mutual Funds are investment vehicles managed by professional companies that pool money from the public and invest in a diversified portfolio of assets, including stocks, bonds, debentures, and more. These funds operate according to a stated set of objectives and cater to individuals who may lack the resources, time, or knowledge to invest directly in equities or debt. Mutual fund units are issued and redeemed by the Fund Management Company, with their value determined by the Net asset Value (NAV) of fund at the end of each trading session. The NAV is calculated as the value of all the shares held by the fund, minus expenses, divided by the number of units issued. Mutual Funds primarily serve as long-term investment vehicles, although certain categories, such as money market mutual funds, are designed for short-term investments.

Mutual Funds provide investors with a wide range of choices and professional management, making them a popular choice for those looking for diversification and growth potential.

Life Insurance Policies: While life insurance policies are not strictly considered investment avenues, they can be seen as such depending on the policy type. Life insurance serves as a contract that guarantees a sum of money to the insured or the designated beneficiary upon the occurrence of specific events. These policies are a means to financially protect one's family in the event of the policyholder's death, providing funds to compensate for the loss of income. Different types of life insurance policies include term life insurance, endowment policies, annuities/pension policies, and Unit Linked Insurance Plans (ULIPs). Life insurance policies are multifaceted financial tools that combine risk cover with investment opportunities. Depending on the chosen policy, they can offer lump-sum payouts, periodic income, or a combination of both.

Summary

- Investment is a crucial financial practice involving the allocation of income into ventures that yield returns in the future. This division of income into spending and savings underscores the importance of not letting savings remain idle but instead investing them for growth. The need for investment arises from various purposes, including earning returns on unused funds, accumulating sums for specific life goals, and preparing for an uncertain future, especially in the face of inflation that erodes the purchasing power of money over time.
- Understanding the impact of inflation on investments is critical for long-term success. For instance, with a 6% inflation rate over two decades, an item costing ₹ 100 today would cost ₹ 321 in 20 years. Therefore, the goal of investment is not only to generate returns but also to outpace the inflation rate, ensuring real growth. Starting investments early is advantageous, allowing for the compounding effect to maximize returns. Key principles include starting early, maintaining a regular investment habit, and adopting a long-term perspective.
- Before making any investment, certain precautions are essential to ensure the safety of your assets. These include obtaining written documents explaining terms and conditions, understanding the investment's legitimacy, assessing risk-return profiles, and comparing options with specific financial goals. Interest, as the cost incurred when borrowing money, plays a significant role in financial transactions. Interest rates, whether fixed or variable, are influenced by macroeconomic factors such as demand for money, government borrowing levels, money supply, and inflation rates. The Reserve Bank of India and government policies shape these variables.
- Long-term options cater to those with extended investment horizons and a willingness to take higher risks. Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits, Bonds and Debentures, Mutual Funds, and Life Insurance Policies are discussed. Post Office Savings Schemes, especially the Monthly Income Scheme, provide a steady income stream. PPF offers attractive returns and tax benefits, making it suitable for long-term planning. Company Fixed Deposits offer stability with slightly higher risk, while Bonds and Debentures help diversify portfolios. Mutual Funds, managed by professionals, offer diversification and growth potential. Life insurance policies, while not strictly investments, can serve as financial tools with risk cover and investment opportunities. In conclusion, effective financial management involves informed decision-making about investments based on individual preferences and goals. The guide provides a comprehensive overview of various investment avenues, empowering readers to make informed choices aligned with their financial objectives.

Glossary

1. **Investment** : Instead of leaving your savings idle, you may choose to invest them to generate returns in the future. This practice is known as investment.
2. **Interest** : Interest is the cost incurred when you borrow money, essentially the fee for using a lender's funds.
3. **Savings Bank Account** : A savings bank account is often the first financial product individuals open.
4. **Money Market or Liquid Funds** : Money Market or Liquid Funds are specialized forms of mutual funds that invest in extremely short-term fixed income instruments.
5. **Fixed Deposits with Banks** : Fixed Deposits with Banks, often referred to as 'term deposits', are designed for low-risk investors looking for secure investment options.

6. Public Provident Fund (PPF)	:	The Public Provident Fund (PPF) is a long-term savings instrument with a maturity period of 15 years and an attractive interest rate of 8.7% per annum, compounded annually.
7. Bonds and Debentures	:	Bonds and Debentures are fixed-income (debt) instruments issued with the aim of raising capital for a specific period, typically exceeding one year.
8. Share	:	Share represents ownership in a company, and the total equity capital of a company is divided into equal units of small denominations, each known as a share.
9. Debt Instrument	:	Debt instruments are contractual agreements where one party lends money to another under pre-determined terms regarding the interest rate, periodicity of interest, and repayment of the principal amount by the borrower to the lender.

Abbreviations

- **POMIS** : Post Office Monthly Income Scheme
- **PPF** : Public Provident Fund
- **NAV** : Net Asset Value

Exercises

CBSE Textbook Questions with Answers

Answer the following questions.

1. What are the golden rules for investors?

(*a*) Invest early (*b*) Invest regularly
(*c*) Invest in long term and not short term (*d*) All of the above

2. What care should an investor take while investing?

(*a*) Verify the legitimacy of the investment
(*b*) Ascertain if it is appropriate for your specific goals
(*c*) Examine if it fits in with other investments you are considering or you have already made
(*d*) All of the above

3. What are the factors that determine Interest Rate?

(*a*) Demand for Money (*b*) Supply of Money
(*c*) Deflation rate (*d*) Both (*a*) & (*b*)

4. What type of asset the Commodities are considered?

(*a*) Physical Asset (*b*) Financial asset (*c*) Both (*a*) & (*b*) (*d*) None of the above

5. Which of these is a Long-Term Investment?

(*a*) Money Market Funds (*b*) Public Provident fund
(*c*) Both (*a*) & (*b*) (*d*) None of the above

6. Fixed Deposit with Bank is a .... ?

(*a*) Short term Investment (*b*) Long term Investment
(*c*) Both (*a*) & (*b*) (*d*) None of the above

Answers:

1. (*d*) **2.** (*d*) **3.** (*d*) **4.** (*a*) **5.** (*a*)

Additional Questions with Answers

I. Objective Type Questions

1. What is the primary purpose of investment?
(*a*) Spending (*b*) Savings
(*c*) Generating returns in the future (*d*) Borrowing money

2. Why is considering inflation crucial for long-term investment?
(*a*) It erodes purchasing power (*b*) It increases returns
(*c*) It guarantees fixed returns (*d*) It minimizes risks

3. When is it advantageous to start investments?
(*a*) Anytime in adulthood (*b*) During mid-life crisis
(*c*) Early stage (*d*) Retirement age

4. What is the compounding effect, and why is it beneficial?
(*a*) Decreases returns over time (*b*) Increases returns over time
(*c*) Reduces risk (*d*) Only applicable for short-term investments

5. How many vital steps are recommended for ensuring the safety of investments?
(*a*) 5 (*b*) 10 (*c*) 12 (*d*) 15

6. What does the term "Interest" refer to in financial transactions?
(*a*) Earning returns on investments (*b*) Cost incurred when borrowing money
(*c*) Tax on income (*d*) Capital protection

7. What influences interest rates on various financial instruments?
(*a*) Weather conditions (*b*) Macroeconomic factors
(*c*) Individual preferences (*d*) Time of the year

8. What are the primary factors influencing interest rates?
(*a*) Weather, demand for money, and inflation
(*b*) Government borrowing levels, money supply, and inflation rates
(*c*) Individual preferences, savings, and investments
(*d*) Stock market performance

9. Why are Savings Bank Accounts not known for substantial returns?
(*a*) High-interest rates (*b*) Low liquidity
(*c*) Low returns compared to fixed deposits (*d*) Lack of security

10. What is the minimum investment period for bank fixed deposits?
(*a*) 7 days (*b*) 30 days (*c*) 6 months (*d*) 1 year

11. Which long-term financial instrument is considered suitable for risk-averse investors seeking a steady income?
(*a*) PPF (*b*) Bonds (*c*) Mutual Funds (*d*) Fixed Deposits

12. What is the maturity period of the Post Office Monthly Income Scheme (POMIS)?
(*a*) 3 years (*b*) 5 years (*c*) 6 years (*d*) 10 years

13. What is the maximum investment limit for a single account in POMIS within a year?

(*a*) ₹ 1,00,000 (*b*) ₹ 4,50,000 (*c*) ₹ 9,00,000 (*d*) ₹ 10,00,000

14. What is the interest rate offered by PPF?
(*a*) 7.2% per annum (*b*) 8.7% per annum
(*c*) 10% per annum (*d*) 12% per annum

15. What type of debentures offers the option to convert them into equity on maturity?
(*a*) Non-convertible debentures (*b*) Convertible debentures
(*c*) Partly convertible debentures (*d*) Cumulative debentures

16. What is the primary benefit of Mutual Funds?
(*a*) Fixed returns (*b*) Professional management and diversification
(*c*) Short-term investments (*d*) Low risk

17. How are Mutual Fund units issued and redeemed?
(*a*) Through banks (*b*) Through government agencies
(*c*) Through authorized intermediaries (*d*) Through the Reserve Bank of India

18. Why are Life Insurance Policies considered multifaceted financial tools?
(*a*) They offer high returns(*b*)They provide lump-sum payouts only
(*c*) They combine risk cover with investment opportunities
(*d*) They are tax-free

19. Which life insurance policy type provides a steady income stream?
(*a*) Term life insurance (*b*) Endowment policies
(*c*) Annuities/pension policies (*d*) ULIPs

20. What is the purpose of withdrawals from a PPF account?
(*a*) Tax-free income (*b*) To invest in Mutual Funds
(*c*) To compensate for the loss of income
(*d*) Permissible after the seventh financial year for specific purposes

21. What is the minimum investment period for bank fixed deposits in India?
(*a*) 45 days (*b*) 30 days (*c*) 15 days (*d*) 7 days

22. What is the maximum limit for investment in Public Provident Fund (PPF) account per financial year?
(*a*) ₹ 1,00,000 (*b*) No limit defined
(*c*) ₹ 1,50,000 (*d*) ₹ 2,00,000

23. On which type of bank deposit does the interest rate remain fixed for the deposit period?
(*a*) Fixed Deposit (*b*) Recurring Deposit
(*c*) Current Account (*d*) Savings Account

24. Which of the following is NOT a type of life insurance policy?
(*a*) Term insurance (*b*) Growth insurance
(*c*) Annuity/Pension policy (*d*) Endowment policy

Answers:

1. (*c*)	**2.** (*a*)	**3.** (*c*)	**4.** (*b*)	**5.** (*c*)	**6.** (*b*)
7. (*b*)	**8.** (*b*)	**9.** (*c*)	**10.** (*d*)	**11.** (*d*)	**12.** (*b*)
13. (*b*)	**14.** (*b*)	**15.** (*b*)	**16.** (*b*)	**17.** (*c*)	**18.** (*c*)
19. (*c*)	**20.** (*d*)	**21.** (*b*)	**22.** (*b*)	**23.** (*a*)	**24.** (*b*)

II. Very Short Answer Type Questions

1. What is the practice of generating returns in the future with your savings called?

Ans. Investment

2. What is one purpose of investment mentioned in the text?

Ans. Earning

3. What should your investment goal be in relation to inflation?

Ans. Outpace

4. What is the advantage of starting investments at an early stage?

Ans. Compounding

5. How many vital steps are recommended for ensuring the safety of investments?

Ans. 12

6. What is the cost incurred when borrowing money?

Ans. Interest

7. What macroeconomic factors influence interest rates?

Ans. Inflation

8. What are short-term financial instruments suitable for quick returns?

Ans. Money market

9. What is the minimum investment period for bank fixed deposits?

Ans. 30 days

10. What is the maximum investment limit for a single POMIS account in a year?

Ans. ₹ 4,50,000

11. What is the maturity period of POMIS?

Ans. 6 years

12. What is the interest rate on PPF mentioned in the guide?

Ans. 8.7%

13. What are short to medium-term borrowings by companies called?

Ans. Debentures

14. What are fixed-income instruments issued to raise capital for a specific period?

Ans. Bonds

15. What do Mutual Funds primarily serve as?

Ans. Vehicles

16. What type of life insurance policies provide lump-sum payouts?

Ans. Endowment

17. What are the three fundamental principles for investors?

Ans. Initiate investments early, consistently contribute to investments, and adopt a long-term investment approach.

18. Name one short-term financial option?

Ans. Savings Bank Account.

19. What is the minimum investment period for bank fixed deposits?

Ans. 30 days.

20. Name one long-term financial option.

Ans. Public Provident Fund (PPF).

21. What does an Index reflect?

Ans. The movement of a specified portfolio of share prices, offering insights into market trends.

22. How does a depository function?

Ans. Similar to a bank, where deposits consist of securities held in electronic form.

23. What does dematerialization refer to?

Ans. The process of transforming physical certificates into electronic securities credited to the investor's account with their Depository Participant (DP).

24. What is the minimum time period for which an investment can be made in bank fixed deposits?

Ans. 30 days

25. What is the maximum time period for which investments can be made in Public Provident Fund (PPF) accounts?

Ans. 15 years

III. Short Answer Type Questions-I

1. What is investment? Explain Rationale behind investment.
2. What is interest? On what factors does it depend?
3. Why is there a need for investment?

IV. Short Answer Type Questions-II

1. Explain any three short term financial options.
2. Explain any three long term financial options.
3. Explain the rationale for investment.
4. Explain different types of insurance policies.

V. Long Answer Type Questions

1. What precautions will you take before investing?
2. Explain any five determinants of Interest.
3. An investor must take care of certain aspects before investing. Mention these precautions.

Suggested Learning Activities

A. Case Studies:

- ➢ Provide real-world investment case studies for students to analyze and discuss.
- ➢ Have students apply investment principles to evaluate historical investment scenarios.

B. Simulations and Games:

- ➢ Use investment simulation games that mimic stock market conditions.
- ➢ Allow students to manage a virtual investment portfolio and make simulated investment decisions.

C. Guest Speakers:

- ➢ Invite investment professionals, financial advisors, or economists as guest speakers.
- ➢ Arrange panel discussions with experts to share practical insights and experiences.

D. Research Projects:

- ➢ Assign research projects on specific investment topics, requiring students to explore and present their findings.
- ➢ Have students investigate the performance of a specific company or industry over time.

E. Debates and Discussions:

- ➢ Organize debates on controversial investment topics, such as active vs. passive investing or the impact of environmental, social, and governance (ESG) factors on investment decisions.
- ➢ Facilitate class discussions to encourage students to express their opinions on investment strategies.

F. Role-Playing Exercises:

- ➢ Conduct role-playing exercises where students take on the roles of investors, financial advisors, or market analysts.
- ➢ Simulate investment pitches or client consultations to enhance practical skills.

G. Ethical Dilemmas:

- ➢ Present ethical dilemmas related to investment decisions and discuss the ethical considerations involved.
- ➢ Encourage students to think critically about the impact of their investment choices on society and the environment.

Unit-1: Markets and Financial Instruments

2 Stock Exchanges

Learning Outcomes

2.1 Stock Exchange **2.2** Depository **2.3** Securities

2.1 Stock Exchange

A stock exchange plays a pivotal role in the world of financial investments. According to the Securities Contract (Regulation) Act (SCRA)1956, a stock exchange is defined as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating, or controlling the business of buying, selling, or dealing in securities. Stock exchanges can either be regional with a specified area of operation or jurisdiction at the time of recognition, or national exchanges, which are permitted to have nationwide trading from their inception. An example of a stock exchange is the National Stock Exchange (NSE).

Stock exchanges serve as platforms for buying and selling various financial instruments, including stocks, bonds, and derivatives. They facilitate the interaction between buyers and sellers, ensuring transparent and orderly trading.

2.1.1 'Equity'/Share

Shares represent ownership in a company, and the total equity capital of a company is divided into equal units of small denominations, each known as a share. For instance, if a company has a total equity capital of ₹ 200,00,000, it may be divided into 20,00,000 units of ₹ 10 each. Each of these units, priced at ₹ 10, is referred to as a share. Therefore, the company is said to have 20,00,000 equity shares, each with a face value of ₹ 10.

Shareholders possess voting rights in proportion to their shareholding and are considered members or owners of the company to the extent of their shareholding.

Equity shares are a fundamental form of ownership in a company, providing shareholders with a say in the company's decisions and potential dividends based on company performance.

2.1.2 Debt Instrument

Debt instruments are contractual agreements where one party lends money to another under predetermined terms regarding the interest rate, periodicity of interest, and repayment of the principal amount by the borrower to the lender. In the Indian securities markets, the term 'bond' is typically used for debt instruments issued by central and state governments, as well as public sector organizations. On the other hand, the term 'debenture' is employed for instruments issued by private corporate sector entities.

Debt instruments encompass a wide array of financial products, including government bonds, corporate bonds, and debentures, serving as vehicles for raising capital and providing fixed-income opportunities to investors.

2.1.3 Derivative

A derivative is a financial product whose value is derived from one or more basic variables, known as the underlying assets. These underlying assets can include equities, indices, foreign exchange (forex), commodities, or other financial instruments.

Derivative products initially emerged as hedging mechanisms to mitigate the impact of price fluctuations in commodities. Over time, financial derivatives gained prominence due to growing instability in financial markets. By the 1990s, they accounted for approximately two-thirds of total transactions in derivative products.

Derivatives offer a wide range of tools for investors to manage risk, speculate on price movements, and hedge against adverse market conditions. They come in various forms, including futures, options, swaps, and forwards.

2.1.4 Mutual Fund

A Mutual Fund is a legal entity registered with the Securities Exchange Board of India (SEBI) that pools money from individuals and corporate investors. The fund then invests these pooled funds in a diverse range of financial instruments or securities, such as equity shares, government securities, bonds, debentures, and more. Mutual funds can be thought of as financial intermediaries in the investment industry that collect funds from the public and invest them on behalf of the investors. They issue units to investors, and the value of these units appreciates based on the performance of the underlying assets in the portfolio of fund.

The investment objectives of a mutual fund, outlined in its prospectus, are legally binding on the mutual fund scheme and specify the types of securities in which the fund can invest. Mutual funds often invest in various asset classes, including equities, bonds, debentures, commercial paper, and government securities. The available schemes offered by mutual funds can vary from one fund to another, with some being pure equity schemes, while others are a blend of equity and bonds. Investors may also choose between receiving periodic dividends and solely participating in the capital appreciation of the scheme.

Mutual funds offer a convenient and diversified way for investors to access various asset classes, benefit from professional money management, and minimize risks through diversification.

2.1.5 An index

An index is a financial benchmark that illustrates the performance of a specified portfolio of share prices. It provides insight into market trends by tracking the average price movement of a basket of securities, indicating whether the index is moving up or down. In the context of the National Stock Exchange (NSE) in India, the primary index is the Nifty 50. This index comprises 51 well diversified stock components, representing 13 sectors of the economy. Indices are used for a variety of purposes, including benchmarking fund portfolios, facilitating index-based derivatives trading, and tracking the performance of index funds.

Indices are crucial tools for investors and market participants, offering a reference point to assess market trends and make informed investment decisions.

2.2 Depository

A depository plays a role similar to a bank, but instead of holding cash deposits, it stores securities in electronic form. In other words, a depository safeguards shares, debentures, bonds, government securities, units, and other financial instruments in digital format.

Depositories are vital to the modern financial system, streamlining the process of buying, selling, and transferring securities. They offer a secure and efficient means of holding and transferring ownership of financial instruments.

2.2.1 Dematerialization

Dematerialization is the process by which physical certificates representing ownership of securities are converted into an equivalent number of securities held electronically. These digital securities are credited to the investor's account with their Depository Participant (DP).

Dematerialization has revolutionized the securities market by eliminating the need for physical certificates, making transactions quicker, safer, and more convenient. Investors can easily access and manage their holdings in digital form, reducing the risks associated with paper-based certificates, such as loss, theft, or damage.

In this guide, we have explored a wide range of short-term and long-term financial investment options, providing an in-depth understanding of each choice. These investments offer various risk return profiles, allowing individuals to tailor their portfolios to align with their financial goals and risk tolerance.

Certificate Number Share Certificate Template Number of Shares

Share Certificate

Corporate Name

Incorporated in: ____________________,

Has a Total Authorized Amount of __________ **Shares, at** __________ **Par Value**

This is to certify that __________ *is the owner of* __________ *shares of* __________

Stock of the above menthioned corporation, which are non-occessible, fully paid shares. The transfer of these shares must be done in accordance with the by lows of the number corporation, in person, or by a duly appointed attorney or officer of the named corporation, and recorded in the books of the corporation.

President **Vice President** **Secretary** **Treasurer**

If Sold:

For __________ *received, I,* __________, *sell and transfer* ______ *shares represented by this certificate to* ____________________, *and appoint* __________, *the* __________, *to record this transfer in the corporate books.*

Name of Shareholder **Signature of Shareholder** **Witness**

Given above is the image of a physical share certificate. When this is converted into demat form, physical certificate will be converted into electronic form. The physical certificate will be destroyed and the number of shares held will be transferred to the beneficiary account. Given below is the image of the report of the DP submitted to the investor.

CDSL
Your Depository

DP Name & Address
DP ID and DP SEBI Reg. No.
Instruction Slip for Delivery / Receipt
(To be filled in duplicate)

☐ **Delivery** ☐ **Receipt**

**** Serial No.:**
Date : _ _ / _ _ / 200_

I / We request you to **debit / credit** my / our account as under: -

DP ID	B O (CLIENT) ID**	First/Sole Holder's Name	
1			

S. No.	ISIN	Security Name	Quantity: In figures	Quantity: In words	Instruction Ref no.(to be filled by DP)
1	IN				
2	IN				
3	IN				
4	IN				
Total Instructions Used (In words only)			**Cash Transfer** ☐ Yes	☐ No	☐ Not required

Tick the relevant columns -

Exchange	☐ BSE	☐ NSE	☐ Others (Mention name)	**Execution date**	D	D	M	M	2	0	0	

Instruction details	☐ **1. On Market**	☐ **2.Off market (Transfers to/from CM accounts)**	☐ **3.Off market (Transfers to/from BO accounts)**	☐ **4. Early pay-in**	☐ **5. Inter depository**
Settlement type / market type			NOT APPLICABLE		
Settlement no.			NOT APPLICABLE		
CM ID		NOT APPLICABLE	NOT APPLICABLE		NOT APPLICABLE
Counter BO ID / Client ID	NOT APPLICABLE				
Counter DP ID / CM-BP ID	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	I N

Signature of First / Sole Holder	**Signature of Second Holder**	**Signature of Third Holder**

For DPs office use only
Internal Ref. No. Signature Verified By Transaction Entered By

** Prestamped

Securities markets play a pivotal role in the global financial ecosystem. These markets provide a platform where investors and issuers of financial instruments come together to trade a wide array of securities. In this extensive guide, we will delve into the world of securities markets, unraveling the intricate definitions, functions, regulations, participants, and various investment options available. By the end of this comprehensive article, you will have a thorough understanding of the multifaceted world of securities and investment opportunities.

2.3 Securities

The term 'securities' encompasses a wide range of financial instruments, as defined by the Securities Contracts (Regulation) Act (SCRA), 1956. These instruments include shares, bonds, scrips, stocks, or any other marketable securities of similar nature in or of any incorporated company or body corporate. The definition further extends to government securities, derivatives of securities, units of collective investment schemes, interests and rights in securities, security receipts, and any other instruments declared as securities by the Central Government.

2.3.1 The Function of Securities Market

Securities markets serve as dynamic hubs where buyers and sellers of securities engage in transactions involving shares, bonds, debentures, and more. However, their significance transcends mere trading. Securities markets play an important role in facilitating corporate and entrepreneurial ventures. These markets offer a channel for companies and governments to raise funds through public issues, thereby enabling the efficient transfer of resources from investors with surplus funds to the persons in need. This reallocation of savings into investments and entrepreneurship is achieved through various financial products known as 'securities'.

2.3.2 The Securities One can Invest in

The securities market offers a plethora of investment options, each with its own risk-return profile.

Some of the prominent securities available for investment include:

Shares: Shares represent ownership in a company, and investing in them can yield dividends and capital appreciation. Shares or stocks are equity instruments, which are divisible units of the share capital of the company. Investment in shares is expected to generate returns in the form of dividends and generally carry higher risk. Investment in shares is expected to result in higher return as the invested capital appreciates but that's not necessary and depends on the performance of the stock.

Equity shares of a listed company are easily available for investment in dematerialized form (commonly called demat) on recognized stock exchanges such as Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) provided the investor holds a demat account.

National Securities Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL) are the only two depositories in India that hold financial securities in a dematerialized form. The shares listed on BSE's index, the Sensex, or NSE's index, the Nifty, such as those of companies like Reliance Industries, Hindalco and Tata Consultancy Services are examples of equity shares.

Bonds and Debentures: Bonds and debentures are debt instruments that provide fixed interest payments and the return of principal at maturity. In India, the terms 'bonds' and 'debentures' are often used interchangeably. However, both the securities have a key differentiator. Bonds are secured with specified assets whereas debentures are not secured by specific assets, but rather by the general credit of the corporation. Thus, debenture is a form of bond but not all bonds can be termed as debentures.

Debentures are long-term securities which generate fixed interest returns and have a fixed tenure. Debentures fall in the category of debt instruments and generally have a lower risk and lower return as compared to equity shares. Certain debentures are also listed on BSE and NSE.

Investment in debentures results in interest income and in case of sale before maturity it may result in gain or loss.

Government Securities: Government Securities (G-Secs) are issued by the government and offer a secure means of investment. Government Securities are tradable debt instruments issued by the central or state government. Investment in such instruments is preferred by investors with low-risk appetite considering the fact that capital invested in such instruments is backed by sovereign guarantee. G-Secs fall in the category of debt instruments and are traded on both NSE and BSE.

Derivative Products: Derivative products derive their value from underlying assets like stocks or commodities, offering opportunities for speculation and risk management.

Units of Mutual Funds: A mutual fund can be defined as a trust that pools the savings of a number of investors with a common financial goal and uses financial experts to manage the same. The money collected from such investors is then further invested in capital market instruments such as shares, debentures and other securities. Investing in mutual funds is an indirect form of investing in the market. Investing in the market via mutual funds enables the investors to diversify their portfolio with minimal investment and also benefit from the expertise of the mutual fund manager in managing underlying investments. However, the fund manager would typically charge a management fee, which could range from 1% to 2% per annum of the investment.

Foreign Stocks or Bonds: Resident investors in India can also invest in stocks or bonds which are listed on the foreign stock exchange. This is possible under the Liberalized Remittance Scheme (LRS) of Reserve Bank of India (RBI), wherein an Indian investor can invest up to $2,50,000 (about INR 18.75 million) per financial year. This provides an opportunity for the Indian investors to invest in foreign stocks and also broaden the base of their portfolio. While making an investment in foreign stocks, the currency fluctuation needs to be taken into due consideration as it can have a significant impact on the returns.

There are two ways to make an investment in foreign stocks:

(*i*) Investors can invest in a direct manner by opening an overseas account with a foreign broker.

(*ii*) Investors can also make indirect investments in foreign stocks by way of investing in mutual funds, which invest in foreign stocks.

Investment in foreign stocks might have the potential to generate superior returns. The same may be subjected to higher brokerage fees, taxes in the foreign country, among others.

Exchange Traded Fund (ETF): An Exchange Traded Fund (ETF) is like a basket of securities which tracks an index, sector, commodity, or other asset. Exchange Traded Funds can be debt ETFs, equity ETFs among others and accordingly will be classified as debt instruments or equity instruments.

ETFs are listed on both NSE and/or on BSE. The trading of ETFs can be done in a similar manner as that of a listed share or stock.

Investment in listed securities on the stock market can broadly be categorized into:

(*i*) *Debt instruments:* Debt instruments are fixed income instruments that generally have a pre-decided coupon rate or interest and a fixed tenure. These include corporate bonds, government securities and units of debt-oriented mutual funds.

(*ii*) *Equity instruments:* Equity instruments are instruments that provide ownership rights of a company and as a result investors are expected to yield dividend income and capital appreciation. These include equity shares and units of equity-oriented mutual funds.

(*iii*) *Derivative instruments (having underlying investments in securities):* Derivative instruments are instruments whose value is derived from one or more underlying assets in the form of commodities, currencies, metals, debt instruments, equity instruments, among others.

To select a particular securities type, investors are needed to:

➢ First analyze the key factors driving their investment.

➢ Create an investment plan.

➢ Make a suitable investment.

Summary

- Securities markets are intricate ecosystems of financial instruments, regulators, and market participants. Understanding the definitions, functions, and regulations governing these markets is crucial for investors and stakeholders alike. With this comprehensive knowledge, you can make informed decisions and navigate the complex world of securities markets and investment options.
- The world of securities markets is a multifaceted landscape with numerous investment opportunities. Various participants, including issuers, investors, and intermediaries, interact within the primary and secondary market segments. Understanding the nuances of securities markets is pivotal for anyone looking to invest or engage in this dynamic financial realm. By comprehending the definitions, functions, and regulatory structures outlined in this guide, you can confidently explore and participate in securities markets, making informed decisions that align with your financial goals and risk tolerance.

Glossary

1. **Bonds and Debentures** : bonds and Debentures are fixed-income (debt) instruments issued with the aim of raising capital for a specific period, typically exceeding one year
2. **Share** : share represents ownership in a company, and the total equity capital of a company is divided into equal units of small denominations, each known as a share
3. **Debt Instrument** : debt instruments are contractual agreements where one party lends money to another under pre-determined terms regarding the interest rate, periodicity of interest, and repayment of the principal amount by the borrower to the lender
4. **Derivative** : a derivative is a financial product whose value is derived from one or more basic variables, known as the underlying assets
5. **Mutual Fund** : a Mutual Fund is a legal entity registered with the Securities Exchange Board of India (SEBI) that pools money from individuals and corporate investors
6. **Index** : an index is a financial benchmark that illustrates the performance of a specified portfolio of share prices
7. **Depository** : a depository plays a role similar to a bank, but instead of holding cash deposits, it stores securities in electronic form
8. **Dematerialization** : dematerialization is the process by which physical certificates representing ownership of securities are converted into an equivalent number of securities held electronically
9. **Securities** : these instruments include shares, bonds, scrips, stocks, or any other marketable securities of similar nature in or of any incorporated company or body corporate
10. **Exchange Traded Fund** : an Exchange Traded Fund (ETF) is like a basket of securities which tracks an index, sector, commodity, or other asset
11. **Primary Market** : in the primary market, companies sell new stocks and bonds to the public for the first time, such as with an initial public offering (IPO)
12. **Secondary Market** : the secondary market is basically the stock market and refers to the New York Stock Exchange, the Nasdaq, and other exchanges worldwide

Abbreviations

- **ETF** : Exchange Traded Fund
- **IPO** : Initial Public Offering
- **SEBI** : Stock Exchange Board of India
- **SCRA** : Securities Contracts Regulations Act
- **NSE** : National Stock Exchange

Exercises

CBSE Textbook Questions with Answers

Answer the following questions.

1. .... is a contract whereing one party one party lends money to another on pre-determined terms?

(*a*) Share Certificate (*b*) Mutual Fund (*c*) Debt Instrument (*d*) None of the above

2. Which are the securities wherein one can invest in?

(*a*) Derivative products (*b*) Shares

(*c*) Units of Mutual Funds(*d*) All of the above

3. Savings are linked to investments by a variety of intermediaries, through a range of financial products called .... ?

(*a*) PPF (*b*) Insurance (*c*) Securities (*d*) None of the above

Answers:

1. (*c*) **2.** (*d*) **3.** (*c*)

Additional Questions with Answers

I. Objective Type Questions

1. Which of the following is NOT a primary function of securities markets?

(*a*) Ensuring the efficient transfer of resources from investors with surplus funds to those in need

(*b*) Facilitating corporate and entrepreneurial ventures

(*c*) Offering a channel for companies and governments to raise funds through public issues

(*d*) Providing steady income to investors

2. Which of the following BEST describes equity shares?

(*a*) Instruments which are backed by tangible assets of the issuing entity

(*b*) Instruments which derive their value from underlying assets or indexes

(*c*) Instruments which provide ownership rights of a company and as a result are expected to yield dividend income and capital appreciation for the investor

(*d*) Instruments which provide fixed periodic interest payments

3. Which of the following is NOT an example of a debt instrument?

(*a*) Government securities (*b*) Debentures

(*c*) Corporate bonds (*d*) Equity shares

4. Which of the following is NOT a characteristic of mutual funds?

(*a*) Regular dividend payout (*b*) Portfolio diversification

(*c*) Direct ownership of underlying assets (*d*) Professional fund management

5. Which of the following best describes the function of stock exchanges?

(*a*) Acting as brokers between buyers and sellers

(*b*) Serving as platforms for buying and selling of various financial instruments like stocks, bonds and derivatives

(*c*) Issuing new securities to raise capital (*d*) Regulating listed companies

6. Which of the following is NOT a type of derivative instrument?

(*a*) Equity shares (*b*) Forwards (*c*) Options (*d*) Futures

7. Which of the following is NOT considered a security as per the definition provided by SCRA?

(*a*) Gold (*b*) Mutual fund unit (*c*) Bond (*d*) Share

8. Which of the following involves converting physical certificates of securities into an equivalent number of dematerialized securities?

(*a*) Custody (*b*) Dematerialization (*c*) Trading (*d*) Settlement

9. Which of the following is NOT a characteristic of debt instruments?

(*a*) Predetermined maturity date (*b*) Lower risk than equity

(*c*) Potential for capital appreciation (*d*) Fixed periodic interest payments

10. Which of the following involves trading of previously issued securities between investors in the secondary market?

(*a*) Commodity market (*b*) Primary market (*c*) Currency market (*d*) Secondary market

11. Which of the following involves issuing new securities to raise capital for the first time?

(*a*) Bond market (*b*) Secondary market (*c*) Money market (*d*) Primary market

12. Which of the following is NOT a characteristic of mutual funds?

(*a*) Portfolio diversification (*b*) Direct ownership of underlying assets

(*c*) Regular interest payments (*d*) Professional fund management

13. What is the maximum limit under the Liberalized Remittance Scheme for an individual to invest in foreign securities in a financial year?

(*a*) $200,000 (*b*) $150,000 (*c*) No limit defined (*d*) $250,000

14. Which of the following involves a legal entity that pools money from investors to invest in securities on their behalf?

(*a*) Depository (*b*) Stock exchange

(*c*) Venture capital fund (*d*) Mutual fund

Answers:

1. (*d*)	**2.** (*c*)	**3.** (*d*)	**4.** (*a*)	**5.** (*b*)	**6.** (*a*)
7. (*a*)	**8.** (*b*)	**9.** (*c*)	**10.** (*d*)	**11.** (*d*)	**12.** (*c*)
13. (*a*)	**14.** (*d*)				

II. Very Short Answer Type Questions

1. What is the key difference between debentures and bonds?

Ans. Debentures are not secured by specific assets, but rather by the general credit of the corporation, whereas bonds are secured with specified assets.

2. What are the two interdependent segments that comprise the securities market?

Ans. Primary (New Issues) Market, Secondary Market

3. What are the three primary categories of participants in the securities market?

Ans. The three primary categories of participants in the securities market are: Issuers of Securities, Investors in Securities, and Intermediaries.

4. What are the key benefits of investing in mutual funds compared to direct investing in the stock market?

Ans. Mutual funds enable diversification of portfolio with minimal investment and benefit from expertise of fund manager in managing underlying investments.

5. Which category of securities offers fixed periodic interest payments along with return of principal at maturity?

Ans. Debt instruments like bonds and debentures

6. Who are the primary issuers of securities in the market?

Ans. Corporations and governments

7. What is the primary index of the National Stock Exchange of India?

Ans. Nifty 50

8. Why is it advisable for investors to conduct securities market transactions through registered intermediaries?

Ans. Transactions through intermediaries offer guidance, accountability and ensure compliance with regulations. It also ensures reliability and professionalism of intermediaries.

9. What is the minimum investment amount that can be made in a Public Provident Fund (PPF) account?

Ans. ₹ 500

10. What are the two ways an Indian resident can invest in foreign stocks?

Ans. (*i*) Directly by opening an overseas account with a foreign broker,

(*ii*) Indirectly via mutual funds investing in foreign stocks

11. What type of returns do investors expect from investment in equity shares of a company?

Ans. Dividend income and potential capital appreciation over the long term

12. What are the key benefits of investing via mutual funds compared to direct investing in stocks?

Ans. The key benefits of investing via mutual funds compared to direct investing in stocks are: Diversification of portfolio, benefit of professional fund management and lower investment amount is required.

III. Short Answer Type Questions-I

1. Define convertible debentures.
2. Define non-convertible debentures.
3. Write a short note on foreign stocks.
4. What is an index? What is its purpose?

IV. Short Answer Type Questions-II

1. What is a derivative? Give its two features.
2. What is NIFTY 50? What does it indicate?
3. Who are the participants in the securities market?
4. Discuss the role of intermediaries in securities market.
5. Differentiate between primary market and secondary market.
6. What is dematerialization? Mention the steps involved.

V. Long Answer Type Questions

1. Explain six types of securities dealt in stock exchanges.
2. Write a detailed note on mutual funds.
3. Explain the process of materialization of securities.
4. Who is a depository? What role does it play?

Suggested Learning Activities

A. C
- ➢ P
- ➢ H

B. S
- ➢ U
- ➢ A

C. G
- ➢ I
- ➢ A

About the Book

Financial Skills are indispensable abilities that enable learners to make will-informed judgments and decisions regarding money management. This book has been meticulously crafted to provide learners with a clear and comprehensive understanding of various aspects of financial management. It covers topics ranging from the basics of trading to the intricacies of different investment products such as equity, futures, and options. By delving into these concepts, learners will gain the knowledge and confidence to navigate the world of investment and trading practices effectively, ultimately empowering them to make sound financial decisions that contribute to their long-term financial well-being.

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