Semester VI

15PAU602	**CORE – FINANCIAL SERVICES**	**L T P C** **5 - - 5**

Course Objective

- The course comprise of Financial Instruments, Merchant Banking, Hire Purchase, Leasing, Venture Capital, Factoring, Mutual Funds and Credit Rating

Learning Outcome

- To expose the students to the contemporary theory and practice of Indian Financial Services Sector
- To familiarize the students with various types of Financial Services and their role in Social Change.

Unit – I

Financial Services – Meaning – Classification – Scope – Fund Based Activities – Non Fund Based Activities – Modern Activities – Sources of Revenue – Causes for Financial Innovation – New Financial Products and Services – Innovative Financial Instruments – Challenges facing the Financial Service Sector.

Unit – II

Merchant Banking – Definition – Origin – Merchant Banking in India- Merchant Banks and Commercial Banks – Services of Merchant Banks - Scope of Merchant Banking in India. Hire Purchase – Meaning – Features – Legal Position – Hire Purchase and Credit Sale – Hire Purchase and Instalment Scale – Hire Purchase and Leasing –Types of Lease – Advantages and Disadvantage of Lease – Problems of Leasing

Unit – III

Venture Capital – Concept – Meaning – Features – Scope of Venture Capital – Importance – Method of Venture Financing – Suggestion for the Growth of Venture Capital – Factoring – Meaning – Functions – Types – Factoring Vs Discounting – Benefits of Factoring

Unit – IV

Mutual Funds – Types – Importance – Selection of a Fund – Securitization – Stages of Securitization – Benefits – Derivatives – Kinds – Forward, Future, Options and Swaps.

Unit – V

Credit Rating – Definition and Meaning – Functions of Credit Rating – Origin – Credit Rating in India – Benefits of Credit Rating – Credit Rating Agencies in India: CRISIL, ICRA, CARE- Limitations of Rating – Future of Credit Rating in India

SUGGESTED READINGS

Text Book

Gordon, E and Natarajan, K. (2014). *Financial Markets and Services*. Mumbai, Himalaya Publishing House.

References

Khan M.Y. (2013). *Financial Services.* New Delhi, Tata McGraw Hill Company Limited.

Dharmaraj (2010). *Financial Services.* New Delhi, S. Chand and Sons Limited.

Tripathy Nalini Prava (2007). *Financial Services.* New Delhi, Prentice Hall of India.

From

The Head,
Dept. of Commerce,
Karpagam Academy of Higher Education,
Coimbatore.

To

The Controller of Examination,
Karpagam Academy of Higher Education,
Coimbatore.

Respected Sir,

Sub. : Requesting to Change the Core Paper for the VI Semester
of III B.Com PA 2015-18 Batch- Reg.

I bring to your kind notice that the syllabus entitled “Sales Tax and VAT” for III B.Com (PA) has been exhausted by introducing GST. We the Department of Commerce planned to include the subject entitled “ Financial Services” in VI semester instead of Sales Tax and VAT. Hence I request you to permit us to incorporate the 2015 syllabus of III B.Com (PA).

Thanking You

Date : Yours Faithfully

Place :

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: Dr. B. SEETHA DEVI
SUBJECT NAME: FINANCIAL SERVICE SUB.CODE:15PAU602
SEMESTER: VI CLASS: III B.COM (PA)

UNIT I

S.No	Lecture Duration	Topics to be Covered	Support Material
1	1	Financial Services Meaning, classification	T- 240 - 243
2	1	Scope of Financial Services	T P 242-248
3	1	Fund Based Activities	T P 242-248
4	1	Non Fund Based Activities	T P 242-248
5	1	Modern Activities	T P 242-248
6	1	Sources of Revenue	T P 242-248
7	1	Causes for Financial Innovation	T P 242-248
8	1	New Financial Products and Services	T P.248-253
9	1	Innovative Financial Instruments	T P. 253-262
10	1	Kinds of Equity Shares	T P. 253-262
11	1	Challenges facing the Financial Service Sector	T P. 253-262
12	1	Present Financial System in India	T P. 253-262
12	1	Recapitulation	
13	1	Recapitulation	
14	1	Recapitulation of previous questions	
15	1	Recapitulation of previous questions	

UNIT II

S.No	Lecture Duration	Topics to be Covered	Support Material
1	1	Merchant Banking, Definition and its features	T. P. 265-267
2	1	Merchant Banks and Commercial Banks Comparison	T. P. 265-267
3	1	Services of Merchant Banks	T. P. 265-267
4	1	Scope of Merchant Banking in India	T. P. 265-267
5	1	Hire Purchases, Meaning and its Features	T. P. 265-267
6	1	Hire Purchases Legal Position	T. P. 265-267

7	1	Hire Purchases and Credit Sale	T. P. 265-267
8	1	Hire Purchases and Installment Sale	T. P. 265-267
9	1	Hire Purchases and Leasing	T. P. 265-267
10	1	Types of Leasing	T. P. 265-267
11	1	Advantages and disadvantages of Leasing	T. P. 265-267
12	1	Problems of Leasing	T. P. 265-267
13	1	Recapitulation	
14	1	Recapitulation	
15	1	Recapitulation	

UNIT III

S. No.	Lecture Duration	Topics to be Covered	Support Material
1	1	Venture Capital Meaning and Definition	T P. 311-329
2	1	Venture Capital Features	T P. 311-329
3	1	Scope of Venture Capital	T P. 311-329
4	1	Success Factors of Venture Capital	T P. 314
5	1	Importance of Venture Capital	T P. 311-329
6	1	Venture Capital Origin and Initiative in India	T P. 311-329
7	1	Suggestion for the Growth of Venture Capital	T P. 311-329
8	1	The Methods of Venture Financing in India	T P. 311-329
9	1	Factoring Meaning and Features	T P.366-367
10	1	Functions of Factoring	T P.370
11	1	Types of Factoring	T P.371
12	1	Advantages of Factoring	T P. 311-329
13	1	Recapitulation	
14	1	Recapitulation	
15	1	Recapitulation	

UNIT IV

S.No	Lecture Duration	Topics to be Covered	Support Material
1	1	Mutual Funds Meaning and Definition	T P.330-363
2	1	Types of Mutual Funds	T P.330-363
3	1	Other Classification of Mutual Funds	T P.330-363
4	1	Importance of Mutual Funds	T P.330-363
5	1	Risk Associated with Mutual Funds	T P.330-363
6	1	Selection of a Fund	W
7	1	Securitization Stages	W
8	1	Performance Evaluation of Mutual Funds	W
9	1	Kinds of evaluation	W
10	1	Other Parameters of Performance	T P.330-363
11	1	General Guidelines to investors	T P.330-363

12	1	Selection of Mutual Fund	T P.330-363
13	1	Recapitulation	
14	1	Recapitulation	
15	1	Recapitulation	

UNIT V

S.No.	Lecture Duration	Topics to be Covered	Support Material
1	1	Credit Rating, Meaning and Definition	T P.440-455
2	1	Functions of Credit Rating	T P.440-455
3	1	Credit Rating In India and its origin	T P.440-455
4	1	Benefits of Credit Rating	T P.440-455
5	1	Credit Rating Agencies In India	T P.440-455
6	1	Functions of Credit Rating Information Service Ltd	W
7	1	Investment Information and Credit Rating Agency of India	W
8	1	Functions of Credit Analysis and Research	W
9	1	Other Agencies DCR and ONICRA	T P.440-455
10	1	Limitations of Credit Rating	T P.440-455
11	1	SEBI Guidelines relating to Credit Rating	W
12	1	Future of Credit Rating in India	W
13	1	Recapitulation	
14	1	Recapitulation	
15	1	Recapitulation	

SUGGESTED READINGS

Text Book

Gordon, E and Natarajan, K. (2014). *Financial Markets and Services.* Mumbai, Himalaya Publishing House.

References

Khan M.Y. (2013). *Financial Services.* New Delhi, Tata McGraw Hill Company Limited.

Dharmaraj (2010). *Financial Services.* New Delhi, S. Chand and Sons Limited.

Tripathy Nalini Prava (2007). *Financial Services.* New Delhi, Prentice Hall of India.

Website : en.wikipedia.org/wiki/Mutual fund

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TEXT BOOK

1. Donald Hearn and M. Pauline Baker. 2007. *Computer Graphics-C Version,* Pearson Education, New Delhi, 2nd Edition.
   (Page Nos. : 24-54, 56-77, 80-92, 103-118, 204-215, 236-256, 427-443, 458-463, 490-495, 502-505)

REFERENCES

1. Amarendra N. Sinha. 2008. *Computer Graphics*, Tata McGraw Hill, New Delhi, 1st Edition.
2. Foley, Vandam, Feiner and Hughes. 1999. *Computer Graphics Principles and Practices*, Addison Wesley, Singapore, 2nd Edition.
3. Evangeline, D., Anita, S. 2016. *Computer Graphics And Multimedia Insights, Mathematical Models And Programming Paradigms*. PHI Learning Pvt. Ltd.,
4. Rae Earnshaw.2014.*Computer Graphics: Developments in Virtual Environments*, academic Press, New Delhi, 2nd Edition.

WEBSITES

W1: www.openlearning.intercol.edu/Computer graphics

W2: http://www.cgtutorials.com

W3: https://www.touchsystems.com/opticaltouch

Unit I

Financial Services – Meaning – Classification – Scope – Fund Based Activities – Non Fund Based Activities – Modern Activities – Sources of Revenue – Causes for Financial Innovation – New Financial Products and Services – Innovative Financial Instruments – Challenges facing the Financial Service Sector.

Financial Services

The Indian Financial services industry has undergone a metamorphosis since 1990. During the late seventies and eighties, the Indian financial services industry was dominated by commercial banks and other financial institutions which cater to the requirements of the Indian industry.

Meaning

In general, all types of activities which are of a financial nature could be brought under the term "Financial Services ". In broad sense 'mobilizing and allocating savings'. It includes all activities involved in the transformation of saving into investment.

Features of Financial Services

Financial services have certain basic features as stated below

(i) Customer Oriented

The financial service industry is a customer oriented one. That customer is the king and his requirements must be satisfied in full should be the basic tenent of any financial service industry.

(ii) Intangibility

Financial services are intangible and therefore, they cannot be standardized or reproduced in the same form. Hence, there is a need to have a track record of integrity, reputation, good corporate image and timely delivery of services.

(iii) Simultaneous performance

Both production and supply of financial services have to be performed simultaneously. Therefore, both suppliers of services and consumers should have a good raport, clear cut perception and effective communication.

(iv) Dominance of Human element

Financial services are dominated by human element and thus, they are people intensive. It calls for competent and skilled personnel to market the quality financial products.

(V) Perishability

Financial services are immediately consumed and hence inventories cannot be created. There is a greater need for balancing demand and supply properly.

Classification of Financial Services Industry

The Financial intermediaries in India can be traditionally classified into two:

(i) Capital Market Intermediaries

The capital market intermediaries consist of term lending institutions and investing institutions which mainly provide long term funds.

(ii) Money Market Intermediaries

The Money market intermediaries consists of commercial banks, co operative banks and other agencies which supply only short term funds. Hence, the term Financial Service Industry includes all kinds of organizations which intermediate and facilitate financial transactions of both individuals and corporate customers.

Scope of Financial Services

Financial services cover a wide range of activities. They can be broadly classified into two.

Financial Services

Traditional Activities	Modern Activities
1. Fund based Activities	
2.Non Fund based Activities	

Fund Based Activities:

The following are the Fund based activities

- Underwriting of or investment in shares, debentures, bonds etc.
- Dealing in secondary market activities
- Participating in money market instruments like commercial papers, certificate of deposits, treasury bills, discounting of bills etc.
- Involving in equipment leasing, hire purchase, venture capital, seed capital etc.
- Dealing in foreign exchange market activities.

Non-fund based Activities:

Financial intermediaries provides services on the basis of non fund activities. This can also be called Fee based activity. Today, customers whether individual or corporate are not satisfied with mere provision of finance. They expect more from financial service companies. Hence, a wide variety of services, are being provided under this head. They include the following:

- Managing the capital issue, i.e., management of pre issue and post issue activities relating to the capital issue in accordance with the SEBI guidelines and thus enabling the promoters to market their issues.
- Making arrangements for the placement of capital and debt instruments with investment institutions.
- Arrangement of funds from financial institutions for the clients project cost or his working capital requirements.
- Assisting in the process of getting all government and other clearances.

Modern Activities

Besides the above traditional services, the financial intermediaries render innumerable services in recent times. Most of them are in the nature of non fund based activity.

- Rendering project advisory services right from the preparation of the project report till the raising of funds for starting the project with necessary government approval,
- Planning for mergers and acquisitions and assisting for their smooth carry out.
- Guiding corporate customers in capital restructuring.
- Acting as trustees to the debenture holders.
- Recommending suitable changes in the management structure and management style with a view to achieving better results.
- Structuring the financial collaboration/joint ventures by identifying suitable joint venture partner and preparing joint venture agreement.
- Rehabilitating and reconstructing sick companies through appropriate scheme of reconstruction and facilitating the implementation of the scheme.
- Hedging of risks due to exchange rate risk, interest rate risk, economic risk and political risk by using swaps and other derivative products.
- Managing the portfolio of large public sector corporations.
- Undertaking risk management services like insurance services, buy back options etc
- Advising the clients on the question of selecting the best source of funds taking into consideration the quantum of funds required, their cost, lending period etc.

Causes for financial innovation

I Low profitability

The profitability of the major financial intermediary, namely the banks has been very much affected in recent time. There is a decline in the profitability of traditional banking products. Som they have been compelled to seek out new products which may fetch high returns.

II Keen competition

The entry of many financial intermediaries in the financial sector market has led to severe competition among themselves. This keen competition has paved the way for the entry of varied nature of innovative financial products so as to meet the varied requirements of the investors.

III economic liberalization

Reform of the financial sector constitutes the most important component of India's programme towards economic liberalization. The recent economic liberalization measures have opened the door to foreign competitors to enter into our domestic market.

IV. improved communication technology

The communication technology has become so advanced that even the world's issues can be linked with the investors in the global financial market without any difficulty by means of offering so many options and opportunities. Hence, innovative products are brought into the domestic market in no time.

V. Customer service

The customers expectations are very great. They want newer products at lower cost or at lower credit risk to replace the existing ones. To meet this increased customer sophistication, the financial intermediaries are constantly undertaking research in order to invent a new product which may suit to the requirement of the investing public.

VI. Global impact

Many of the providers and users of capital have changed their roles all over the world. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks. As a consequence, many innovations have taken place in the global financial sector which have its own impact on the domestic sector also.

VII. Investor awareness

With a growing awareness amongst the investing public, there has been a distinct shift from investing the savings in physical assets like gold, silver, land etc. to financial assets like shares, debentures, mutual funds etc. Again, within the financial assets, they go from fisk free bank deposits to risky investments in shares.

New Financial Products and Services

With the injection of the economic liberation policy into the economy and the opening of the economy to multinationals, the free market concept has assumed much significance. As a result, the clients both corporate and individuals are exposed to the phenomena of volatility and uncertainty and hence they expect the financial service company to innovate new products and services so as to meet their varied requirements. As a result of innovations, new instruments and new products are emerging in the capital market. Many financial intermediaries including banks have already started expanding their activities I the financial services sector by offering a variety of new products.

1. **Merchant banking**
   A merchant banker is a financial intermediary who helps to transfer capital from those who possess it to those who need it. Merchant banking includes a wide range of activities such as management of customers securities, portfolio management, project counseling and appraisal, underwriting of shares and debentures, loan syndication, acting as banker for the refund orders, handling interest and dividend warrants etc.

2. **Loan syndication**
   This is more or less similar to consortium financing. But this work is taken up by the merchant banker as a lead manager. It refers to a loan arranged by a bank called lead manager for a borrower who is usually a large corporate customer or a government department. The other banks who are willing to lend can participate in the loan by a contributing an amount suitable to their own lending policies. Since a single and cannot provide such a huge sum as loan, a number of banks join together and form a syndicate. It also enables the members of the syndicate to share the credit risk associated with a particular loan among themselves.

3. **Leasing**
   A lease is an agreement under which a company or a firm, acquires a right to make use of a capital asset like machinery. On payment of a prescribed fee called rental charges. The lessee cannot acquire any ownership to the asset, but he can use it and have full control over it. He is expected to pay for all maintenance charges and repairing and operating costs. In countries like the USA, the UK and Japan equipment leasing is very popular and nearly 25% of plant and equipment is being financed by leasing companies. In India also many financial companies have started equipment leasing business. Commercial bank have also been permitted to carry on this business by forming subsidiary companies.

4. **Mutual Funds**
   A mutual fund refers t a fund raised by a financial service company by pooling the savings of the public. It is invested ina diversified portfolio with a view to spreading and minimizing risk. The fund provides investment avenue for small investors who cannot participate in the equities of big companies.

5. **Factoring**
   Factoring refers to the process of managing the sales ledger of a client by a financial service company. In other words it is an arrangement under which a financial intermediary assumes the credit risk in the collection of book debts for its clients. The entire responsibility of collecting the book debts passes on to the factor. His services can be compared to a del credre agent who undertakes to collect debts.

6. **Forfaiting**
   It is a technique by which a forfaitor discounts an export bill and pay ready cash to the exporter who can concentrate on the export front without bothering about collection of export bills. The forfaitor does so without any recourse to the exporter and the exporter is protected against the risk of non payment of debts by the importers.

7. **Venture capital**

A venture capital is another method of financing in the form of equity participation. A venture capitalist finances a project based on the potentialities of a new innovative project. It is in contrast to the conventional security based financing. Much thrust is given to new ideas or technological innovations. Finance is being provided not only for start up capital but also for development capital by the financial intermediary.

8. **Custodial services**

It is yet another line of activity which has gained importance, of late. Under this, a financial intermediary mainly provides services to clients, particularly to foreign investors, for a prescribed fee. Custodial services provide agency services like safe keeping of shares and debentures, collection of interest and dividend and reporting of matters on corporate developments and corporate securities to foreign investors.

9. **Corporate advisory services**

Financial intermediaries particularly banks have set up corporate advisory service branches to render services exclusively to their corporate customers.

10. **Securitization**

Securitization is a technique whereby a financial company converts its liquid, non negotiable and high value financial assets into securities of small value which are made tradable and transferable. A financial institution might have a lot of its assets blocked up in assets like real estate, machinery etc. which are long term in nature and which are non-negotiable. In such a case, securitization would help the financial institution to the public.

11. **Reverse mortgage**

In 2007-08, the National Housing Bank and commercial banks have introduced an innovative product viz., reverse mortgage to enable he senior citizens to fetch value out of their property without selling it. In a normal mortgage, a home buyer borrows money to finance his home. In a Reverse Mortgage the owner of a house property surrenders the title of his property to a lender and raises money. Again, in a normal mortgage the borrower gets 60-70% of the money upfront. But is a reverse mortgage generally the lender does not pay the entire amount. On the other hand, he pays out a regular sum each month for the agreed time. The owner normally a senior citizen can use the property and stay with his spouse for the rest of their lives.

12. **New reverse mortgage plan**

Banks have started introducing a new reverse mortgage plan along with life insurance companies. This new product is called reverse mortgage enabled annuity scheme. It requires an insurance company to undertake the risk of uncertainty of life of the person availing this scheme.

13. **Derivative security**

A derivative security is a security whose value depends upon the values of other basic variables backing the security. In most cases, these variables are nothing but the prices of traded securities. A derivative security is basically used as a risk management tool and it is resorted to cover the risks due to price fluctuations by the investments manager. Just like a forward contract which is a derivative of a spot contract, a derivative security is derived from other trading securities backing it. Naturally the value of a derivative security depends upon the values of the backing securities. Derivative helps to break the risks into various components such as credit risk, interest rates risk, exchange rates risk and so on. It enables the various risk components to be identified precisely and priced them and even trade them if necessary.

14. **New products in forex market**

New products have also emerged in the forex of developed countries. Some of these products are yet to make full entry in Indian markets. Among them, the following are the important ones:

(a) Forward Contracts:

A forward transaction is one where the delivery of a foreign currency takes place at a specified future date for a specified price.

(b) Options

As the very name implies, it is a contract wherein the buyer of the option has a right to buy or sell a fixed amount of currency against another currency at a fixed rate on a future date according to his option.

(c) Futures

It is a contract wherein there is an agreement to buy or sell a stated quantity of foreign currency at a future date at a price agreed to between the parties on the stated exchange. Unlike options, there is an obligation to buy or sell foreign exchange on a future date at a specified rate. It can be dealt only in a stock exchange.

(d) Swaps

A swap refers to a transaction wherein a financial intermediary buys and sells a specified foreign currency simultaneously for different maturity dates.

13. **Letter of credit**

It is an innovative funding mechanism for the import of goods and services on deferred payment terms. LOC is an arrangement of a financing institution of one country with another institution to support the export of goods and services so as to enable the importers to import no deferred payment terms. This may be backed by a guarantee furnished by the institution in the importing country. The LOC helps the exporters to get payment immediately as soon as the goods are shipped, since, the funds would be paid out of the pool account with the financing agency and it would be debited to the account of the borrowers whose contract for availing the facility is already approved by the financing agency on the recommendation of the overseas institution.

Innovative Financial Instruments

In recent years, innovation has been the day word behind the phenomenal success of many of the financial service companies and it forms an integral part of all planning and policy decisions.many innovative financial instruments have come into the financial market in recent times, they are

(i) Commercial paper

A commercial paper is a short term negotiable money market instrument. It has the character of an unsecured promissory note with a fixed maturity of 3 to 6 months. Banking and non banking companies can issue this for raising their short term debt. It also carries an attractive rate of interest.

(ii) Treasury bill

A treasury bill is also a money market instrument issued by the central government. It is also issued at a discount and redeemed at par. Recently the government has come out with short term treasury bills of 182 days bills and 364 days bills.

(iii) Certificates of deposit

The scheduled commercial banks have been permitted to issue certificate of

deposit without any regulation on interest rates. This is also a money market instrument and unlike a fixed deposit receipt, it is a negotiable instrument and hence it offers maximum liquidity. As such, it has a secondary market too. Since the denomination is very high, it is suitable to mainly institutional investors and companies.

(V) Inter bank participations

The scheme of inter bank participation is confined to scheduled banks only for a period ranging between 91 days and 180 days. This may be with risk participation or without risk participation. However only a few anks have so far issued IBPs carrying an interest rate ranging between 14 and 17 per cent per annum.

(Vi) Zero interest convertible denbenture bonds

As the very name suggests, these instruments carry no interest till the time of conversion.

(Vi) Deep discount bonds

There will be no interest payments in the case of deep discount bonds also. Hence they are sold at a large discount to their nominal value.

(Vii) Option bonds

These bonds may be cumulative or non cumulative as per the option of the holder of the bonds. In the case of cumulative bonds, interest is accumulated and is payable only on maturity. But in case of non cumulative bond, the interest is paid periodically. The option has to be exercised by the prospective investor at the time of investment.

(iX) Secured premium notes

These are instruments which carry no interest for three years. In other words, their interest will be paid only after 3 years, and hence, companies with high capital intensive investments can resort to this type of financing.

(X) Medium Term Debentures

Generally, debentures are repayable only after a long period. But these debentures have a medium term maturity. Since they are secured and negotiable, they are highly liquid. These types of debt instruments are very popular in Germany.

(Xi) Variable Rate Debentures

Variable rate debentures are debt instruments, they carry a compound rate of interest, but this rate of interest is not a fixed one. It varies from time to time in accordance with some predetermined formula as we adopt in the case of dearness allowance calculations.

Challenges facing the financial services sector

The financial service sector has to face many challenges in its attempt to fulfill the ever growing financial demands of the economy. Some of the important challenges are briefy reported hereunder.

(i) Lack of qualified personnel
The financial services sector is fully geared to the task of financial creativity. However, this sector has to face many challenges. In fact, the dearth of qualified and trained personnel is an important impediment in its growth.

(ii) Lack of investor awareness
The introduction of new financial products and instruments will be of no use unless the investor is aware of the advantages and uses of the new and innovative products and instruments.

(iii) Lack of transparence
The whole financial system is undergoing a phenomenal change in accordance with the requirements of the national and global environments. It is high time that this sector gave up their orthodox attitude of keeping accounts in a highly secret manner.

(iv) Lack of specialization
In the Indian scene, each financial intermediary seems to deal in different financial service lines without specializing in one or two areas.

(v) Lack of recent data

Most of the intermediaries do not spend more on research. It is every vital that one should build up a proper data base on the basis of which one could embark upon financial creativity. Moreover a proper data base would keep oneself abreast of the recent developments in other parts of the whole world and above all it would enable the fund managers to take sound financial decisions.

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KARPAGAM ACADEMY OF HIGHER EDUCATION

	UNIT 1					
Sl.No	**Questions**	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Answer**
1	The transaction cost of trading of financial instruments in centralized market is classified as _____	Flexible costs	Low transaction costs	High transaction costs	Constant costs	Low transaction costs
2	In primary markets, the property of shares which made it easy to sell newly issued security is _____	Increased liquidity	Decreased liquidity	Money flow	Large funds	Increased liquidity
3	The money market where debt and stocks are traded and maturity period is more than a year is ________	Shorter term markets	Capital markets	Counter markets	Long-term markets	Capital markets
4	_____type of market in which securities with less than one year maturity are traded.	Money market	Capital market	Transaction market	Global market	Money market
5	In capital markets, the major suppliers of trading instruments are_____	Government and corporations	Liquid corporations	Instrumental corporations	Manufacturing corporations	Government and corporations
6	The funds transferred usually for a day between financial institutions are classified as______	Federal funds	Bankers funds	Debt funds	Secured funds	Federal funds
7	The process of issuing treasury bills is classified as _____	Treasury trading auction	Treasury fund auction	Treasury bills auction	Treasury bills transfer	Treasury bills auction
8	The obligations for short term are classified as_____	Bankers treasury	Treasury bills	Treasury funds	Secured treasury	Treasury bills
9	The unsecured promissory notes are classified into ____	Unsecured notes	Debt paper	Term paper	Commercial paper	Commercial paper
10	The drafts which are backed up by banks and are payable to seller of products or services are classified as	Banker acceptance	Secured acceptance	Unsecured acceptance	Economic acceptance	Banker acceptance
11	Repo rate is ________	RBI sell government securities to banks	Banks borrow rupees from rbi	RBI allows small loans in the market	Offered by banks to their prime customers	It is a rate at which banks borrow rupees from rbi
12	_____ is not a debt instrument as referred in financial transactions.	Certificate of deposits	Bonds	Stocks	Commercial papers	Stocks
13	______ is the head of 'one rank one pension' demand .	K.M. chandrasekhar	R balakrishanan	B S padmanabham	T. Raja shekhar	K.m. chandrasekhar
14	rbi open market operation transaction, wishes to regulate________	Inflation only	Liquidity in economy	Borrowing powers of the banks	Flow of foreign direct investments	Liquidity in economy
15	The maximum amount of the total revenue earned by the government of india comes from ________	Income tax	Customs duty	Excise duty	Value added tax	Excise duty
16	____ is the first indian bank introduce credit card.	State bank of india	Central bank of india	Union bank of india	ICICI	Central bank of india
17	Capital market regulator is _____	RBI	SEBI	NSE	BSE	SEBI
18	Fdi refers to _______	Fixed deposit interest	Foreign direct investment	Fixed deposit investment	Future derivative investment	Foreign direct investment
19	Call money is _________	Money borrowed or lent for a day or over night	Money borrowed for more than one day but upto 3 days	Money borrowed for more than one day but upto 7 days	Money borrowed for more than one day but upto 14 days	Money borrowed or lent for a day or over night

20	_____ is the first indian company to be listed in nasdaq.	Reliance	TCS	HCL	Infosys	Infosys
21	_____ decides the oil prices in india.	Government of india	Government of respective states	Ministry of petroleum	Oil companies	Oil companies
22	______ is the full form of 'p-notes'.	Permanent notes	Purchase notes	Participatory notes	Private notes	Purchase notes
23	_______ is known as plastic money.	Bearer cheques	Credit cards	Demand drafts	Gift cheques	Credit cards
24	The term ________ refers financial investment in a highly risky and growth oriented venture with the objective of earning a high rate of return.	Venture capital	Merchant banking	Leasing	Mutual funds	Venture capital
25	_____ provides long term loans at zero interest to the poorest developing countries.	Asian development bank	Imf	International developmental association	International finance corporation	International developmental association
26	Dscr indicates the ability of a company to_____	Meet its current liabilities	Service its share holders	Meet its long term debt obligations	Raise further capital	Meet its long term debt obligations
27	There is an inflationary trend in the economy, _____ be trend in the pricing of the bank products.	Increasing trend	Decreasing trend	Constant trend	Short movement trend	Increasing trend
28	A company can ensure the complete success of a rights offering by making use of a	Standby arrangement.	Oversubscription privilege.	Green shoe provision.	Shelf registration.	Standby arrangement.
29	A best efforts offering is sometimes used in connection with a of new, long-term securities.	Private placement	Privileged subscription	Public issue	Secondary market issue	Public issue
30	Investment banker bears the risk of not being able to sell a new security at the established price is ____	A best efforts offering.	Underwriting.	Shelf registration.	Making a market.	Underwriting.
31	The transaction cost of trading of financial instruments in centralized market is classified as____	Flexible costs	Low transaction costs	High transaction costs	Constant costs	Low transaction costs
32	In primary markets, the property of shares which made it easy to sell newly issued security is considered as _____	Increased liquidity	Decreased liquidity	Money flow	Large funds	Increased liquidity
33	The money market where debt and stocks are traded and maturity period is more than a year is classified as _____	Shorter term markets	Capital markets	Counter markets	Long-term markets	Capital markets
34	The type of market in which securities with less than one year maturity are traded is classified as ______	Money market	Capital market	Transaction market	Global market	Money market
35	In capital markets, the major suppliers of trading instruments are ____	Government and corporations	Liquid corporations	Instrumental corporations	Manufacturing corporations	Government and corporations
36	Financial markets are used for trading ____	Real assets and financial assets.	The goods and services produced by a firm.	Securities, such as shares of bce.	The raw materials used in manufacturing.	Securities, such as shares of bce.
37	The primary distinction between securities sold in the primary and secondary markets is the:	Riskiness of the securities.	Price of the securities.	Previous issuance of the securities.	Profitablity of the issuing corporation.	Previous issuance of the securities.
38	The money market is a(an) ______ market, while the capital market is a(an) ______ market.	Investment; liquidity	Short-term; long-term	Liquidity; financial institution	Long-term; short-term	Short-term; long-term
39	The minimum, acceptable rate of return on corporate investments is determined by:	Investors in financial markets.	Information from accounting statements.	The financial manager.	The senior managers of the company.	Investors in financial markets.

40	_____ is a service provided to corporations by financial markets and intermediaries.	Payments services	Contracts to manage risk	Liquidity	Real investments	Real investments
41	While corporations provide shareholders returns from _______.	dividends	Appreciation	capital gains	Earnings	Dividends
42	Owners of mutual funds own ______	Deposits	Bonds	Shares	Iou's of mutual funds	Shares
43	The first time a security is sold it is in the _______ market.	Money	Capital	Secondary	Primary	Primary
44	Common stock of corporations may be listed on stock exchanges or traded as _____	Over-the-counter.	By brokers who own an inventory of shares from which they buy/sell.	Between directors of the corporation.	Between insiders of companies.	Over-the-counter.
45	____ is known as a financial market.	Foreign exchange market	Pension fund market	Money market	Fixed-income market	Pension fund market
46	Financial markets evaluate the performance of publicly traded corporations are ____	Constantly.	Quarterly when financial statements are filed with the osc.	Annually, when the annual report is issued.	As requested by the managers of the corporations.	Constantly.
47	As new information is available, financial markets are ____	Reflect this new information immediately in the prices of securities traded.	Publish this information.	Provide the information to financial intermediaries.	Decide how best to tell the public.	Reflect this new information immediately in the prices of securities traded.
48	The money is received by nortel is_______	Most of the funds, except for commissions.	Will receive nothing.	Only the commissions on the sale of stock.	Portion of the funds for every stock traded on the secondary market.	Will receive nothing.
49	The most important service provided by mutual funds to mutual fund investors is___	The opportunity to buy corporate securities at a discounted price.	High expenses and trading costs which increase the rate of return for investors.	Diversification.	A higher than average rate of return.	Diversification.
50	As new information is available, financial markets ______	Reflect this new information immediately in the prices of securities traded.	Publish this information.	Provide the information to financial intermediaries.	Decide how best to tell the public.	Reflect this new information immediately in the prices of securities traded.
51	Dscr indicates the ability of a company to _______	Meet its current liabilities	Service its share holders	Meet its long term debt obligations	Raise further capital	Meet its long term debt obligations
52	____ scheme is not meant for investment purposes.	National saving certificate	Infrastructure bonds	Mutual funds	Letter of credit	Letter of credit
53	Systematic investment plans relates to_____	Mutual funds	Life insurance companies	Commercial banks	Post office savings schemes	Mutual funds
54	Euro money is the official currency of ____	NATO	UN	European	Germany and England	European
55	Largest shareholder of a nationalized bank is _________	RBI	NABARD	LIC	Govt of India	Govt of India
56	Subsequent trading of the security is in the ______ market.	Money	Capital	Secondary	Primary	Secondary
57	Capital markets provide returns to shareholders from ______	Capital gains	Appreciation	Dividends	Earnings	Capital gains
58	Owners of mutual funds own ____	Depositors	Bondholders	Shareholders	Creditors	Shareholders
59	First category of merchant bankers issued by SEBI ____	Act as an advisor or consultant to an issue	Act as an underwriter, advisor.	Act in the capacity of co-manager	Carry on any activity of issue management	Carry on any activity of issue management
60	Second category of merchant bankers issued by SEBI ____	Act as an advisor or consultant to an issue	Act as an underwriter, advisor.	Act in the capacity of co-manager	Carry on any activity of issue management	Act in the capacity of co-manager

Merchant banking – definition – origin – Merchant Banking in India – Banks and commercial banks – services of merchant banks – scope of merchant banking in india. Hire purchase – meaning – features – legal position – hire purchase and credit sale – hire purchase and leasing – types of lease – advantages and disadvantages of lease – problems of leasing

Meaning of Merchant Banking

The term 'merchant banking' has been used differently in different parts of the world. While in U.K. merchant banking refers to the 'accepting and issuing houses', in U.S.A. it is known as 'investment banking'. The word merchant banking has been so widely used that sometimes it is applied to banks who are not merchants, sometimes to merchants who are not banks and sometimes to those intermediaries who are neither merchant not banks.

In India merchant banking services were started only in 1967 by National Grind Lays Bank followed by Citi Bank in 1970. The State Bank of India was the first Indian Commercial Bank having set up separate Merchant Banking Division in 1972. In India merchant banks have been primarily operating as issue houses than full- fledged merchant banks as in other countries.

A merchant bank may be defined as an institution or an organisation which provides a number of services including management of securities issues, portfolio services, underwriting of capital issues, insurance, credit syndication, financial advices, project counselling etc. There is a distinction between a commercial bank and a merchant bank. The merchant banks mainly offer financial services for a fee. while commercial banks accept deposits and grant loans. The merchant banks do not act as repositories for savings of the individuals.

Functions of Merchant Banks:

The basic function of a merchant banker is marketing corporate and other securities. Now they are required to take up some allied functions also.

A merchant bank now takes up the following functions:

1. Promotional Activities:

A merchant bank functions as a promoter of industrial enterprises in India He helps the entrepreneur in conceiving an idea, identification of projects, preparing feasibility reports, obtaining Government approvals and incentives, etc. Some of the merchant banks also provide assistance for technical and financial collaborations and joint ventures

2. Issue Management:

In the past, the function of a merchant banker had been mainly confined to the management of new public issues of corporate securities by the newly formed companies, existing companies (further issues) and the foreign companies in dilution of equity as required under FERA in this capacity the merchant banks usually act as sponsor of issues.

They obtain consent of the Controller of Capital Issues (now, the Securities and Exchange Board of India) and provide a number of other services to ensure success in the marketing of securities. The services provided by them include, the preparation of the prospectus, underwriting arrangements, appointment of registrars, brokers and bankers to the issue, advertising and arranging publicity and compliance of listing requirements of the stock-exchanges, etc.

They act as experts of the type, timing and terms of issues of corporate securities and make them acceptable for the investors on the one hand and also provide flexibility and freedom to the issuing companies.

3. Credit Syndication:

Merchant banks provide specialised services in preparation of project, loan applications for raising short-term as well as long- term credit from various bank and financial institutions, etc. They also manage Euro-issues and help in raising funds abroad.

4. Portfolio Management:

Merchant banks offer services not only to the companies issuing the securities but also to the investors. They advise their clients, mostly institutional investors, regarding investment decisions. Merchant bankers even undertake the function of purchase and sale of securities for their clients so as to provide them portfolio management services. Some merchant bankers are operating mutual funds and off shore funds also.

5. Leasing and Finance:

Many merchant bankers provide leasing and finance facilities to their customers. Some of them even maintain venture capital funds to assist the entrepreneurs. They also help companies in raising finance by way of public deposits.

6. Servicing of Issues:

Merchant banks have also started to act as paying agents for the service of debt- securities and to act as registrars and transfer agents. Thus, they maintain even the registers of shareholders and debenture holders and arrange to pay dividend or interest due to them

7. Other Specialised Services:

In addition to the basic activities involving marketing of securities, merchant banks also provide corporate advisory services on issues like mergers and amalgamations, tax matters, recruitment of executives and cost and management audit, etc. Many merchant bankers have also started making of bought out deals of shares and debentures. The activities of the merchant bankers are increase with the change in the money market.

Merchant Banking Regulations:

SEBI (Merchant Bankers') Regulation Act, 1992 defines a 'merchant banker' as "any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management".

At present no organisation can act as a 'merchant banker' without obtaining a certificate of registration from the SEBI.

However, it must be noted that a person/ organisation has to get himself registered under these regulations if he wants to carry on or undertake any of the authorised activities, i.e., issue management assignment as manager, consultant, advisor, underwriter or portfolio manager.

To obtain the certificate of registration, one had to apply in the prescribed form and fulfil two sets of norms (i) operational capabilities and (ii) capital adequacy norms.

Classification of Merchant Bankers:

The SEBI has classified 'merchant bankers' under four categories for the purpose of registration:

1. Category I Merchant Bankers:

These merchant bankers can act as issue manager, advisor, consultant, underwriter and portfolio manager.

2. Category II Merchant Bankers:

Such merchant bankers can act as advisor, consultant, underwriter and portfolio manager. They cannot act as issue manager of their own but can act co-manager.

3. Category III Merchant Bankers:

They are allowed to act as underwriter, advisor and consultant only. They can neither undertake issue management of their own nor they act as co-manager. They cannot undertake the activities of portfolio management also.

4. Category IV Merchant Bankers:

A category IV merchant banker can merely act as consultant or advisor to an issue of capital.

Capital Adequacy Norms:

SEBI has prescribed capital adequacy norms for registration of the various categories of merchant bankers. The capital adequacy is expressed in terms of minimum net worth, i.e., capital contributed to the business plus free reserves.

The following are the capital adequacy norms as laid down by SEBI:

Capital Adequacy Norms	
Category of Merchant Bankers	*Minimum Net Worth*
Category I	₹ 5 crore
Category II	₹ 50 lakhs
Category III	₹ 20 lakhs
Category IV	Nil

Fees:

According to the SEBI (Merchant Bankers) Amendment Regulations, 1999, i.e. 30.9.1999, every merchant banker shall pay a sum of Rs. 5 lakhs as registration fees at the time of grant of certificate by the Board. The fee shall be paid by the merchant banker within 15 days of receipt of intimation from the Board.

Further, a merchant banker to keep registration in force shall pay renewal fee of Rs. 2.5 lakhs every three years from the fourth year from the date of initial registration.

Government Policy for Merchant Banking:

The Government issued policy guidelines for merchant bankers to ensure sufficient physical infrastructure, necessary expertise, good financial standing, professional integrity and fairness in their transactions. The merchant bankers have to be competent to serve the investors also.

On 1st March, 1993 new policy guidelines have been issued by SEBI for the merchant bankers to ensure greater transparency in their operations and to make them accountable so as to protect the investor's interest. The guidelines relate to pre-issue obligations, underwriting, advertisements and post-issue obligations of the merchant bankers.

Merchant banks found its origin in the early periods in the country of Italy by the Italian merchants. The main function of the merchant banking services include providing financial JN0-522advice and services to corporate as well as individuals. These banks act as a sort of intermediary between capital issuers and the buyers of the securities. These securities are issued by different companies in the stock markets to raise funds.

The Necessity of Merchant Banking Services

The economy of the country is often afflicted with different unpredictable conditions like inflation, unemployment, stagnation and so forth. The need to sustain a steady growth is necessary for corporations and individuals which is possible only with a long term strategy and financial options. The merchant banking services provide solutions and financial options.

These banks provide advisor services to clients based on a particular fee. They also provide other financial services to mergers and clients. It is the only financial institute that invests its capital in the clients' company. It acts as an intermediary between those who possess capital and those who need capital.

To help their clients with a number of financial options, the merchant banking services operate in a number of countries all over the world. In this manner the clients have the opportunity to survey the different financial options to ensure better growth.

Functions of the Merchant Banking Services

These banks have a number of functions and some of the most important among them include:

Raise funds:

Offer advisory services:

Security distribution:

Aid in projects:

Overall financial reconstruction:

Offer advice on management of risks:

Today the merchant banking services provide a number of other services like loan syndicationJN0-141, credit acceptance, counselling of mergers and acquisitions, management of portfolio and so forth. They also assist companies with short term liquidity funds. In a nutshell, these banking services are indispensable as they support individuals and corporate to expand their business ventures.

Conformance to Requirements

Subject to the provisions of the regulations, any application, which is not complete in all respects and does not conform to the instructions specified in the form, shall be rejected.

Furnishing of Information

The Board may require the applicant to furnish further information or clarification regarding matters relevant to the activity of a merchant banker for the purpose of disposal of the application.

Consideration of Application

The Board shall take into account for considering the grant of a certificate, all matters, which are relevant to the activities relating to merchant banker and in particular whether the applicant complied with the following requirement.

1. That the applicant shall be a body corporate other than a non-banking financial company as defined under clause (f) of section 45-I of the Reserve Bank of India Act, (2 of 1934) as amended from time to time;
2. That the merchant banker who has been granted registration by the Reserve Bank of India to act as a primary or Satellite Dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit;
3. That the applicant has the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge his activities;
4. That the applicant has in his employment minimum of two persons who have the experience to conduct the business of the merchant banker;
5. That the applicant fulfils the capital adequacy requirement as specified in the relevant;
6. That the applicant is a fit and proper person; and
7. That the grant of certificate to the applicant is in the interest of investors.

Capital Adequacy Requirement

According to the regulations, the capital adequacy requirement shall not be less than the net worth of the person making the application for grant of registration.

Procedure for Registration

The Board on being satisfied that the applicant is eligible shall grant a certificate in Form B. On the grant of certificate, the applicant shall be liable to pay the fees in accordance with Schedule II.

Renewal of Certificate

Three months before expiry of the period of certificate, the merchant banker, may if he so desires, make an application for renewal in form A. The application for renewal shall be dealt with in the same manner as if it were a fresh application for grant of a certificate. On the grant of a certificate the applicant shall be liable to pay the fees in accordance with Schedule II.

Procedure where registration is not granted

Where an application for grant of a certificate under regulation 3 or of renewal under regulation 9, does not satisfy the criteria set out in regulation 6, the Board may reject the application after giving an opportunity being heard. The refusal to grant registration shall be communicated by the Board within thirty days of such refusal to the applicant stating therein the grounds on which the application has been rejected.

THE ACTIVITIES INVOLVED IN PUBLIC ISSUE MANAGEMENT

Activities involved in Public Issue Management

There are several activities that have to be performed by the issue manager in order to raise money from the capital market. Adequate planning needs to be done while chalking out an appropriate marketing strategy. The various activities involved in raising funds from the capital markets are described below:

Pre-issue Activities

1. **Signing of Memorandum of Understanding (MOU):** Signing of MOU between the client company and the merchant banker-issue management activities, marks the award of the contract. The role and responsibility of the merchant banker as against the issuing company are clearly spelt out in the MOU.
2. **Obtaining appraisal note**: An appraisal note containing the details of the proposed capital outlay of the project and the sources of funding is either prepared in-house or is obtained from external appraising agencies, viz, financial institutions/banks, etc.
3. **Optimum capital structure**: The level of capital that would maximize the shareholder's vale and minimize the overall cost of capital has to be determined.

4. **Convening Meeting**: A meeting of the Board of Directors of the issuing company is convened. This is followed by an EGM of its members.
5. **Appointment of financial intermediary**: Financial intermediaries such as Underwriters, registrars, etc. have to be appointed. Necessary contracts need to be made with the underwriter to ensure due subscription to the offer. Similar contracts, when entered into with the Registrars to an issued, will help in share allotment related work.
6. **Preparing documents**: As part of the issue management procedure, the documents to be prepared are initial listing application for submission to those stock exchanges where the issuing company intends to get its securities listed, MOU with the registrar, with bankers to the issue, with advisors to the issue and co-managers to the issue, agreement for purchase or properties, etc.
7. **Due diligence certificate**: The lead manager issues a 'due diligence certificate' which certifies that the company has scrupulously following all legal requirements, has exercised utmost care while preparing the offer document and has made a true, fair and adequate disclosure in the draft offer document.
8. **Submission of offer document**: The draft offer document along with the due diligence certificate is filed with SEBI. The SEBI, in turn, makes necessary corrections in the offer document and returns the same with relevant observations, if any, within 21 days from the receipt of the offer document.
9. **Finalization of collection centres**: In order to collect the issue application forms from the prospective investors, the lead manager finalizes the collection centres.
10. **Filing with ROC**: The offer document, completed in all respects after incorporating SEBI observations, is filed with Registrar of Companies (ROC) to obtain acknowledgement.
11. **Launching the issue**: The process of marketing the issue starts once the legal formalities are completed and statutory permission for issue of capital is obtained. The lead manager has to arrange for the distribution of public issue stationery to various collecting banks, brokers, investors, etc. the issue is opened for public immediately after obtaining the observation letter from SEBI, which is valid for a period of 365 days from the date of issue.
12. **Promoters' contribution**: a certificate to the effect that the required contribution of the promoters has been raised before opening of the issue, has to be obtained from a Chartered Accountant, and duly filed with SEBI.
13. **Issue closure**: An announcement regarding the closure of the issue should be made in the newspapers.

HIRE PURCHASE

According to the Hire Purchase Act of 1972, the term hire purchase is defined as, an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement, and includes an agreement under which

a. Possession of goods is delivered by the owner thereof to a person on the condition that such person pays the agreed amount in periodic payments

b. The property of the goods is to pass to such a person on the payment of the last of such instalment c. Such a person has a right to terminate the agreement any time before the property so passes‖ .

All Hire purchase finance companies are controlled by the Hire Purchase Act, 1972. A Hire purchase transaction has two elements, Bailment which is governed by the Indian Contract Act, 1872 and Sale under the Sale of Goods Act, 1930. 4.2.1 Hire Purchase Agreement a Hire Purchase Agreement is an agreement between the seller and the buyer, where the ownership of goods does not pass to the buyer until he pays the last instalment. There are two parties to the hire purchase agreement. The hire vendor, who is the seller and other, is the hire purchaser, the buyer. The purchaser has to make a down payment of 20 to 25% of the cost and the remaining amount has to be paid in equal monthly instalments. In the case of a Deposit linked plan, the hire purchaser has to invest a fixed amount as fixed deposits in the finance company which is returned together with interest after the payment of the last instalment. Parties to the Hire Purchase Contract: 148

A **lease** is a contractual arrangement calling for the lessee (user) to pay the lessor(owner) for use of an asset. Property, buildings and vehicles are common assets that are leased. Industrial or business equipment is also leased.

Broadly put, a lease agreement is a contract between two parties, the lessor and the lessee. The lessor is the legal owner of the asset; the lessee obtains the right to use the asset in return for regular rental payments. The lessee also agrees to abide by various conditions regarding their use of the property or equipment. For example, a person leasing a car may agree that the car will only be used for personal use.

The narrower term **rental agreement** can be used to describe a lease in which the asset is tangible property. Language used is that the user *rents* the land or goods *let* or *rented out* by the owner. The verb *to lease* is less precise because it can refer to either of these actions. Examples of a lease for intangible property are use of a computer program (similar to a license, but with different provisions), or use of a radio frequency (such as a contract with a cell-phone provider).

The term **rental agreement** is also sometimes used to describe a periodic lease agreement (most often a month-to-month lease) internationally and in some regions of the United States.

Leasing: Definitions, Types, Merits and Demerits

A "lease" is defined as a contract between a lessor and a lessee for the hire of a specific asset for a specific period on payment of specified rentals.

The maximum period of lease according to law is for 99 years. Previously land or real resate, mines and quarries were taken on lease. But now a day's plant and equipment, modem civil aircraft and ships are taken.

Definition:

(i) Lessor:

The party who is the owner of the equipment permitting the use of the same by the other party on payment of a periodical amount.

(ii) Lessee:

The party who acquires the right to use equipment for which he pays periodically.

Lease Rentals:

This refers to the consideration received by the lessor in respect of a transaction and includes:

(i) Interest on the lessor's investment;

(ii) Charges borne by the lessor. Such as repairs, maintenance, insurance, etc;

(iii) Depreciation;

iv) Servicing charges.

At present there are many leasing companies such as 1st Leasing Company, 20th Century Leasing Company which are doing quite a lot of business through leasing, It has become an important financial service and a lucrative avenue of making sizable profits by leasing companies.

Types of Leases:

The different types of leases are discussed below:

1. **Financial Lease:**

This type of lease which is for a long period provides for the use of asset during the primary lease period which devotes almost the entire life of the asset. The lessor assumes the role of a financier and hence services of repairs, maintenance etc., are not provided by him. The legal title is retained by the lessor who has no option to terminate the lease agreement. The principal and interest of the lessor is recouped by him during the desired playback period in the form of lease rentals. The finance lease is also called capital lease is a loan in disguise. The lessor thus is typically a financial institution and does not render specialized service in connection with the asset.

2. Operating Lease:

It is where the asset is not wholly amortized during the non-cancellable period, if any, of the lease and where the lessor does not rely for is profit on the rentals in the non- cancellable period. In this type of lease, the lessor who bears the cost of insurance, machinery, maintenance, repair costs, etc. is unable to realize the full cost of equipment and other incidental charges during the initial period of lease.

The lessee uses the asset for a specified time. The lessor bears the risk of obsolescence and incidental risks. Either party to the lease may termite the lease after giving due notice of the same since the asset may be leased out to other willing leases.

3. Sale and Lease Back Leasing:

To raise funds a company may-sell an asset which belongs to the lessor with whom the ownership vests from there on. Subsequently, the lessor leases the same asset to the company (the lessee) who uses it. The asset thus remains with the lessee with the change in title to the lessor thus enabling the company to procure the much needed finance.

4. Sales Aid Lease:

Under this arrangement the lessor agrees with the manufacturer to market his product through his leasing operations, in return for which the manufacturer agrees to pay him a commission.

5. Specialized Service Lease:

In this type of agreement, the lessor provides specialized personal services in addition to providing its use.

6. Small Ticket and Big Ticket Leases:

The lease of assets in smaller value is generally called as small ticket leases and larger value assets are called big ticket leases.

7. Cross Border Lease:

Lease across the national frontiers is called cross broker leasing. The recent development in economic liberalisation, the cross border leasing is gaining greater importance in areas like aviation, shipping and other costly assets which base likely to become absolute due to technological changes.

Merits of Leasing:

(i) The most important merit of leasing is flexibility. The leasing company modifies the arrangements to suit the leases requirements.

(ii) In the leasing deal less documentation is involved, when compared to term loans from financial institutions.

(iii) It is an alternative source to obtain loan and other facilities from financial institutions. That is the reason why banking companies and financial institutions are now entering into leasing business as this method of finance is more acceptable to manufacturing units.

(iv) The full amount (100%) financing for the cost of equipment may be made available by a leasing company. Whereas banks and other financial institutions may not provide for the same.

(v) The 'Sale and Lease Bank' arrangement enables the lessees to borrow in case of any financial crisis.

(vi) The lessee can avail tax benefits depending upon his tax status.

Demerits of Leasing:

(i) In leasing the cost of interest is very high.

2. (ii) The asset reverts back to the owner on the termination of the lease period and the lesser loses his claim on the residual value.

(iii) Leasing is not useful in setting up new projects as the rentals become payable soon after the acquisition of assets.

(iv) The lessor generally leases out assets which are purchased by him with the help of bank credit. In the event of a default made by the lessor in making the payment to the bank, the asset would be seized by the bank much to the disadvantage of the lessee.

As there is no separate statue for equipment leasing in India, the provisions relating to bailment in the Indian Contract Act govern equipment leasing agreements as well section 148 of the Indian Contract Act defines bailment as:

“The delivery of goods by one person to another, for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed off according to the directions of the person delivering them. The person delivering the goods is called the ‘bailor’ and the person to whom they are delivered is called the ‘bailee’.

Since an equipment lease transaction is regarded as a contract of bailment, the obligations of the lessor and the lessee are similar to those of the bailor and the bailee (other than those expressly specified in the least contract) as defined by the provisions of sections 150 and 168 of the Indian Contract Act. Essentially these provisions have the following implications for the lessor and the lessee.

1. The lessor has the duty to deliver the asset to the lessee, to legally authorise the lessee to use the asset, and to leave the asset in peaceful possession of the lessee during the currency of the agreement.
2. The lessor has the obligation to pay the lease rentals as specified in the lease agreement, to protect the lessor’s title, to take reasonable care of the asset, and to return the leased asset on the expiry of the lease period.

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S.No	Unit -2	Option-A	Option-B	Option-C	Option-D	Answer
1	Mutual Funds Origniated from	Belgium	Austria	Egypt	Indonesia	Belgium
2	____ is not the character of MFs	Trust	Common Goal	Investement	Lending	Lending
3	MF shall not include	Interval Scheme	Seed Money	Index Funds	Sectoral Fund Scheme	Seed Money
4	The one which support tax savings include	Balanced Fund Scheme	Gilt Fund Scheme	Income Fund Scheme	Tax Fund Scheme	Tax Fund Scheme
5	Laod Fund, No Load Fund, MMMF goes to	Mutual Fund	Merchant Banker	Venture Capital	Depositories	Mutual Fund
6	MFs in India are not managed by	Bankers	Trustees	Custodians	Sponsor	Bankers
7	List the non funcition of AMC	Registrars & Transfer Agents	Investement Advisors	Legal Advisor	Buyouts	Buyouts
8	Process of Portfolio Management process shall not include	Setting Investment	Portfolio Designing	Liquidity	Portfolio Revision	Liquidity
9	Operatonal Efficiency of Mutual Fund shall include	Net Returns	Gross Returns	Tax Returns	Total Returns	Net Returns
10	NAV shll not include	TMV	CL	SU	Load	Load
11	Causes of poor peroformance of mutual funds shall not be	Expensive Securities	Reduced Returns	Poor use of Investment Alternatives	Lack of Knowledge	Lack of Knowledge
12	Regulatory structure of Mutual Funds shall not be	RBI	SEBI	UTI Guidelines	GOI	GOI
13	Regulation on the constitution & management of MF for a trust shall not	Constitution	Listing	Agreement	Requirement	Listing
14	SEBI(MF) Regularions 1996 contains _____ Schedule	11	12	12	10	11
15	Association of Mutual Fund Industry	AMFI	AMF	IAMF	MFIA	AMFI
16	A closed-end fund is a mutual fund in which shares issue just when the fund is	Organized	Unornised	Copied	Rndom Behavioiur	Organized
17	Closed end mutual funds are trading at discount to NAV.	TRUE	FALSE	Difficult to Say	Irrelevant	TRUE
18	Mutual fund units can be traded easilty ________ brokrage or transaction cost	witout	with	on percentage	as per regulation	witout

19	Mutual fund redemption bring bearish influence on the stock market.	Based on the market	Based on the minds of Investors	TRUE	Demand	TRUE
20	Growth fund is a mutual fund that invests primarily in equity shares	At Times True	TRUE	No at all	Baed on Market	TRUE
21	Balanced fund is a mutual fund that	Gives Fixed Returns	Assure Income	Invests in Debt and Equity	Assure Growth	Assure Growth
22	Trust which pools savings investors who share common financial goal is	Merchant Banker	Mutual Fund	Factoring	Forfaiting	Mutual Fund
23	Types of Mutual Funds includes	Open & Close	Income & Growth	Bond & Sectoral	All six	All Six
24	Operational Classfification shall include	Open & Close End	Income Fund	Gowth Fund	Equity Fund	Open & Close End
25	Equity, Bond, Sectoral, Blaned, Leverage, Gilt, Index and Tax Saving Schemes are	Investement Based	Return Based	Operational Based	All the three	Investement Based
26	Sponsor, Trustee, Custodians, AMC is related with	Forfaiting	Factoring	Merchant Banker	Mutual Funds	Mutual Funds
27	SEBI's requirements for AMC shall not include	Trach Record	Reputation, Expertise	Contribution	Number of Members	Number of Members
28	Portfolio Management process in Mutual Funds may not include	Setteing Investement Goals	Units to be purchased	Protfolio Designing	Identifying Specific Securities	Units to be purchased
29	Mtutal Funds are govrned by	SEBI	SEBI (MF)	SEBI(MF) Regulatins	SEBI(MF) Regularions	SEBI(MF) Regularions
30	_______ is not the objectives of Mutual Funds	Benefits	Growth & BalancedIncome	Industry Specific Funds	Growth	Benefits
31	Investors of mutual funds expects	Dividends	Capital Gains	NAV	Consider all the three	Consider all the three
32	During 1991, a 10 member committed under the Chairmanship of Dr.S.A.Dave constituted for	Study on Factoring Services	Study on Merchant Bankers	Study on Mutual Funds	Study on Returns on MF	Study on Mutual Funds
33	Any MF is managed by AMC that is appointed by the Sponsor Company or _____	GOI	Trustee	RBI	SEBI	Trustee
34	Sharpe's index and Treynor's index are connected with	Merchant Banker	Mutual Fund	Equity Shares	Debentures	Mutual Fund
35	In general the following are inclded in the Market Players	Commercial Banks	Underwritters	Stock Brokers	Mutual Funds & all	Mutual Funds & all

36	Mutual Funds is one of the ________________ banking system	Brain child of	Innovative	Not a Subsidairy	Organ of RBI	Innovative
37	The First Mutual Funds in India was started during	1964	1965	1974	1975	1964
38	Banks sponsored mutual funds shall not include	BOB	SBI	CAN Bank	Yes	Yes
39	In India MFs may not be classified into ______________ categories	Total Status	Schemes of Operation	Portfolio Objectives	Based on Location	Total Status
40	The yeardstick of judging the performance of MF includes	EPS	DPS	NAV	EBIT	NAV
41	Players of MFs in Indian market shall not include _______	Public Sector Non Bank MF	Public Sector BankMF	Private Sector MF	Foreign and Foreign Investors	Foreign and Foreign Investors
42	Importnt MF shall not include	Fanklin Templeton	Birla Sun Life	IL & FS MF	Sun Mutual Funds	Sun Mutual Funds
43	An association with interested membrs in investment on financil instruments for mutual benefits	Merchant Banker	Mutual Fund	G-Sec	T-Bills	Mutual Funds
44	Yardstick which measures the performance of MF is	NAV	EPS	Book Value	Market Value	NAV
45	10(35) of Income Tax Act exempts from _________ on incomes from MFs	Tax	Exempted	Deduction	Perquisits	Tax
46	____________ agencies are authorised to issed guidelines & to supervise and regulate MFs in India	SEBI	GOI	MCA	CLB	SEBI
47	_____________ means the houses or conditons that people live in	Housing	Godown	Office	Premesises	Housing
48	Set of all financial arrangements that are made available by housing finance institutions to meet the reqirements of housing is called __________	Real Estate Financing	Estate Financing	Financing	Real Estate Business	Real Estate Financing
49	Models of Housing projects shall not include	Town Planning Scheme	Housing Board Projects	Private Real Estate Developers	Local Promoters	Local Promoters

50	Urban, Rural, Cooperative, Construction, Staff rental housing are housing programmes under	HUDCO	TAAICO	SIDCO	TIIC	HUDCO
51	Slum Clearance and Improvements, resettlement, On-site improvements, in-site improvements are ______ level organisations	State	Central	State & Central	Special Programmes	State
52	Loan amount is fixed on the basis of ___________ repayment capacity, Rate of Interstst Charged, Term of the loan	Customers	Banker	Government	Vendor	Customer
53	Fixed Rate, Floating Rate and value addition are the terms connected with	Real Estate Financing	Housing Financing	Both forms of financing	Bank Home Financing	Housing Financing
54	National Housing Bank was promoted in the year	1988	1985	1982	1980	1988
55	Securitization as a financing technique is concerned with _________ in securities	Buying	Trading	Selling	Lending	Trading
56	Securitization is a process by which the financial relations are converted into transferble ______	Securities	Assets	Fixex Assets	Curent Assets	Securities
57	Concept of SPV comprises of	SPC	SPE	SPV	A & B	A & B
58	List the person who is not benefited out of Securitization	Originator	Investor	Borrowers	Government	Government
59	Asset securitization is a process of separating certain assets from the ________	Liability Side	Asset Side	Balance Sheet	None	Balance Sheet
60	Marketability, Merchantable quality, Wide Distribution, Homogenty are the ____________ of securitization	Factors	Features	Limitations	Advantages	Features
61	_______ fund invests in highly liquid securities like commercial paper	MMMF	CEMF	MF	Merchant Bankers	MMMF

Venture capital – concept – meaning – features – scope of venture capital – importance – method of venture financing – suggestion for the growth of venture capital – factoring – meaning – functions – types – factoring vs discounting – benefits of factoring

Venture capital is a growing business of recent origin in the area of industrial financing in India.

Concept of venture capital

The term venture capital is understood in many ways. In a narrow sense, it refers to, investment in new and tried enterprises that are lacking stable record of growth. In broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies.

Meaning

Venture capital is long term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth.

Definition

A venture capital company is defined as " a financing institution which joins an entrepreneur as a co promoter in a project and shares the risks and rewards of the enterprise."

Features of Venture Capital

1. Venture capital is usually in the form of an equity participation. It may also take the form of convertible debt or long term loan.
2. Investment is made only in high risk but high growth potential projects.
3. Venture capital is available only for commercialization of new ideas or new technologies and not for enterprises which are engaged in trading, booking, financial services, agency, liaison work or research and development.
4. Venture capitalist joins the entrepreneur as a co promoter in projects ad share the risks and rewards of the enterprise.
5. There is continuous involvement in business after making an investment by the investor.
6. Once the venture has reached the full potential, the venture capitalist disinvests his holdings either to the promoters or in the market. The basic objective of investment is not profit but capital appreciation at the time of disinvestment.
7. Venture capital is not just injection of money but also an input needed to set up the firm, design its marketing strategy and organize and manage it.
8. Investment is usually made in small and medium scale enterprises.

Scope of Venture Capital

Venture capital may take various forms at different stages of the project. There are four successive stages of development of a project viz .development of a project idea, implementation of the idea, commercial production and marketing and finally large scale investment to exploit the economics of scale and achieve stability. Financial institutions and banks usually start financing the project only at the second or third stage but rarely from the first stage. But venture capitalists provide finance even from the first stage of idea formulation. The various stages in the financing of venture capital are described below

- Development of an idea

In the initial stage venture capitalists provide seed capital for translating an idea into business proposition. In this stage investigation is made in-depth which normally takes a year or more.

- Implementation stage

  When the firm is set up to manufacture a product or provide a service, start up finance is provided by the venture capitalists.

- Fledging stage

  In the third stage, the firm has made some headway and entered the stage of manufacturing a product but faces teething problems. It may not be able to generate adequate funds and so additional round of financing is provided to develop the marketing infrastructure.

- Establishment stage

  At this stage the firm is established in the market and expected to expand at a rapid pace. It needs further financing for expansion and diversification so that it can reap economics of scale and attain stability.

Importance of venture capital

1. The investing public will be able to reduce risk significantly against unscrupulous management, if the public invest in venture fund who in turn will invest in equity of new business. With their expertise in the field and continuous involvement in the business, they would be able to stop malpractices by management.
2. Investors have no means to vouch for the reasonableness of the claims made by the promoters about profitability of the business. The venture the funds equipped with necessary skill will be able to analyze the prospects of the business.
3. The entrepreneur for the success of public issue s required to convince tens of underwriters, brokers and thousands of investors. But to obtain venture capital assistance, he will be required to sell his idea to justify the officials of the venture fund. It provides a solid capital base for future growth by injecting long term equity financing.
4. Public issue of equity shares has to be proceeded by a lot of efforts ie. Necessary statutory sanctions, underwriting and brokers arrangement, publicity of issue etc. the new entrepreneurs find it very difficult to make underwriting arrangements which require a great deal of effort.
5. It helps in developing new processes in conductive atmosphere, free from the dead weight of corporate bureaucracy, which helps in exploiting full potential.

Factoring: Silent Features, Types, Steps, Advantage and Limitations

Factoring is defined as "an outright purchase of credit approved accounts receivables, with the factor assuming bad debt losses."

The modern factoring involves a continuing arrangement under which a financing institution assumes the credit control/protection and collection functions for its client, purchases his receivables as they arise (with or without recourse to him for credit losses, i.e., customer's financial inability to pay), maintains the sales ledger, attends to other book-keeping duties relates to such accounts receivables and performs other auxiliary functions.

Factoring is an asset based method of financing as well as specialized service being the purchase of book debts of a company by the factor, thus realizing the capital tied up in accounts receivables and providing financial accommodation to the company.

The book debts are assigned to the factor who collects them when due for which he charges an amount as discount or rebate deducted from the bills. Thus, the factor is an intermediary between the supplier and customers who performs financing and debt collection services.

In a situation where industry is finding it difficult to obtain funds, the need for better management of book debts by companies had arisen. In this backdrop, 'factoring' services assumed an important role in global business and could help Indian industry overcome debt collection deficiencies in a big way.

The Managing Director of International Factors Ltd., of Singapore Mr.Eugem Tan EuJin, noted that "factoring business had a great potential in India and it was in the best interests of the country to develop this financial intermediary. Banks and other financial institutions can as well diversify in this area to increase their profitability."

Factoring can be both domestic and for exports. In domestic factoring, the client sells goods and services to the customer and delivers the invoices, order documents, etc. to the factor and inform the customer of the same.

In return, the factor makes a cash advance and a statement to the client. The factor then sends a copy of all the statements of accounts, remittances, receipts, etc. to the customer, on receiving them, the customer sends the payment to the factor.

In case of export factoring two 'factors' are involved. The factor in the customer's country is called "Import Factor" while the one in the client's country is called the "Export Factor". All the transactions remain similar in the case of international factoring, the only difference being that the export factor has to send the shipping documents to the import factor and the import factor has to pass on the ultimate collection to the export factor.

Credit Syndication

Credit syndication relates to activities connected with credit procurement and project financing, aimed at raising Indian and foreign currency loans from banks and financial institutions, are collectively known as 'credit syndication'.

Activities covered under credit syndication are as follows:

1. Estimating the total cost of the project to be undertaken.
2. Drawing up a financing plan for the total project cost which conforms to the requirements of the promoters and their collaborators, financial institutions and banks, government agencies and underwriters.
3. Preparing loan application for financial assistance from term lenders/financial institutions/banks, and monitoring their progress, including pre-sanction negotiations.
4. Selecting institutions and banks for participation for financing.

Credit syndication services overlap with the act ivies of project counseling and project finance. But the loan syndication also incluses the preparation of applications for financial assistance from financial institutions/banks.

Issue Management and Underwriting

Issue management and underwriting concerns with the activities relating to the management of the public issues of corporate securities, viz. equity shares, preference shares, and debentures of bonds, and are aimed at mobilization of money from the capital market.

Following are some of the popular services provided by merchant bankers in this regard:

1. Preparation of an action plant.
2. Preparation of budget for the local expenses for the issues.
3. Preparation of CCI application and assisting in obtaining consent/acknowledgement.
4. Drafting of prospectus
5. Selection of institutional and broker underwriters for syndicating/underwriting arrangements.
6. Selection of issues Houses and advertising agencies for undertaking pre and post-issue publicity.
7. Obtaining the approval of institutional underwriters and stock exchanges for publication of the prospectus.

Portfolio management is making decisions for the investment of cash resources of a corporate enterprise in marketable securities by deciding the quantum, timing and the type of security to be bough.

The services covered are as follows:

1. Undertaking investment in securities.
2. Undertaking investment for non-resident Indians, on both repatriation and non-repatriation basis.
3. Undertaking review of Provident fund investment, Trust investment, etc.
4. Safe custody of securities in India and overseas.
5. Providing advice on selection of investments.
6. Carrying out a critical evaluation of investment portfolio.

7. Collecting and remitting interest and dividend on investment.

Working Capital Finance

The finance required for meeting the day-to-day expenses of an enterprise is known as 'Working Capital finance'.

1. Assessment of working capital requirements.
2. Preparing the necessary application to negotiations for the sanction of appropriate credit facilities.
3. Assisting, co-coordinating and expediting documentation and other formalities for disbursement.
4. Advising on the issue of debentures for augmenting long-term requirements of working capital.

Acceptance Credit and Bill discounting

Acceptance credit and bill discounting connotes the activities relating to the acceptance and the discounting of bills of exchange, besides the advancement loans to business concerns on the strength of such instruments, are collectively known as 'Acceptance Credit and Bill of discounting.

In order that the bill accepting and discounting takes place on sound lines, it is imperative that the firm involved command a good reputation and financial standing.

Salient Features of Factoring:

(i) Credit Cover:
The factor takes over the risk burden of the client and thereby the client's credit is covered through advances.

(ii) Case advances:
The factor makes cash advances to the client within 24 hours of receiving the documents.

(iii) Sales ledgering:
As many documents are exchanged, all details pertaining to the transaction are automatically computerized and stored.

(iv) Collection Service:
The factor, buys the receivables from the client, they become the factor's debts and the collection of cheques and other follow-up procedures are done by the factor in its own interest.

(v) Provide Valuable advice:
The factors also provide valuable advice on country-wise and customer-wise risks. This is because the factor is in a position to know the companies of its country better than the exporter clients.

Types of Factoring:
The types of factoring are discussed below:

(i) Recourse Factoring

(ii) Non-Recourse Factoring

(iii) Advance Factoring

(iv) Confidential and Undisclosed Factoring

(v) Maturity Factoring.

(vi) Supplier Guarantee Factoring

(vii) Bank Participation Factoring

The detail about the Types of Factoring is as follows:
(i) In Recourse factoring the credit risk remains with the client though the debt is assigned to the factor, i.e., the factor can have recourse to the client in the event of non-payment by the customer.

(ii) The Non-Recourse Factoring also called as 'Old-line factoring'. It is an arrangement whereby he factor has no recourse to the client when the bill remains unpaid by the customer. Thus, the risk of bad debt is absorbed by the factor.

(iii) Where the payment is made by the factor immediately is called Advance Factoring Under this type of factoring, the factor provides financial accommodation apart from non-financial services rendered by him.

(IV) In confidential and undisclosed factoring the arrangement between the factor and the client are left un-notified to the customers and the client collects the bills from the customers without intimating them to the factoring arrangements.

(v) In maturity factoring method, the factor may agree to pay an amount to the client for the bills purchased by him either immediately or on maturity. The later refers to a date agreed upon on which the factor pays the client.

(vi) Supplier Guarantee Factoring is also known as 'drop shipment factoring'. This happens when the client is a mediator between supplier and customer. When the client is a distributor, the factor guarantees the supplier against the invoices raised by the supplier upon the client and the goods may be delivered to the customer. The client thereafter raises bills on the customer and assigns them to the factor. The factor thus enables the client to make a gross profit with no financial involvement at all.

(vii) In bank participation factoring the bank takes a floating charge on the client's equity i.e., the amount payable by the factor to the client in .respect of his receivables. On this basis, the bank lends to the client and enables him to have double financing.

Steps Involved in Factoring:

The steps involved in factoring are discussed below:

Step I. The customer places an order with the seller (the client).

Step II. The factor and the seller enter into a factoring agreement about the various terms of factoring.

Step III. Sale contract is entered into with the buyer and the goods are delivered. The invoice with the notice to pay the factor is sent along with.

Step IV. The copy of invoice covering the above sale is sent to the factors, who maintain the sales ledger.

Step V. The factor prepays 80% of the invoice value.

Step VI. Monthly Statements are sent by the factor to the buyer.

Step VII. If there are any unpaid invoices follow up action is initiated.

Step VIII. The buyer settles the invoices on expiry of credit period allowed.

Step IX. The balance 20% less the cost of factoring is paid by the factor to the client.

Advantage of Factoring:

1. It is help to improve the current ratio. Improvement in the current ratio is an indication of improved liquidity. Enables better working capital management. This will enable the unit to offer better credit terms to its customers and increase orders.

2. It is increase in the turnover of stocks. The turnover of stock into cash is speeded up and this results in larger turnover on the same investment.

3. It ensures prompt payment and reduction in debt.

4. It helps to reduce the risk. Present risk in bills financing like finance against accommodation bills can be reduced to minimum.

5. It is help to avoid collection department. The client need not undertake any responsibility of collecting the dues from the buyers of the goods.

Limitations of Factoring:

1. Factoring is a high risk area, and it may result in over dependence on factoring, mismanagement, over trading of even dishonesty on behalf of the clients.

2. It is uneconomical for small companies with less turnover.

3. The factoring is not suitable to the company's manufacturing and selling highly specialized items because the factor may not have sufficient expertise to assess the credit risk.

4. The developing countries such as India are not able to be well verse in factoring. The reason is lack of professionalism, non-acceptance of change and developed expertise.

Legal aspects of factoring

Factoring contract is like any other sale- purchase agreement regulated under the law of contract. There is no codified legal framework / code to regulate factoring services in India. The legal relationship between a factor and a client is largely determined by the terms of the factoring contract entered into before the factoring process starts. Some of the contents of a factoring agreement and legal obligations of the parties are listed as follows:

1) The client gives an undertaking to sell and the factor agrees to purchase receivables subject to terms and conditions mentioned in the agreement.
(2) The client warrants that the receivables are valid enforceable, undisputed and recoverable. He also undertakes to settle disputes, damages and deduction relating to the bills assigned to the factor.
(3) The client agrees that the bills purchased by the factor on a non-recourse basis (i.e. approved bills) will arise only from transactions specifically approved by the factor or those falling within the credit limits authorized by the factor.
(4) The client agrees to serve notices of assignments in the prescribed form to all those customers whose receivables have been factored.
(5) The client agrees to provide copies of all invoices, credit notes, etc., relating to the factored accounts, to the factor and the factor in turn would remit the amount received against the factored invoices to the client.
(6) The factor acquires the power of attorney to assign the debts further and to draw negotiable instruments in respect of such debts.
(7) The time frame for the agreement and the mode of termination are specified in the agreement.
(8) The legal status of a factor is that of an assignee. The customer has the same defence against the factor as he would have against the factor as he would have against the client.
(9) The customer whose account has been factored and has been notified of the assignment is under legal obligation to remit the amount directly to the factor failing which he will not be discharged from his obligation to pay the factor even if he pays directly to the client remits the amount to the factor.
(10) Before factoring a receivable, the factor requires a letter of disclaimer from the bank which has been financing the book debts through bank finance to the effect that from the date of the letter the bank cannot create a charge against the receivables i.e. the bank will not provide post-sales finance as the factor provides.
(11) Priority over other claimants to book debts: It will be extremely important for the factor to make sure that the book debts it handles are free from any encumbrances which would entitle someone else to the money due. The firm has to guarantee that the book debts are free from any rights of a third party in the factoring agreement.

(12) Other powers: The factor has sometimes to act quickly to recover money due on an invoice. A customer with money outstanding to the factor may be in difficulty and nay delays in acting could see the money gone forever. The agreement must provide for the factor to act swiftly in his name, whenever necessary.

(13) The factoring agreement sets out in detail how the firm s to be paid.

(14) Approved and unapproved debts: The attraction of factoring for many companies is that non-recourse factoring can give a degree of insurance against the customer who does not pay. This depends on whether the debt is approved or not, which is decided before the factoring process starts.

(15) Where the factor may reclaim money already advanced. Factoring agreements provide for payment by the customer directly to the factor. If any of the customers pay it to the client by mistake, the agreement provides that the firm must hold the money for the factor. If he does not do so, this is effectively a breach of trust and the firm may be held responsible for any losses incurred by the factor.

(16) Warrants Some warrants that are required are:

(a) The firm should disclose any materials facts that it knows might affect the factor's decision to approve a debt.

(b) It has to warrant that the invoices sent for factoring represents a proper debt for goods supplied.

(17) Disputed debts: The factor may require the customer to notify it immediately in case of disputed debts. The firm may be expected to return any advances made to it in respect of the disputed debt.

(18) The factor's power to inspect the firm's books and accounts and the period of the factoring arrangements is usually laid down in the agreement.

Types of Factoring

Factors take different forms, depending upon the type of specials features attached to them. Following are the important forms of factoring arrangements:

1. Domestic Factoring: Factoring that arises from transactions relating to domestic sales is known as Domestic Factoring_. Domestic Factoring may be of three types, as described below.

2) **2. Disclosed factoring:** In the case of disclosed factoring 'the name of the proposed actor is mentioned on the face of the invoice made out by the seller of goods. In this type of factoring, the payment has to be made by the buyer directly to the Factor named in the invoice. The arrangement for factoring may take the form of recourse_, whereby the supplier may continue to bear the risk of non-payment by the buyer without passing it on to the Factor. In the case of nonrecourse factoring, Factor, assumes the risk of bad debt arising from non-payment.

3. Undisclosed factoring: Under undisclosed factoring_, the name of the proposed Factor finds no mention on the invoice made out by the seller of goods. Although the controls of all monies remain with the Factory, the entire realization of the sales transaction is done in the name of the seller. This type of factoring is quite popular in the UK.

4. Discount factoring: Discount Factoring ‘s a process where the Factor discounts the invoices of the seller at a pre-agreed credit limit with the institutions providing finance. Book debts and receivables serve as securities for obtaining financial accommodation.

5. Export Factoring: When the claims of an exporter are assigned to a banker or any financial institution, and financial assistance is obtained on the strength of export documents and guaranteed payments, it is called export factoring'. An important feature of this type of factoring is that the Factor bank is located in the country of the exporter. If the importer does not honour claims, exporter has to make payment to the Factor. The Factor-bank admits a usual advance of 50 to 75 percent of the export claims as advance. Export factoring is offered both as a re-course' and as a non-recourse' factoring.

6. Cross-border Factoring: Cross-border Factoring' involves the claims of an exporter which are assigned to a banker or any financial institution in the importers' country and financial assistance is obtained on the strength of the export documents and guaranteed payments. International factoring essentially works on a non-recourse factoring model. They handle exporter's overseas sales on credit terms. Complete protection is provided to the clients (exporter against bad debt loss on credit-approved sales. The Factors take requisite assistance and avail the facilities provided for export promotion by the exporting country. When once documentation is complete, and goods have been shipped, the Factor becomes the sole debtor to the exporter.

7. Full-service Factoring: Full-service factoring, also known as Old-line factoring, is a type of factoring whereby the Factor has no recourse to the seller in the event of the failure of the buyers to make prompt payment of their dues to the Factor, which might result from financial inability/ insolvency/bankruptcy of the buyer. It is a comprehensive form of factoring that combines the features of almost all factoring services, especially those of non-recourse and advance factoring.

8. With Recourse Factoring: The salient features of the type of factoring arrangement are as follows
1. The Factor has recourse to the client firm in the event of the book debts purchased becoming irrecoverable

2. The Factor assumes no credit risks associated with the receivables

3. If the consumer defaults in payment, the resulting bad debts loss shall be met by the firm

4. The Factor becomes entitled to recover dues from the amount paid in advance if the customer commits a default on maturity
5. The Factor charges the client for services rendered to the client, such as maintaining sales ledger, collecting customer ‘s debt, etc.

9.Without Recourse Factoring:

The salient features of this type of factoring are as follows: 1. No right with the Factor to have recourse to the client 2. The Factor bears the loss arising out of irrecoverable receivables 3. The Factor charges higher commission called commission_ as a compensation for the said loss 4. The

Factor actively involves in the process of grant of credit and the extension of line of credit to the customers of the client

10. Advance and Maturity Factoring: The essential features of this type of factoring are as follows: 1. The Factor makes an advance payment in the range of 70 to 80 percent of the receivables factored and approved from the client, the balance amount being payable after collecting from customers 2. The Factor collects interest on the advance payment from the client 3. The Factor considers such conditions as the prevailing short-term rate, the financial standing of the client and the volume of turnover while determining the rate of interest

11. Bank Participation Factoring: It is variation of advance and maturity factoring. Under this type of factoring, the Factor arranges a part of the advance to the clients through the banker. The net Factor advance will be calculated as follows: (Factor Advance Percent X Bank Advance Percent)

12. Collection / Maturing Factoring: Under this type of factoring, the Factor makes no advancement of finance to the client. The Factor makes payment either on the guaranteed payment date or on the date of collection, the guaranteed payment date being fixed after taking into account the previous ledger experience of the client and the date of collection being reckoned after the due date of the invoice.

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S.No	QUESTION	Option-A	Option-B	Option-C	Option-D	Answer
1	The Word factor has been derived from the Latin word	Facere	Factore	Focatore	Foctaer	Facere
2	The role of an factor is that of an	Principal	Agent	Boss	Servant	Agent
3	Factor creates a relationship between a financial institution and a ___________	Business	Creditor	Debotor	Parties	Business
4	Factoring for the first time intorudced in	UK	USA	France	India	UK
5	Mainteance of accounts, Collectin of Receivables, Protection against risk, Finance are the services of	Forfaiting	Factor	Mutual Funds	Merchant Bankers	Factor
6	Factoring services are both domestic and ________________	International	Natinal	State	Exports	Exports
7	Features of Factoring may not include	Discounting	Cash Advnaces	Create Cover	Collection Services	Discounting
8	Source of Short term fund, credit protection, Helps to increase sales are the ______ of a a factor	Merits	Demerits	Functions	Features	Features
9	Cost of factoring inludes	Commission	Principal	Advnce	Discount	Commission
10	EDI Factoring is a _______________ factoring services in India	Paper	Paperless	Mutual	No such service	Paperless

11	______ is a fund based financial services	Factor	Forfait	Mutual Fund	Merchant Bankers	Factor
12	C.S. Kalyanasundaram Report (1988) is a part of _________	Factor	Faofait	Financial Services	Non-Finnace Services	Factor
13	Mechanics of fctoring may not include	Merchant	Customer	Factor	Banker	Banker
14	Factoroing which normally arises from any ordinary trnsactions is	Domestic	Disclosed	Undisclosed	Discount	Domestic
15	Players of factoring shall notinclude	Buyer	Seller	Factor	Broker	Broker
16	UNIDROIT is linked with	Merchant Bankers	Mutual Funds	Factoring	Forfaiting	Factoring
17	Domestic factoring means an arrangment between a factor and his client which includes at lease two	Finance & Maintenance of Accounts	Collection of Debts & Protection against risk	Both	As per agreement	Both
18	Factoring contract is similar to that of a ______ contract	Bailment	Negotiable	HP Contract	Quasi Contract	Bailment
19	A factor works in return for a service charge calculated on the ________	Turnover	Outstandings	Receipts	Current Assets	Turnover
20	If the name of the proposed factor is mentioned on the face of the invoice made out by the seller of goods is	Discount	Domestic	Cross Border	Full Service	Domestic
21	If the name of the proposed factor is not mentioned on the face of the invoice made out by the seller of goods is	Disclosed	Undisclosed	Discount	Cross Border	Undisclosed
22	Cross Border Factoring is also called as	National Factoring	International Factoring	Discount Factoring	Domestic Factoring	International Factoring

23	"to make or to do", "to get things done" and " Facere" all leads to the meaning of	Factoring	Forfaiting	Mutual Funds	Merchant Bankers	Factoring
24	A factor is an agent who collects the dues of his client for a certain___	Commission	Charge	Fee	Brokerage	Fee
25	Factor provides finance to his client upto a certain % of unpaid invoices which represent the sale of goods or services to approved ______________	Customers	Clients	Creditors	Debtors	Customers
26	Purchase, Collection of Debts, Sales Ledger Managemnt, Credit Risk, Credit Investigation, Rrendering Consultancy are _____ of factoring	Merits	Demerits	Limitations	Functions	Functions
27	Disclosed factoing and Notified factoing is nothing but ____________ factoring	Invoice	Bulk	International	Full Service	Bulk
28	Full Service Factoring is also called as ___________ factoring	With Recourse	Withuot Recourse	With Course	Without Course	Withuot Recourse
29	With recourse factoring is also called as _____________ charges	Refactoing	Factoring	Full Service	With Recourse	Refactoring
30	In India the idea of providing factoring serivices was frist introduced by _____	Vaghul Working Group	Ramarajan Committee	Basel Norms	Finance Commission	Vaghul Working Group
31	International factoring transactions shall not include	Expoerter	Importer	EF and IF	Banker	banker

32	To assist internatinal factoring, FCI developed special commuication system called	EDIFACT	EIDTACF	IND-EDI	EDIFACT-IND	EDIFACT
33	Strong MIS, Efficinet Monitroring Mechanism, Computerise all operatins, Commercial Viability are the factors of _____	Edifactoing	Ind-Factoring	Int-Ind-Factoring	Factoring	Edifactoing
34	Trade debts have to be assigned in favour of the financing company under	Discounting	Forfeiting	Factoring	Mutual unds	Factoring
35	Refactoring charges have to be paid in the case of	Maturing Factoring	With Recourse Factoring	Invoice Factoring	Full Service Factoring	With Recourse Factoring
36	Under factoring, the factor acts in the capacity of	An agent of his client	A Trustee	A holder of value	An administrator	A holder of value
37	The first bank in India to start factoring busines is	Canara Bank	SBI	PNB	Allahabad Bank	SBI
38	Factoring envisages the sale of trade debts to the factor by the _____	Client	Debtor	Seller	Purchaser	Client
39	Factoring agencies also provides ___________ service	Consultancy	Debt Financing	Support Service	Lending	Consultancy
40	A form of financing of receivables arising from International trade is calle as	forfaiting	factoring	financial services	Other Sertices	forfaiting
41	To be a successful _____________, that there exist a secoundary market	factoring	forfaiting	Discount services	Financial Services	forfaiting

42	Exporter, Importer, Forfaiter, Importers' Bank are mechanics of	factoring	MFs	forfaiting	MBs	forfaiting
43	Surrender some thing or give up one's right means	forfaiting	factoring	MBs	MFs	forfaiting
44	Switzerland during the mid 60s developed the concept of	Treasuy Bill	Notes	forfait	G-Sec	Forfait
45	Forfeiting is another source of financing against receivables like	Leasing	Instalment	Mututal Fund	Factoring	Factoring
46	Factoring is short term whereas Forfeiting is __________	Tiny	Short	Medium	Long	Medium
47	Factoring is employed to finance both domestic and export, forfeiting emplyed on	Export Business	Import Business	Both Export & Import	For Factoring	Export Business
48	Central theme of factoring is purchase of invoice, purcahse of export bill is	Forfeiting	Factoring	Both	Mutual Fund	Forfeiting
49	Factoring is in border whereas Forfeiting is on financing aspects of ___ bill	Export	Import	Export Bill	Import Bill	Export Bill
50	Factoring is for whole turnover, whereas forfeiting is on	single export bill	all export bill	single import & expoert bill	All export & import bill	single export bill
51	Profitable, Liquid, Simple, Flexible, Confidential and Speedy transactins are the merits of	Forfeiting	factoring	Mutual Funds	Merchant Banks	Forfeiting
52	Once the factor purchae all the factor, the factor becomes _____________	Holder for value	Agent of the Valaue	Both	Depends	Holder of the value

53	Credit Investigation and analysing Credit Risk are two eyes of	Factoring	Forfeiting	Merchant Bankers	Mutual Funds	Factoring
54	Type of _____ service on the basis of the nature of transaction between client and factor	Factoring	Forfeiting	Maturing Factoring	Agency Factoring	Factoring
55	The factor simply provides finance against invoices without undertaking any other function is	Invoice	Bulk	Maturity	Agency	Invoice
56	Account Receivables under discout are subject to rediscounting which is not possible under	Factoring	Fofeiting	Bill Financing	Notes	Factoring
57	Sales Ledger, Credit Control and Bad Debts administrationi comprises of	Factoring Fee	Brokerage	Commission	Discount Charge	Factoring Fee
58	Factoring Charge = Cost plus _______________	Commission	Loss	Profit	Risk	Profit
59	Sales Ledger Control Accounts contians main _________ account of various debtors of Clients	Asset	Liabilities	Both	Outstanding	Asset
60	Client Current Account contains a statement of account of a client showing all debits and	Credits	Debits	Balance Sheet	Outstandings	Credits

Mutual Funds – Types – importance – selection of a fund – securitization – stages of securitization – benefits – derivatives – kinds – forward, future, options and swaps

Mutual funds are institutions that mobilize the savings of innumerable investors for the purpose of channelling them into productive investments in a wide variety of corporate and other securities.

Some of the services rendered by mutual funds are as follows:

1. Mopping up public savings.
2. Investing the funds in a diversified portfolio of shares and debentures belonging to well managed and growing companies.
3. Earning investors, a steady return on investments with an assurance of capital appreciation.

Relief to Sick Industries

Merchant bankers extend the following services as part of providing relief to sick industries:

1. Rejuvenating old-lines and ailing units by appraising their technology and process, assessing their requirements and restructuring their capital base.
2. Evolving rehabilitation packages which are acceptable to financial institutions and banks.
3. Exploring the possibilities of mergers/amalgamations, wherever called for.

Project Appraisal

The evaluation of industrial projects in terms of alternative variants in technology, raw materials, production capacity and location of plant is known as 'Project Appraisal'.

Financial appraisal

Financial appraisal involves assessing the feasibility of a new proposal for setting up a new project or the expansion of existing production facilities.

Financial appraisal is undertaken through an analysis which takes into account the financial features of a project, including sources of financing. Financial analysis helps trace the smooth operation of the project over its entire life cycle.

Technical Appraisal

Technical appraisal is primarily concerned with the project concept in terms of technology, design, scope and content of the plant, as well as inputs are infrastructure facilities envisaged for the project, Basically, the project should be able to deliver a marketable product from the resources deployed, a t a cost which would leave a margin that would be adequate to service the investment, and also plough back a reasonable amount into the project to enable the enterprise to consolidate its positions.

Economic Appraisal

Economic appraisal of a project deals with the impact of the project on economic aggregates. These may be classified under two broad categories. The first deals with the effect of the project on employment and foreign exchange, and the second deals with the impact of the project on net social benefits or welfare.

Important Steps Taken by SEBI for Regulating Mutual Funds in India

Important steps taken by SEBI for the regulation of mutual funds are listed below:

(1) Formation:

Certain structural changes have also been made in the mutual fund industry, as part of which mutual funds are required to set up asset management companies with fifty percent independent directors, separate board of trustee companies, consisting of a minimum fifty percent of independent trustees and to appoint independent custodians.

This is to ensure an arm's length relationship between trustees, fund managers and custodians, and is in contrast with the situation prevailing earlier in which all three functions were often performed by one body which was usually the sponsor of the fund or a subsidiary of the sponsor.

Thus, the process of forming and floating mutual funds has been made a tripartite exercise by authorities. The trustees, the asset management companies (AMCs) and the mutual fund shareholders form the three legs. SEBI guidelines provide for the trustees to maintain an arm's length relationship with the AMCs and do all those things that would secure the right of investors.

With funds being managed by AMCs and custody of assets remaining with trustees, an element of counter-balancing of risks exists as both can keep tabs on each other.

(2) Registration:

In January 1993, SEBI prescribed registration of mutual funds taking into account track record of a sponsor, integrity in business transactions and financial soundness while granting permission.

This will curb excessive growth of the mutual funds and protect investor's interest by registering only the sound promoters with a proven track record and financial strength. In February 1993, SEBI cleared six private sector mutual funds viz. 20th Century Finance Corporation, Industrial Credit & Investment Corporation of India, Tata Sons, Credit Capital Finance Corporation, Financial Services and Apple Industries.

3) Documents:

The offer documents of schemes launched by mutual funds and the scheme particulars are required to be vetted by SEBI. A standard format for mutual fund prospectuses is being formulated.

(4) Code of advertisement:

Mutual funds have been required to adhere to a code of advertisement.

(5) Assurance on returns:

SEBI has introduced a change in the Securities Control and Regulations Act governing the mutual funds. Now the mutual funds were prevented from giving any assurance on the land of returns they would be providing. However, under pressure from the mutual funds, SEBI revised the guidelines allowing assurances on return subject to certain conditions.

(6) Minimum corpus:

The current SEBI guidelines on mutual funds prescribe a minimum start-up corpus of Rs.50 crore for an open-ended scheme, and Rs.20 crore corpus for closed-ended scheme, failing which application money has to be refunded.

The idea behind forwarding such a proposal to SEBI is that in the past, the minimum corpus requirements have forced AMCs to solicit funds from corporate bodies, thus reducing mutual funds into quasi-portfolio management outfits. In fact, the Association of Mutual Funds in India (AMFI) has repeatedly appealed to the regulatory authorities for scrapping the minimum corpus requirements.

(7) Institutionalisation:

The efforts of SEBI have, in the last few years, been to institutionalise the market by introducing proportionate allotment and increasing the minimum deposit amount to Rs.5000 etc. These efforts are to channel the investment of individual investors into the mutual funds.

(8) Investment of funds mobilised:

In November 1992, SEBI increased the time limit from six months to nine months within which the mutual funds have to invest resources raised from the latest tax saving schemes. The guideline was issued to protect the mutual funds from the disadvantage of investing funds in the bullish market at very high prices and suffering from poor NAV thereafter.

(9) Investment in money market:

SEBI guidelines say that mutual funds can invest a maximum of 25 per cent of resources mobilised into money-market instruments in the first six months after closing the funds and a maximum of 15 per cent of the corpus after six months to meet short term liquidity requirements.

Private sector mutual funds, for the first time, were allowed to invest in the call money market after this year's budget. However, as SEBI regulations limit their exposure to money markets, mutual funds are not major players in the call money market. Thus, mutual funds do not have a significant impact on the call money market.

(10) Valuation of investment:

The transparent and well understood declaration or Net Asset Values (NAVs) of mutual fund schemes is an important issue in providing investors with information as to the performance of the fund. SEBI has warned some mutual funds earlier of unhealthy market

(11) Inspection:

SEBI inspect mutual funds every year. A full SEBI inspection of all the 27 mutual funds was proposed to be done by the March 1996 to streamline their operations and protect the investor's interests. Mutual funds are monitored and inspected by SEBI to ensure compliance with the regulations.

(12) Underwriting:

In July 1994, SEBI permitted mutual funds to take up underwriting of primary issues as a part of their investment activity. This step may assist the mutual funds in diversifying their business.

(13) Conduct:

In September 1994, it was clarified by SEBI that mutual funds shall not offer buy back schemes or assured returns to corporate investors. The Regulations governing Mutual Funds and Portfolio Managers ensure transparency in their functioning.

(14) Voting rights:

In September 1993, mutual funds were allowed to exercise their voting rights. Department of Company Affairs has reportedly granted mutual funds the right to vote as full-fledged shareholders in companies where they have equity investments.

Types of Mutual Fund

1. **Close ended Funds**

In this the corpus of the fund and the number of units are determined in advance. Once the

subscription reaches the pre determined level, the entry of investors is closed. After the expiry of the fixed period, the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their holding.

2. **Open ended Funds**

It is justs sthe opposite of close ended funds. Under this scheme, the size of the fund or the

period of the fund is not pre determined. The investors are free to buy and sell any number of units at any point of time.

On the Basis of Income

A. Income Funds

As the name suggests, this fund aims at generating and distributing regular income to the members on a periodical basis. It concentrates more on the distribution of regular income and it also sees that the average return is higher than that of the income from bank deposits.

B. Pure growth funds

Unlike the income funds, growth funds concentrate mainly on long run gains. They do not offer regular income and they aim at capital appreciation in the long run. Hence, they have been described as **nest eggs** investments.

C. Balanced funds

This is otherwise called income cum growth fund. It is nothing but a combination of bothincome and growth funds. It aims at distributing regular income as well as capital appreciation. This is achieved by balancing the investments between the high growth equity shares and also the fixed income earning securities.

D. Specialised Funds

Besides the above, a large number of specialized funds are in existence abroad. They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows etc.

E. Money Market Mutual Funds (MMMFs)

These funds are basically open ended mutual funds and as such they have all the features of the open ended fund. But they invest in highly liquid and safe securities like commercial paper, namkers acceptances, certificates of deposits, treasury bills etc.

Securitization

It is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations (or other non-debt assets which generate receivables) and selling their related cash flows to third party investors as securities, which may be described as bonds, pass-through securities, or collateralized debt obligations (CDOs). Investors are repaid from the principal and interest cash flows collected from the underlying debt and redistributed through the capital structure of the new financing. Securities backed by mortgage receivables are called mortgage-backed securities (MBS), while those backed by other types of receivables are asset-backed securities (ABS).

Critics have suggested that the complexity inherent in securitization can limit investors' ability to monitor risk, and that competitive securitization markets with multiple securitises may be particularly prone to sharp declines in underwriting standards. Private, competitive mortgage securitization played an important role in the U.S. subprime mortgage crisis.[1]

In addition, off-balance sheet treatment for securitizations coupled with guarantees from the issuer can hide the extent of leverage of the securitizing firm, thereby facilitating risky capital structures and leading to an under-pricing of credit risk. Off-balance sheet securitizations also played a large role in the high leverage level of U.S. financial institutions before the financial crisis, and the need for bailouts.[2]

The granularity of pools of securitized assets can mitigate the credit risk of individual borrowers. Unlike general corporate debt, the credit quality of securitized debt is non-stationary due to changes in volatility that are time- and structure-dependent. If the transaction is properly structured and the pool performs as expected, the credit risk of all tranches of structured debt improves; if improperly structured, the affected tranches may experience dramatic credit deterioration and loss.[3]

Securitization has evolved from its beginnings in the late 18th century to an estimated outstanding of $10.24 trillion in the United States and $2.25 trillion in Europe as of the 2nd quarter of 2008. In 2007, ABS issuance amounted to $3.455 trillion in the US and $652 billion in Europe.[4] WBS (Whole Business Securitization) arrangements first appeared in the United Kingdom in the 1990s, and became common in various Commonwealth legal systems where senior creditors of an insolvent business effectively gain the right to control the company.[5] There are main players in securitization, they include investors, securities and corporate.

Derivatives

Many commonly used instruments can be called derivatives sicne they derive their value from an underlying asset. Derivatives are based upon all those major financial instruments which are explicitly traded like eequities, dibt instruments, forex instruments and commodity based contracts.

Definition

"derivatives involve payment receipt of income generated by the underlying asset on a notional principal"

"Derivatives are a special type of off balance sheet instruments in which no principal is ever paid"

Kinds of financial derivatives

1. **Forwards**

   Forwards are the oldest of all the derivatives. A forward contract refers to an agreement between two parties to exchange an agreed quantity of an asset for cash at a certain date in future at a predetermined price specified in that agreement. The promised asset may be currency, commodity, instrument etc.

   Features of Forward contracts

   (i) Over the counter trading
   (ii) No down payment
   (iii) Settlement at maturity
   (iv) Linearity
   (v) No secondary market

(vi) Necessity of a third party
(vii) Delivery.

2. **Futures**

It is very similar to a forward contract in all respects. Clark has defined future trading "as a special type of futures contract bought and sold under the rules of organized exchanges".

Features of futures

(i) Highly standardized
(ii) Down payment
(iii) Settlements
(iv) Hedging of price risks
(v) Linearity
(vi) Secondary market.

Types of futures

(i) Commodity futures

A commodity future is futures contract in commodities like agricultural products, metals and minerals etc. in organized commodity future markets contracts are standardized with standard quantities.

(ii) Financial futures

It refer to a futures contract in foreign exchange or financial instruments like treasury bill, commercial paper, stock market index or interest role. It is very popular in western countries as hedging instruments to protect against exchange rate and for ensuring future interest rates on loans.

3. **Options**

In the name implies, an option contract gives the buyer an option to buy or sell an underlying asset at a predetermined price on or before a specified date in future. The price so predetermined is called the strike price or exercise price.

Types

1. Call option

A call option is one which gives the option holder the right tobuy a underlying asset at a predetermined price called exercise price or strike price on or before a specified date in future. in such a case, the writer of a call option is under an obligation to sell the asset at the specified price, in case the buyer exercise his option to buy.

2. Put option

A put option is one which gives the option holder the right to sell an underlying asset at a predetermined price on or before a specified date in future.

3. Double option

   A double option is one which gives the option holder both the rights either to buy or to sell an underlying asset at a predetermined price on or before a specified date in future.

4. **Swap**

Swap is yet another exciting trading instrument. In fact, it is a combination of forwards by two counterparties. It is arranged to reap the benefits arising from the fluctuations in the market either currency market or interest rate market or nay other market for that matter.

	KARPAGAM ACADEMY OF HIGHER EDUCATION (Deemed to be University) (Established Under Section 3 of UGC Act. 1956) COIMBATORE – 641 021					
	QUESTION	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Answer**
S.NO.	**UNIT IV**					
1	In hire purchase system, each installment is treated as __________ till the last installment is paid.	Interest	Hire charge	payment	Credit .	Hire charge
2	Fee based activity includes __________	Credit rating	Stock broking	Portfolio management services	lease finance.	lease finance.
3	Hedging of risks by using __________	Swaps and derivatives	Swaps only	Derivatives	Bonds	Swaps and derivatives
4	Asset based service also called _________	Fee based	Interest based	Capital based	fund based.	fund based.
5	Non fund based activities also called _________	Fund capital based	Interest based	fee based	managing the capital issue.	fee based
6	Modern activities excludes _____	Personal advisory services	Managing the capital issue	Assisting mergers and acquisitions	Capital restructuring.	Managing the capital issue
7	_____ includes all asset based financing plans offered to individuals to help them acquire durable consumer goods.	Trade credit	cash credit	Hire purchase	Consumer credit.	Consumer credit.
8	Functions of a factor exclude__________	Credit rating	Credit recording	Credit administration	Credit financing.	Credit rating
9	The factor assumes credit risks associated with the _________	Collection of accounts	Collection of securities	Collect the fund	collect the goods .	Collection of accounts

10	______ is the charge for short term financing in the form of advance part payment is in the form of interest charge for the period of advance payment.	interest	Deficit	Discount charge	Factor age.	Discount charge
11	______ is the chairman of high powered committee constituted by the RBI under factoring services.	U.K. Singha	Pranab Mugharjee	C.S. Kalyana Sundaram	Grind lays	C.S. Kalyana Sundaram
12	The minimum under writing obligation of a load merchant banker is ________ of the total underwriting commitment.	15%	5%	50%	10%.	15%
13	The maximum number of lead merchant bankers that can be appointed in the case the issue exceeds Rs.100crore less than Rs.200crore is _______	2	3	4	5	4
14	ROC stands for ________	Registrar of companies	Registered companies	Registrar of consulter	Registrar of capital.	Registrar of companies
15	__________ is a written consent or authorization representing or acting on behalf of an individual in matters of business.	Memorandum of understanding	ROC	Agreement	Power of authority.	Power of authority.
16	Lead merchant banker should advice the issuer to enter into ________ with a particular intermediary for the purpose of issue management.	Memorandum of understanding	ROC	Agreement	Arrangement.	Memorandum of understanding
17	The number of lead merchant bankers may not ____ times exceed in case any issue of, issue size 200crore to 400crore.	4	3	6	5	5

18	Post issue management activities include ______	Analysis of collection	Processing of data	Follow up	Analysis of collection and Processing of data	Analysis of collection and Processing of data
19	Pre-issue management activities include _____	Lead manager	Underwriting	Overall supervision	MOU	MOU
20	A merchant bank can help an organization specifically in promotional functions, _____	Sponsoring the issue	Marketing	Underwriting	Sponsoring the issue and Marketing	Sponsoring the issue and Marketing
21	Role of merchant bankers _________	Mobilization of funds	Promotional function	Innovation	Mobilization of funds, Promotional and Innovation	Mobilization of funds, Promotional and Innovation
22	_______ is a financial intermediary who helps to mobilize and transfer capital from those who possess it to those who need it.	Lease finance	Venture capital	Merchant banker	hire purchaser .	Venture capital
23	_______ is a method of renting assets.	Hire purchase	Lease	hedge finance	Credit rating.	Lease
24	_____ is a long term risk capital to finance high technology projects which involve risk but at same time has strong potential for growth.	Venture capital	hedge finance	Merchant banker	hire purchaser.	Venture capital
25	_____is the opinion of the rating agency on the relative ability and willingness of the issuer of deby instrument to meet the debt service obligations as and when they arise.	Credit rating	rating by merchant banker	merit rating	operating feed back.	Credit rating

26	Hire purchase means _______	Regular instalments	The ownership in the goods remains with the vendor till the last installment is paid.	The seller can repossess the goods in case of default in payment .	Irregular instalment	Regular instalments
27	Discounting of bills of exchange is an attractive _________ based financial service provided by the finance companies.	Fee	Fund	Opinion	Capital.	Fund
28	Factoring is method of raising _________ finance through account receivable credit offered by commercial banks and factors.	Long term	Medium term	short term	Regular term	Short term
29	Insurance is a _________	Instrument	Contract	Agreement	Rating.	Agreement
30	______ is a fund based financial service, provides resources of finance receivable as well as facilities the collection of receivables.	Leasing	hedge finance	Merchant banker	Factoring.	Factoring.
31	_________ is a service offered by a stock broker ie; buying and selling or dealing in shares on behalf of the customers.	Lease finance	Venture capital	Merchant banker	Stock broking.	Stock broking.
32	NBH stands for _______	National house banker	National house bank	National house building	New housing bank.	New housing bank.
33	NBF C stands for _________	Non banking finance companies	Non banking financial corporation	Non bulk finance companies	Non bulk finance corporation	Non banking finance companies
34	The performance of ______ scheme does the National Housing Bank monitor.	Liberalized Finance Scheme	Golden Jubilee Rural Housing Finance Scheme	Energy Efficient Housing Finance Scheme	Finance scheme for indirect loans	Golden Jubilee Rural Housing Finance Scheme

35	National Bank of Agriculture and Rural Development established on _____	July, 1982	July, 1969	June, 1951	June, 1961	July, 1982
36	The government acquire RBI's shareholding (72.5%) in NABARD on ____	May, 2008	June, 2008	August, 2008	March, 2009	June, 2008
37	The National Housing Bank start its operations on _____	July, 1982	July, 1988	April, 1980	March, 1971	July, 1988
38	____works as RBI's agent at places where it has no office of its own.	State Bank of India	Ministry of Finance	Government of India	International Monetary Fund	State Bank of India
39	______ is true about the functions performed by RBI.	It is the Bank of Issue	It acts as banker to the Government	It is the Security market act	It is the Bank of Issue and acts as banker to the Government	It is the Bank of Issue and acts as banker to the Government
40	RBI does not regulate the ____	flow of credit	Bank of Issue	Banker to the Government	Banker's Bank	flow of credit
41	According to ______ guidelines did the Government pick up the entire SBI shares held by the RBI.	National Stock Exchange of India	Securities Commission	Financial Regulations	Securities and Exchange Board of India (SEBI)	Securities and Exchange Board of India (SEBI)
42	_____ is the full form of CBS.	Core Banking Solution	Core Banking Software	Core Banking System	Core Banking Service	Core Banking Solution
43	Subprime lending' is a term applied to the loans made to________	Borrowers who do not have a good credit history	Borrowers who have a good credit history	Borrowers who do not have a good debit history	Borrowers who have a good debit history	Borrowers who do not have a good credit history
44	_______ is the act of taking on a risk for a fee.	Guidewire	Initial Public Offering	Predictive analytics	Underwriting	Underwriting
45	_____ is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India.	Bank Rate	Discount Window	Monetary Policy	Overnight Rate	Bank Rate

46	__________ are to be followed by Commercial Banks for risk management.	Basel II norms	Basel III norms	Basel I norms	Solvency II norms	Basel II norms
47	_________ is the full form of CRR.	Cash Reserve Rate	Cash Reserve Ratio	Cash Recession Ratio	Core Reserve Rate	Cash Reserve Ratio
48	_______is the rate at which the RBI lends money to commercial banks in the event of any shortfall of funds.	Benchmark Prime Lending Rate	Annual Percentage Rate	Bank Rate	Repo Rate	Repo Rate
49	____ sets up 'Base Rate' for Banks.	Individual Banks Board	Interest Rate Commission of India	RBI	SBI	RBI
50	Priority sector includes _______	Agriculture	Retail Business	Small Scale Industries	Agriculture, Retail Business and Small Scale Industries	Agriculture, Retail Business and Small Scale Industries
51	The credit control methods adopted by RBi includes___	Quantitative control	Qualitative control	Fixed control	Quantitative and Qualitative control	Quantitative and Qualitative control
52	______ are qualitative control methods	Quantitative control	Minimum limit of credit for specific purpose	Differential rate on certain types of advancement	Qualitative control	Differential rate on certain types of advancement
53	_________ are quantitative control methods	Bank rate	Statutory flexibitity ratio	CRR	Bank rate & CRR	Bank rate & CRR

54	RBI promotes commercial banking by ____	Providing rediscounting facilities	Providing Monetory facility	Giving subsidies to new bank	Providing rediscounting facilities and Giving subsidies to new bank	Providing rediscounting facilities and Giving subsidies to new bank
55	____ act has given control & supervision powers to RBI over commercial banks	RBI Act 1934	Banking Regulation act 1949	Both RBI Act 1934 & Banking Regulation act 1949	Banking Regulation Act 1960	Both RBI Act 1934 & Banking Regulation act 1949
56	The merit of issuing notes with RBI can be seen in __________	Uniformity in note issue	Stability in currency	Control of credit	Uniformity in note issue, Stability in currency and Control of credit	Uniformity in note issue, Stability in currency and Control of credit
57	Central Bank________ Credit	Create	Controls	Restricts	Follow up	Restricts
58	Objective of monetary policy is to: _______	Control inflation	Control Inflow of money	Encourage flow of credit	Control inflation and Encourage flow of credit	Control inflation and Encourage flow of credit
59	__________ policy refers to policy measure taken by RBI to control & regulate money supply	Credit	Monetary	Fiscal	Financial	Monetary
60	RBI is the lender of last resort, it means _____	RBI advances necessary credit against eligible securities	Commercial banks give funds to RBI	RBI advances money to public whenever there is an emergency	RBI advances necessary debit against eligible securities	RBI advances necessary credit against eligible securities

Credit rating – definition and meaning – functions of credit rating – origin –credit rating In India - benefits of credit rating – credit rating agencies in india

Credit Rating Meaning | Process | Agencies in India

Credit Rating Meaning | Process | Agencies in India. Credit Rating is the evaluation of the credit worthiness of an instrument of a company based on perceived overall risk of a company's business and financial profile as well as structural consideration. Credit rating establishes a link between risk and return. An investor or any other interested person uses the rating to assess the risk level and compares the offered rate of return with his expected rate of return. It facilitates the investors in taking a decision whether to go for an investment or not. The agency, which performs the credit rating is called the Credit Rating Agency.

Following Points May be Noted in Respect of Credit Rating

1. Credit rating is an assessment of a borrower's willingness and ability to repay the rated obligation in accordance with its terms and conditions.
2. It is only an opinion but not a recommendation to purchase, sell, or hold a borrower's security.
3. The agencies change ratings only for significant and permanent changes in a company's financial and operating performances
4. Credit rating agencies rate securities and not issuers. Generally, the rating of highest rated debt is taken as the rating of the company.

Credit Rating Agencies

The Credit Rating Agencies (CRA) is one of the capital market intermediaries. It is a body corporate, which is engaged in the business of rating of securities offered by way of public issue or right issue.

Rating means an opinion regarding securities, expressed in the form of standard symbols (numeric, alphanumeric and alphabets) or any other standardized manner assigned by a CRA and used by the issuer of such securities. For instance, public issues of convertible / redeemable debentures/bonds having a maturity period of more than 18 months requires credit rating. Similarly, issue of commercial paper in India also requires a specified credit rating.

Credit Rating Agencies in India

Following are the important CRA in India:

I. Credit Analysis and Research Limited (CARE)

II. Investment Information and Credit Rating Agency of India Limited (ICRA)

III. Credit Rating and Information Services (India) Limited (CRISIL)

IV. FITCH Credit Ratings India Private Limited

V. Standard and Poor's Corporation.

Registration of CRA

It may be noted that as per Section 12 of the SEBI Act, 1992, a person has to get itself registered with SEBI under SEBI (Credit Rating Agencies) Regulations, 1999 in order to carry on the activities of Credit Rating.

Every CRA shall abide by the code of conduct contained in the Third Schedule to SEBI (Credit Rating Agencies) Regulations, 1999.

It may be noted that SEBI (Credit Rating Agencies) Regulations, 1999 cover rating of securities only and not rating of fixed deposits, foreign exchange, country ratings, real estates, etc.

Uses of Credit Rating

Credit rating is useful to the following:

Investors: In absence of credit rating, an investor has to make investment based on general available information about the company and its promoters and properly analysed opinions of a credit rating agency minimizes the risk.

Issuers: Market places faith in the opinion of credit rating agencies. This enables the issuers of high rated instruments to access the market even during adverse conditions.

Intermediaries: Credit Rating also helps intermediaries like merchant bankers, brokers, etc. Credit Rating helps merchant bankers in pricing of the issues whereas it helps the brokers in monitoring their risk exposure.

Regulators: In India, the main regulator related to securities market is SEBI and one of the important functions of SEBI is to protect the interest of investors in securities market. SEBI ensures this by specifying requirement of a certain credit rating for a particular instrument.

Promoters of a CRA

A CRA can be promoted only by any of the following:

– A public financial institution;

– Scheduled commercial bank;

– A foreign bank;

– A foreign credit rating agency having minimum 5 years of experience;

– A body corporate having net worth of 100 crores in each of the immediately preceding 5 years.

Procedure For Credit Rating

Generally, CRA follows the following procedure/process for credit rating:

a. Seek information required for the rating from the company

b. On receipt of required information, have discussion with the company's management and visit the company's operating locations, if required.

c. Prepare an analytical assessment report.

d. Present the analysis to a committee comprising senior executives of the concerned CRA

e. The aforesaid committee would discuss all relevant issues and assign a rating

f. Communicate the rating to the company along with an assessment report outlining the rationale for the rating assigned.

Functions of a Credit Rating Agency

A credit rating agency serves following functions: 1. Provides unbiased opinion: An independent credit rating agency is likely to provide an unbiased opinion as to relative capability of the company to service debt obligations because of the following reasons: i. It has no vested interest in an issue unlike brokers, financial intermediaries. ii. Its own reputation is at stake. 2. Provides quality and dependable information: A credit rating agency is in a position to provide quality information on credit risk which is more authenticate and reliable because: i. It has highly trained and professional staff who has better ability to assess risk. ii. It has access to a lot of information which may not be publicly available. 3. Provides information at low cost: Most of the investors rely on the ratings assigned by the ratings agencies while taking investment decisions. These ratings are published in the form of reports and are available easily on the payment of negligible price. It is not possible for the investors to assess the creditworthiness of the companies on their own. 4. Provide easy to understand information: Rating agencies first of all gather information, then analyse the same. At last these interpret and summarise complex information in a simple and readily understood formal manner. Thus in other words, information supplied by rating agencies can be easily understood by the investors. They need not go into details of the financial statements. 5. Provide basis for investment: An investment rated by a credit rating enjoys higher confidence from investors. Investors can make an estimate of the risk and return associated with a particular rated issue while investing money in them. 6. Healthy discipline on corporate borrowers: Higher credit rating to any credit investment enhances corporate image and builds up goodwill and hence it induces a healthy/ discipline on corporate. 7. Formation of public policy: Once the debt securities are rated professionally, it would be easier to formulate public policy guidelines as to the eligibility of securities to be included in different kinds of institutional port-folio.

Advantages of Credit Rating

Different benefits accrue from use of rated instruments to different class of investors or the company. These are explained as under: A. Benefits to Investors

1. Safety of investments. Credit rating gives an idea in advance to the investors about the degree of financial strength of the issuer company. Based on rating he decides about the investment. Highly rated issues gives an assurance to the investors of safety of Investments and minimizes his risk.

2. Recognition of risk and returns. Credit rating symbols indicate both the returns expected and the risk attached to a particular issue. It becomes easier for the investor to understand the worth of the issuer company just by looking at the symbol because the issue is backed by the financial strength of the company.

3. Freedom of investment decisions. Investors need not seek advice from the stock brokers, merchant bankers or the portfolio managers before making investments. Investors today are free and independent to take investment decisions themselves. They base their decisions on rating symbols attached to a particular security. Each rating symbol assigned to a particular investment suggests the creditworthiness of the investment and indicates the degree of risk involved in it.

4. Wider choice of investments. As it is mandatory to rate debt obligations for every issuer company, at any particular time, wide range of credit rated instruments are available for making investment. Depending upon his own ability to bear risk, the investor can make choice of the securities in which investment is to be made.

5. Dependable credibility of issuer. Absence of any link between the ratter and rated firm ensures depend credibility of issuer and attracts investors. As rating agency has no vested interest in issue to be rated, and has no business connections or links with the Board of Directors. In other words, it operates independent of the issuer company, the rating given by it is always accepted by the investors.

6. Easy understanding of investment proposals. Investors require no analytical knowledge on their part about the issuer company. Depending upon rating symbols assigned by the rating agencies they can proceed with decisions to make investment in any particular rated security of a company.

7. Relief from botheration to know company. Credit agencies relieve investors from botheration of knowing the details of the company, its history, nature of business, financial position, liquidity and profitability position, composition of management staff and Board of Directors etc. Credit rating by professional and specialised analysts' reposes confidence in investors to rely upon the credit symbols for taking investment decisions.

8. Advantages of continuous monitoring. Credit rating agencies not only assign rating symbols but also continuously monitor them. The Rating agency downgrades or upgrades the rating symbols following the decline or improvement in the financial position respectively.

Disadvantages of Credit Rating

Credit rating suffers from the following limitations

1. Non-disclosure of significant information. Firm being rated may not provide significant or material information, which is likely to affect the investor's decision as to investment, to the investigation team of the credit rating company. Thus any decisions taken in the absence of such significant information may put investors at a loss.

2. Static study. Rating is a static study of present and past historic data of the company at one particular point of time. Number of factors including economic, political, environment, and government policies have direct bearing on the working of a company. Any changes after the assignment of rating symbols may defeat the very purpose of risk indicating of rating.

3. Rating is no certificate of soundness. Rating grades by the rating agencies are only an opinion about the capability of the company to meets its interest obligations. Rating symbols do not pinpoint towards quality of products or management or staff etc. In other words, rating does not give a certificate of the complete soundness of the company. Users should form an independent view of the rating symbol.

4. Rating may be biased. Personal bias of the investigating team might affect the quality of the rating. The companies having lower grade rating do not advertise or use the rating while raising funds from the

public. In such a case the investors cannot get the true information about the risk involved in the instrument.

5. Rating under unfavourable conditions. Rating grades are not always representative of the true image of a company. A company might be given low grade because it was passing through unfavourable conditions when rated. Thus, misleading conclusions may be drawn by the investors which hampers the company's interest.

6. Difference in rating grades. Same instrument may be rated differently by the two rating agencies because of the personal judgment of the investigating staff on qualitative aspects. This may further confuse the investors.

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act. 1956)
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S.No	Questions	Option-A	Option-B	Option-C	Option-D	Answer
1	Hire Pruchse Act was passed in the year	1952	1962	1972	1975	1972
2	Banking Regularion Act 1949 has amended in 1990 in order to permit commercial banks to enter into	Hire Purchase Business	Installment Business	HP & Instalment	Lesing	Hire Purchase Business
3	Any transaction of finance whreby goods are bought and sold as per terms and conditins	Instalment	HirePurchase	Both a & b	Leasing	HirePurchase
4	Right to Protection, Notice, Repossesson, Statement, Excess Amount are the rights under HP Act 1972 for	Hirer	Payee	Vendor	In Instalment	Hirer
5	Add-on Rate, Flat rate of interst, Effective Rate of Interst are the rate charges ___________	On HP	On Installment	On Loan	Others	On HP
6	Effectove rate of interst, Sum of years digits and Strainght line method are the ways of calculating	Interst	Dividend	Principal	Principal +Interst	Interst

7	Method of reporting of hire purchase includes	Disclosure of Hirer Books	Disclosure of Hire Vendor Books	Both A & B	Installment	Both A & B
8	Which of these is not a credit rating agency?	Moodys	Standard & Poor?s	Price water house	ICRA	ICRA
9	C.R.A. is banking parlance stands for	Credit Rating Assoucatin	Credit Rating Agency	Credit Risk Assessemente	Credit Rating Appraisal	Credit Rating Agency
10	India Index Services & Products Limited (IISL) is a joint venture between two entities	NSE and CRISIL Ltd.	NSE and ICRA Ltd.	BSE and CARE Ltd.	BSE and CRISIL Ltd.	NSE and CRISIL Ltd.
11	Credit rating agencies determine interest rates on debt securities	TRUE	FALSE	Difficult to say	Depends	FALSE
12	SEBI gives credit rating to securities issued in the capital market	Difficult to say	FALSE	TRUE	At times	FALSE
13	Mutual funds can offer guaranteed returns	TRUE	FALSE	Not often	At Times	FALSE
14	A mutual fund scheme; with a entry load will have its sale price higher than its NAV.	TRUE	Always True	Somttimes True	Not at all	TRUE
15	Mutual funds range from very conservative to extremely speculative investments	Always True	TRUE	False	Always False	TRUE

16	Global Credit Rating Agencies does not include	Moody's	S&P	DCR	CARE	CARE
17	CRISIL was born during the year	1987	1991	1994	1996	1987
18	Followng are the benefits of issuers due to credit rating agencies	Wider Invetor Base	Bench Mark	Index of Faith	Regulators	Regulators
19	One of the parameters shall not be an major issue of credit rating	Continuous Monitoring	Grade Surveillance	Rating Ceilling	Specivicity	Specivicity
20	Moodys Invetors Service was launched from	Canada	USA	India	Japan	USA
21	First domestic credit rating agencies was started was	ICRA	CARE	CRISIL	Duff & Phelps	CRISIL
22	Credit Rating has been made mandatory in India by ___________ agencies	SEBI & SBI	RBI & Sate Govt.	ICA & MOP	GOI & CLB	GOI & CLB
23	For the purpose of Credit Rating Symbols the following are the long term debt instruments	Debenture, Shares	Bonds, Preference Shares	Equity & Preference Shares	Debentures & Bonds	Debentures & Bonds
24	The sign "+" and "-" are used by one of the rating agencies	ICRA	CRISIL	CARE	S&P	CRISIL
25	The Concept of credit rating system was originated in US	After	Before	During	Not Connected with	After

	_______ Great Depression					
26	Credit Rating is made to _______________ instruments	Group of	Specific	Combinations of	Based on necessity	Specific
27	The rating is primarily aimed at furnishing guidance to	Investors	Creditors	Both	Market	Both
28	Do the rating agencies provide any guarantee to the investement community	Yes	No	Recommends	Based on risk	No
29	For the purpose of calculating rating symbols the following are the technqiues used	Quantitative	Qualitative	Both	Financial Data	Both
30	Does rating agencies applies any professinal competency in doing calculations	Yes	At times	Never	Necessity arises	Yes
31	Credit Rating agencies fix interest rates on bonds or debentures issued by companies.	FALSE	TRUE	At Times True	Depends	TRUE
32	Credit Rating evaluates the ability to _________________ the principal and interst of the issuing	Repurhase	Repay	Redeemption Capacity	Evaluate	Repay

	company					
33	Whether Rating is made compulsory for all corporate bodies intend to raise funds	TRUE	Need Arises	To prove the strength	All the factors	TRUE
34	Rating reduces the dependence on brokers and merchant bankers	100% True	Supprts Investors	Not at all times	Additional Gaurantee	100% True
35	DO credit rating is a way of collecting information at low cost by the investor	TRUE	FALSE	Not always	Sometime	TRUE
36	Time, Climatic, Labor Problems, Political, Geographical are _________ factors affecting rating	Factors	Parameters	Both	Demerits	Both
37	ICRA do not provides the following services	Rating & Information	Grading & Advisory	Evaluation	Option A & B	Evaluation
38	Corporate Goverance Rating is done by	CRISIL	ICRA	CARE	S&P	ICRA
39	ICRA mutual fund grading services shall not include	Coporate Reprots	Performance Grading	Credit Risk Grading	Market Risk Grading	Coporate Reprots
40	Credit Rating is an indicator to investors and ________ in determining the credit risk associated with debt instruments	Creditors	Debotors	Bankers	Lenders to the fund	Creditors

41	Whether rating is a compulsory for all corporate bodies intend to raise money	Yes	No	when need arises	Directions of CLB	Yes
42	Whether advisory services are considered in credit rating	Always Taken	Directions of CLB	Yes	No	Yes
43	For the purpose of Credit Rating Sergices, the Risk Management Practice include	Credit Risk	Market Risk	Operation Risk	As in a.b & c	As in a.b & c
44	CRISIL was sponspred by	ICICI	UTI	other financial isntitutions	ICICI	ICICI
45	ICRA does not provides ___________ services	Industry & Sector	Customised & Rating Profile	Corporate Analysis & Reports	Rating Services Only	Rating Services Only
46	Credit Rating is an _______________ by an independent prfessional organization	Opinion Expressed	Opinion Disexpressed	Opinion	Expression	Opinion Expressed
47	RBI and SEBI ___________ the eligibility criteria for financial instruments	Decide	Determines	Fixes	Do not determine	Determines
48	Credit Rating make more meaningful relationship ___________ quality of debt and yield from it.	between	nothing	related	often	between

49	Normally credit rating agencies divide the rating universe in to industry and instruments	TRUE	Yes	False	No	Yes
50	IDBI has promoted the _________ agency	CRISIL	CARE	ICRA	D & P	CARE
51	Codes are dissimilar in the case of __________	S & P	CRISIL	CARE	ICRA	S & P
52	Whether the rating agencies do fall under surveillance	No	Yes	Based on Necessity	If required	Yes
53	Investors, Issures, Buy-Sell side firms, Regulatory boards etc are the beneficiaries of	Banking	RBI	SEBI	Credit Rating	Credit Rating
54	Rating is an observation made by the outside concern regading the _____ capabilities of a firm	financial	administrative	productive	employee	Financial
55	Whether Equity are rated on par with other financial instruments	Recommended	Not Recommended	True	Yes	Yes
56	Credit Rating provides a ___________ ranking of the credit quality of the debt instruments	Relative	Not Related	recmmends	FALSE	Relative

57	Request, Appointment of analytical team, Preliminary Research, Rating Committee, Appeal process constitutes	Financial Evaluation	Evaluation	Rating Process	Grading	Rating Process
58	Long term debentures, bonds and fixed deposits are having similar number of grades and subgrades in	India	USA	UK	Other Counrtires	India
59	Systematic Risk + Unsystematic Risk comprises of	Total Risk	Partial Risk	Individual Risk	Compound Risk	Total Risk
60	ONICRA is an rating agency in	India	UK	USA	European Countries	India