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MINISTRY OF SKILL DEVELOPMENT
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Participant Handbook

Sector
Banking Financial Services and Insurance (BFSI)

Sub-Sector
Capital Markets

Occupation
Equity Dealer

Reference ID: **BSC/Q0201, Version 1.0**
NSQF Level 4

Equity Dealer

Equity Dealer
Participant Handbook
BFSI

Skilling is building a better India.
If we have to move India towards development then Skill Development should be our mission.

Shri Narendra Modi
Prime Minister of India

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Certificate

COMPLIANCE TO QUALIFICATION PACK – NATIONAL OCCUPATIONAL STANDARDS

is hereby issued by the

BFSI SECTOR SKILL COUNCIL OF INDIA

for the

SKILLING CONTENT : PARTICIPANT HANDBOOK

Complying to National Occupational Standards of
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Authorized Signatory
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1. Prepare for Dealing Operations

Unit 1.1 - Indian Financial System
Unit 1.2 - Introduction to Financial Markets
Unit 1.3 - History of Indian securities markets
Unit 1.4 - Market instruments and Participants
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BSC/ N 0201

Unit 1.1: Indian Financial System

Unit Objectives

- Explain the Indian financial system
- Define the components of the Indian financial system
- Differentiate various segments of the financial system
- Explain the roles and functions of the financial system
- Differentiate the types of financial systems

1.1.1 What Is A Financial System?

The financial system in a country refers to "***an institutional framework that enables financial transactions to be carried out in a smooth manner".***

The scale of the financial system

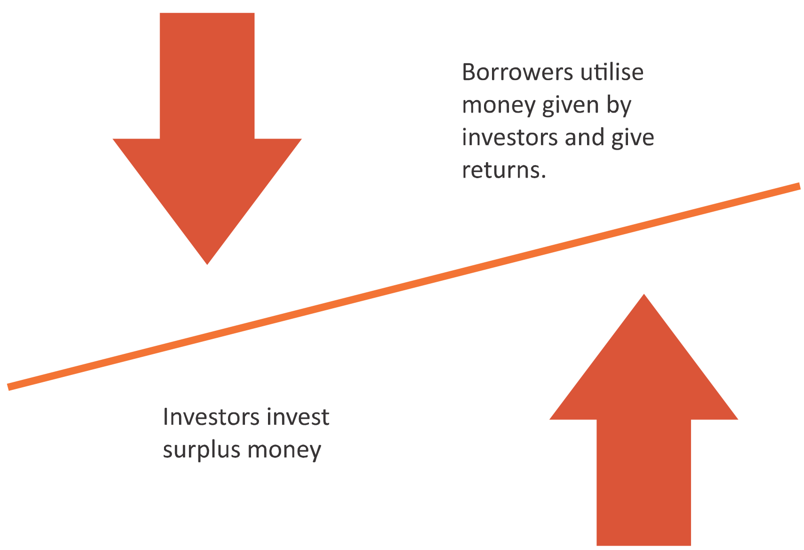

Figure 1.1.1

The financial system plays a key role in the economy by stimulating economic growth.

This is achieved by financial infrastructure, in which entities with funds (Surplus Units) allocate them to those who have potentially more productive ways to invest those funds and who do not have the necessary funds to deploy productively (Deficit Units).

Surplus units can be individuals, companies or government organisations with excess funds at a certain time; consequently they are interested in lending funds.

On the other hand Deficit units are individuals, companies or government organisations that want to spend more than their income. Therefore, they are interested in borrowing funds.

The financial infrastructure is made up of Surplus Units and Deficit units.

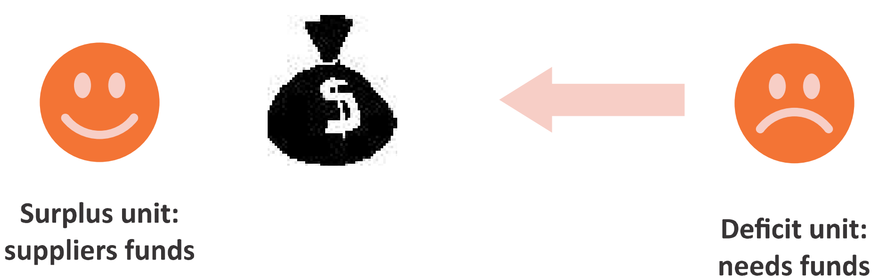

Figure 1.1.2

Surplus units are individuals, businesses or governments who have excess unspent funds during a given period of time and are interested in lending funds.
Deficit units are individuals, businesses or governments who have spending plans in excess of their income and are interested in borrowing funds.

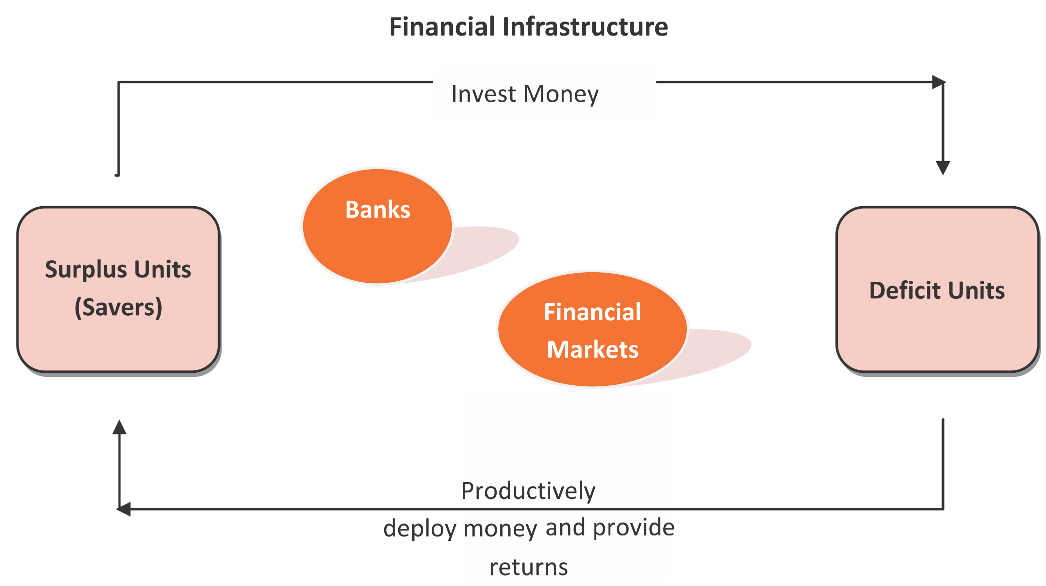

Figure 1.1.3

Activity

Reasoning:

If you were a Surplus Unit with a large amount of funds, which social cause would you provide funds to? The Social Cause here is the Deficit Unit.

Time Line Of The Indian Financial System

1992
- Liberalization of Indian capital markets -SEBI Act
- Establishment of OTCEI

1994
- Establishment of NSE

1996
- Establishment of BSE
- Dematerialization of securities - Depositories Act

2000
- Derivatives trading takes off on NSE and BSE

2005
- Demutualized of the stock exchanges

Role And Functions Of Financial System

- **Providing funds/liquidity:** The financial system provides liquidity to the entire economy for its functions by using the funds collected and lending them out to users.
- **Savings mobilization:** The financial system converts savings into investments and bridges the gap between surplus fund holders and those who need the funds.
- **Allocation of funds:** The financial system assists in selection of right projects to allocate funds and review performance of these projects.
- **Payment mechanism for exchange of goods and services:** This is provided by way of various securities used and electronic payment methods.
- **Risk management:** This mechanism helps mobilize savings and helps in the disbursement of the funds mobilised.
- **Dissemination of detailed, correct and timely information:** Transparency is the key to informed decision making and this is facilitated by the financial system

The role of the financial system is vital to a country and its economy. Its functions are equally vital to the smooth working of the economy:

- ***Providing funds/liquidity***:

The most important and major function is the provision of funds in the form of money and monetary assets to the economy. This is essential for the production of goods and services. The financial system provides liquidity to the entire economy for its functions. As stated earlier, this is carried out by using the funds collected by lending them out to the users of funds. For example, banks, insurance companies, etc., lend moneys to industries for expansion or for setting up infrastructure or for up-gradation of their systems, etc. Similarly, broking institutions facilitate the new issues of companies by assisting in collection of moneys for the issue of securities.

- ***Savings Mobilisation***

A very vital function performed by the financial system is the mobilisation of savings from both small savers as well as large savers in the economy. It is the financial system that coverts savings into investments. The system thus bridges the gap between surplus fund holders and those who need the funds. Again the first set of institutions that mobilise funds are the banks. They collect funds in the form of savings, investments, etc., through various deposits taken from their customers. They then disburse these funds in the form of loans for productive purposes, not only to individuals, but also to industries.

- ***Allocation of Funds***

It assists in the selection of the right projects to allocate the funds and at the right time and in correct amounts. It also reviews the performance of such projects periodically to ensure that the funds are being utilised for the stated purpose and in a timely manner.

For example, if a company approaches a bank for a loan for expanding its plant and adding new machinery, the bank will evaluate the proposal with technical experts. It will lend the money only when it is satisfied about the viability of the project and the production and later, profits expected out. Even after lending, the bank will periodically review the loan and its uses and ensure that the funds are being utilised for the purposed borrowed and in an efficient manner.

- ***Payment mechanism for exchange of goods and services***

This is provided by way of various securities used and electronic payment methods. For example, if a company situated in Mumbai avails the services of another company situated in Kochi, the payment can be made through a simple bank transfer electronically done. This also assists in transfer of resources across different places, as the services are required in Mumbai, but provided by a company based in Kochi.

- ***Risk management mechanism***

This is put in place for mobilizing savings and also in the disbursement of the funds so mobilised. Risk management ensures that the money put in by the investors is kept safe. And so also the money lent by the bank is safe. This actually ensures the safety of the money invested by the investors. The above example itself, where the bank ensures that the money lent is being used efficiently shows that banks are careful about how they utilize the money invested in them by the public.

- ***Detailed, correct and timely information***

Transparency is the key to informed decision making and this is facilitated by the financial system. The regulators have stringent norms about information to be given and transparency of all players in the financial markets. This is important as the interests of the investors, especially the small investors are taken care of.

Activity

Divide the participants into two teams – A and B.

Team A holds the so-called artificial money.

Team B is developing a product and requires capital for it.

Discuss how Team A can help Team B achieve the target and identify the Surplus and Deficit Units/ Teams through the exercise.

1.1.2 Components Of The Financial System

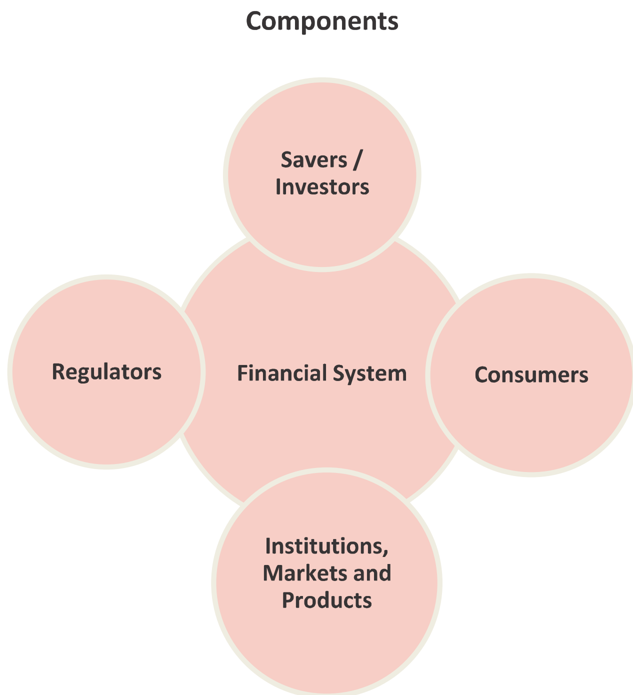

Figure 1.1.4

- **Savers/Investors** are those entities that have excess money and can spare them for productive purposes.

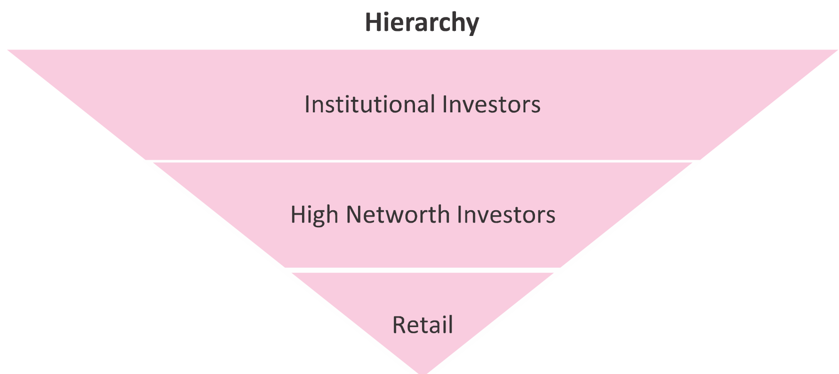

Figure 1.1.5

Category of Investor	Minimum Amount Invested in a Single Transaction
Retail	Less than Rs. 2 lakhs
High Networth Investors (HNI)	Rs. 2 lakhs or more
Institutional Investors	Major funds for markets to run

- **Consumers** are entities that require funds for productive purposes like starting new ventures, expansion of capacity, adding branches, improving quality, upgrading their facilities, adding manpower, etc.
- **Financial institutions/markets** are entities that facilitate the movement of funds from the savers to the consumers.
- **Financial products** are the instruments that facilitate such exchanges in funds between savers and consumers.
- **Regulators** are those that keep the system functioning efficiently by governing the participants. These regulators are the final authority in terms of law, legal formalities, regulations, rules. etc.

- **Consumers** refers to the entities that require funds for productive purposes like starting new ventures, expansion of capacity, adding branches, improving quality, upgrading their facilities, adding manpower, etc.

  For example, a stock broking firm could avail of a loan from a bank in order to upgrade its entire computer terminals and software involved.

- **Financial Institutions / Markets** are entities that facilitate the movement of funds from the savers to the consumers. They mop up the savings in the economy and lend them to the users or consumers.

  They include Banks, Financial Market Intermediaries, Moneylenders, Mutual Funds, Insurance Companies, Pension funds, etc.

- **Financial Products** are the instruments that facilitate such exchanges in funds between savers and consumers. There are wide and varied financial products available in the market today. They include various instruments such as Loans, Stocks, Bonds, Currencies, Commodities, Mutual Fund schemes, Pension Plans, Insurance schemes and so on. There are also various varieties of each of these products. The investor today is spoilt for choice and at the same time is overloaded with various options that are available.

- **Regulators** are those that keep the system functioning efficiently by governing the participants. These regulators are the final authority in terms of law, legal formalities, regulations, rules. etc. The regulators' duty is to ensure orderly working of and promotion of these financial institutions/markets. To name some regulators: RBI, SEBI, IRDA, FMC are regulatory bodies that govern various entities such as Banks, Financial markets, insurance companies, commodity trades and so on.

Financial Regulators In India

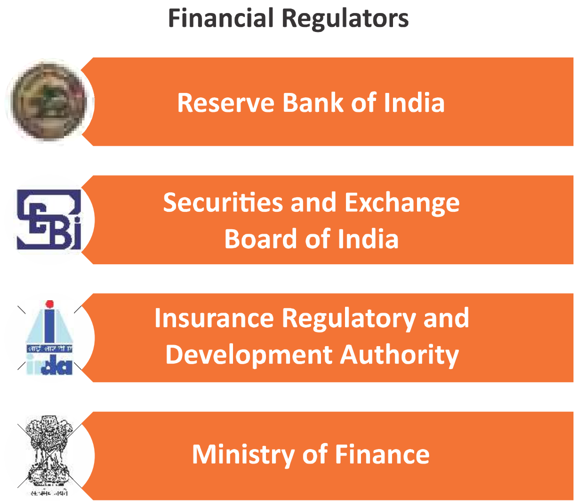

Figure 1.1.6

Characteristics Of Financial Markets

Financial markets enable large volume of transactions and mobilize financial (short-term and long-term) resources at real-time basis through investments in stocks, bonds and money.

Financial markets generate a scope of arbitrage across different markets. This implies that investors can take advantage of price differences across different markets and diversify risks.

Financial markets are characterized with volatility directed by trade of large volume of securities. Mostly, these markets are influenced by macroeconomic and political changes in India and the world.

Markets are dominated by financial intermediaries who take investment decisions as well as risks on behalf of depositors (savers).

Financial markets are also characterized by externalities. An externality refers to cost or benefit that are not transmitted by prices but influenced by a stakeholder's actions in the financial markets leading to market failures. For example, speculation in prices of stock markets could affect the workings of the money market.

Domestic financial markets are also becoming integrated with global financial markets that not only enables capital mobility at a global level but spread of risks across the globe.

1.1.3 Types Of Financial Systems

Types of Financial Systems

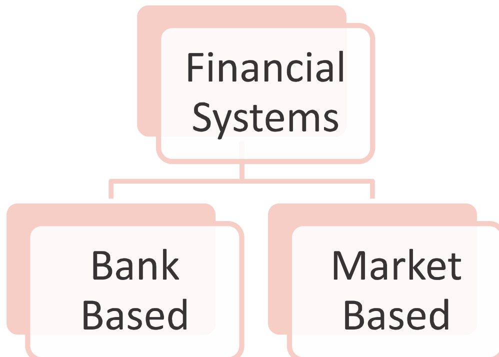

Figure 1.1.7

Bank-based system	Market-based system
• Banks play a major role in the economy. • Banks are the point of first savings. • They form the backbone of the economy in collection and disbursement of funds. • Highest proportion of household assets is held as bank deposits, so banks have access to large amounts of finance. • Banks play a major role in monitoring the behaviour of large companies, as they provide loans and also hold shares in these companies. • Hence, the economic growth depends on the economic growth of the banking system. • Economies have an impact on the markets and hence there is correlation among both. • Germany and Japan are examples of a bank-based financial system.	• In a pure market based system, the market players are bigger than banks. • They play a big role in the mobilizing and disbursement of funds. • Market instruments are very advanced – apart from pure instruments like loans, equity, etc. more complex financial instruments like derivatives assume equal importance. • England and the USA are examples of countries with market based financial systems.

Exercise

1. **Name the three main segments of the Indian Financial System.**

2. **Explain any two roles of the Indian Financial System.**

3. **Name any three types of financial instruments.**

Segments Of The Financial System

Basic Sectors

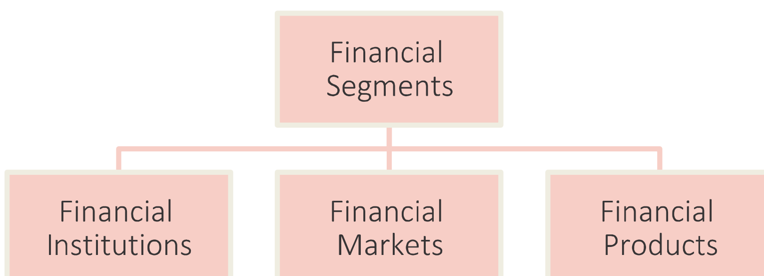

Figure 1.1.8

(a) Financial institutions (banks, mutual funds, insurance companies etc.)

- Financial institutions act as a pathway for the transfer of resources from net savers to net borrowers.
- They are the major source of long-term funds for the economy and provide a variety of financial products and services to fulfill the needs of the commercial sector.
- They provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas.
- They have help reduce regional disparities by inducing widespread industrial development.

Some Major Financial Institutions In India

The Primary Financial Markets

Financial Markets

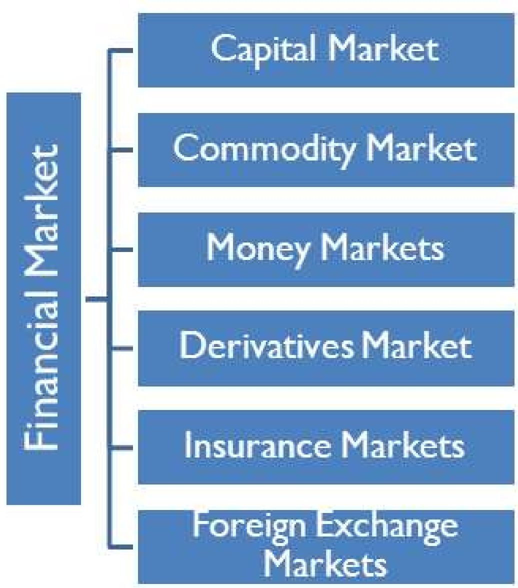

Figure 1.1.10

(b) Financial markets (money market, debt market, capital market, Forex market, derivatives markets, commodity market)

A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, commodities, currencies and derivatives

Characteristics of financial markets:	Some financial markets only allow participants that meet certain criteria, like:
• Market forces determine prices of trade securities • Regulations on Trading • Costs and Fees • Transparent Pricing • Financial markets can be very big or very small.	• The amount of money held • The investor's geographical location • Knowledge of the markets or the profession of the participant

(c) Financial products (loans, deposits, bonds, equities, financial derivatives etc.)

Financial products are instruments which savers can invest in, and deficit units can deploy, in order to tap the funds of the savers.

These are simply ways by which surplus units can pass on money to deficit units and deficit units can provide returns to surplus units on their investment.

Financial Products

Figure 1.1.11

Resources

a) http://www.indianmba.com/Faculty_Column/FC177/fc177.html
b) http://www.sebi.gov.in/HomePage.jsp
c) Image 1.1.2 (Source: http://kfknowledgebank.kaplan.co.uk/)
d) Image 1.1.9 (Source: paisamatters.com)
e) Image 1.1.10 (Source: crackmba.com)
f) Image 1.1.11 (Source: thehindubusinessline.com)

Activity

Read the latest news about the Financial Regulators in India and compile 3 headlines from the same.

Find out the names of 5 countries that have a bank based economy and 5 countries that have a market-based economy in the present financial scenario.

Notes

Unit 1.2 - Introduction To Financial Markets

Unit Objectives

- Explain the meaning of financial markets
- Enlist the different types of markets
- Differentiate money markets and capital markets
- Define currency, commodity and forex markets
- Explain the characteristics of financial markets
- State the functions of financial markets

1.2.1 Flow Of Funds In A Financial Market

Flow of Funds refers to a set of accounts that is used to follow the flow of money within various sectors of an economy.
It analyzes economic data with reference to borrowing, lending and investment across households, businesses and the government.
These accounts are monitored by the Reserve Bank of India.

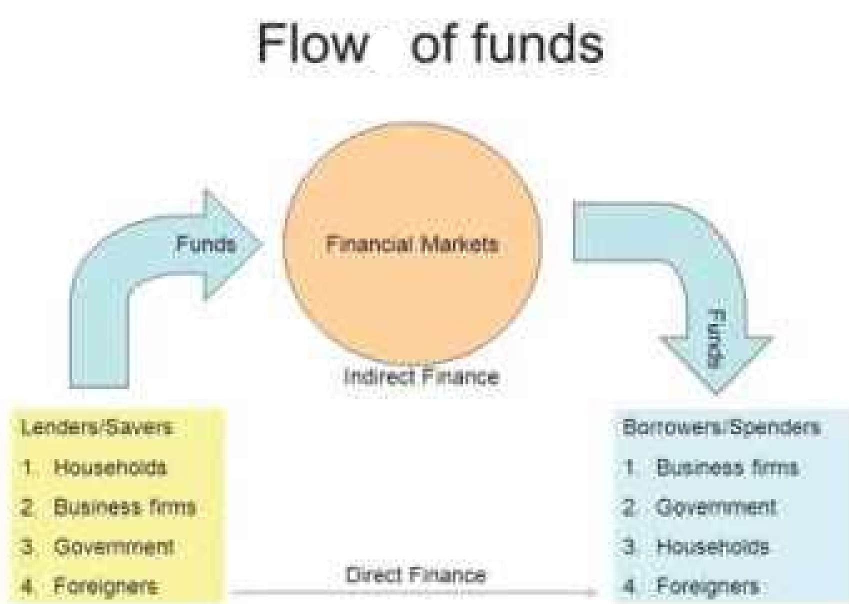

Figure 1.2.1

Trading Periods

Figure 1.2.2

Transparency of information is important to increase the confidence of participants and foster an efficient financial marketplace.

Features Of Financial Markets

- Facilitate efficient transfer of resources from the surplus units to the deficit units.
- Assist in allocating savings to investments.
- Work as a mechanism for trading financial instruments, commodities at prices determined by demand and supply

Difference Between Market And Financial Market

Differences

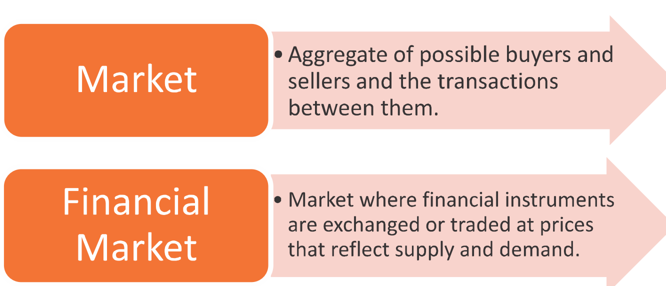

Figure 1.2.3

Financial Markets Stand On 4 Primary Pillars

Pillars of Financial Markets

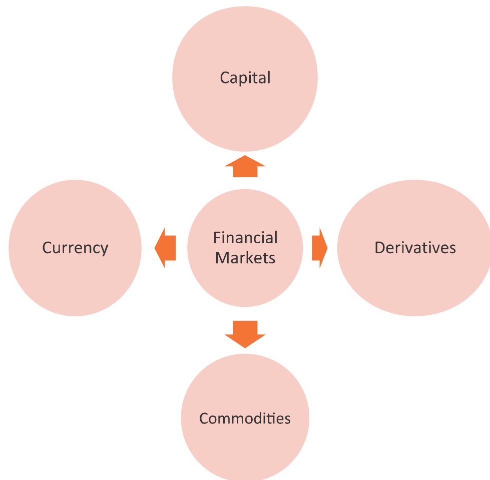

Figure 1.2.4

Exercise

Fill in the blanks

Financial markets facilitate an efficient (1)________________________ of resources from the surplus units to the (2) ________________________ units.

1.2.2 Types Of Markets

Division of Global Markets

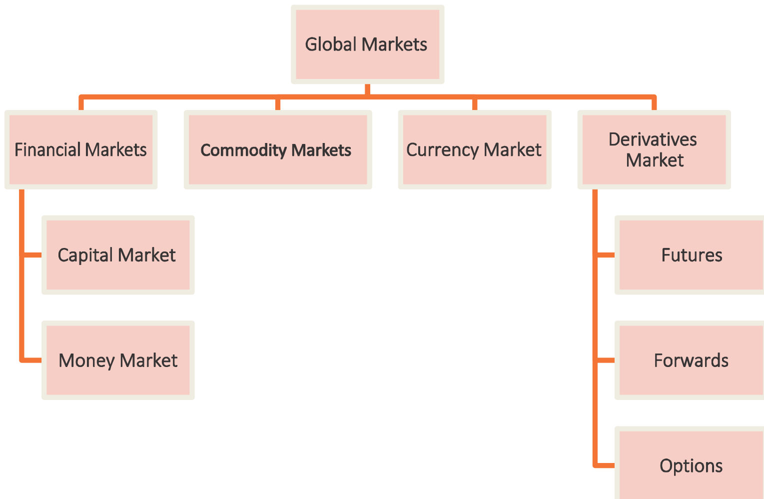

Figure 1.2.5

India was one of the first countries to set up commodity trading but the process got a setback with the entry of foreign rulers, many centuries ago.

Who Regulates The Markets?

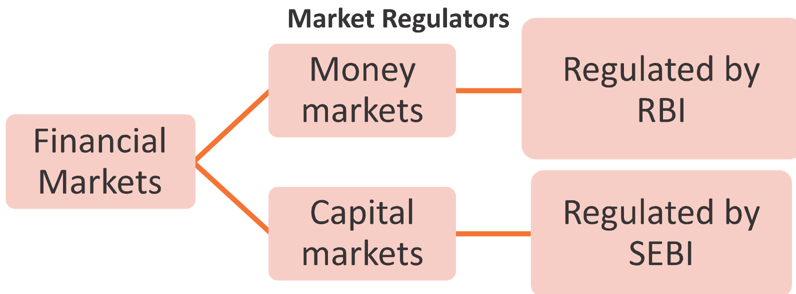

Figure 1.2.6

1.2.3 Money Market

The basic objective of money market is to manage liquidity in the economy.

Figure 1.2.7

- Market for short-term funds with maturity ranging from overnight to one year.
- Includes financial instruments that are deemed to be close substitutes of money.
- Indicator of the overall liquidity position in the economy.
- Plays a crucial role in controlling inflation.
- Regulated and controlled by Reserve Bank of India (RBI).
- Instruments with high liquidity and very short term maturities are traded.
- Also called cash market due to the highly liquid nature of securities and their short term maturities.

Financial Planning

Before you begin building your enterprise, you need to plan your finances. Take a look at the steps for financial planning:

Step 1: Create a financial plan. This should include your goals, strategies and timelines for accomplishing these goals.

Step 2: Organize all your important financial documents. Maintain a file to hold your investment details, bank statements, tax papers, credit card bills, insurance papers and any other financial records.

Step 3: Calculate your net worth. This means figure out what you own (assets like your house, bank accounts, investments etc.), and then subtract what you owe (liabilities like loans, pending credit card amounts etc.) the amount you are left with is your net worth.

Step 4: Make a spending plan. This means write down in detail where your money will come from, and where it will go.

Step 5: Build an emergency fund. A good emergency fund contains enough money to cover at least 6 months' worth of expenses.

Step 6: Set up your insurance. Insurance provides long term financial security and protects you against risk.

Risk Management

As an entrepreneur, it is critical that you evaluate the risks involved with the type of enterprise that you want to start, before you begin setting up your company. Once you have identified potential risks, you can take steps to reduce them. Some ways to manage risks are:

- Research similar business and find out about their risks and how they were minimized.
- Evaluate current market trends and find out if similar products or services that launched a while ago are still being well received by the public.
- Think about whether you really have the required expertise to launch your product or service.
- Examine your finances and see if you have enough income to start your enterprise.
- Be aware of the current state of the economy, consider how the economy may change over time, and think about how your enterprise will be affected by any of those changes.
- Create a detailed business plan.

Tips

- Ensure all the important elements are covered in your plan.
- Scrutinize the numbers thoroughly.
- Be concise and realistic.
- Be conservative in your approach and your projections.
- Use visuals like charts, graphs and images wherever possible.