Shree Agrasen Mahavidyalaya
Department of Commerce
Semester- III
MDC
Investment Management- III

FINANCIAL MARKET

A financial market is a marketplace where buyers and sellers trade financial assets such as stocks, bonds, currencies, commodities, and derivatives, either physically or electronically. These markets play a critical role in channeling funds from savers to borrowers, determining asset prices, ensuring liquidity, and supporting the overall functioning and growth of an economy.

Types of Financial Markets

1. **Money Market**: Deals with short-term debt instruments, such as Treasury bills, commercial paper, and certificates of deposit, typically maturing in less than a year. It provides liquidity for businesses, governments, and financial institutions and supports economic stability.
2. **Capital Market:** Focuses on long-term securities like stocks and bonds. It enables companies and governments to raise long-term funds and investors to participate in economic growth through ownership or lending.
3. **Stock Market:** Facilitates buying and selling of shares representing ownership in companies. A prime example of a stock market in India is the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE)
4. **Bond Market**: Deals with debt securities issued by governments, corporations, or other entities to raise capital.
5. **Foreign Exchange** (Forex) Market: Enables trading of currencies and supports international trade and investment.
6. **Derivatives Market:** Provides instruments like futures and options for managing financial risk and speculating on price movements. Making a contract to buy something in future at a specific price.
7. **Commodity Market**: Focuses on trading physical goods such as gold, oil, and agricultural products.
8. **Cryptocurrency Market**: Enables trading of digital assets like Bitcoin.

Difference Between Capital Market and Money Market

Basis of Difference	Capital Market	Money Market

Meaning	Market for long-term financial instruments where funds are raised for more than one year.	Market for short-term financial instruments used for borrowing and lending up to one year.
Time Duration	More than 1 year (medium-term & long-term).	Less than 1 year (short-term).
Objective	To provide capital for long-term investment, expansion, and development.	To provide liquidity and meet short-term working capital needs.
Type of Instruments	Equity shares, preference shares, debentures, bonds, government securities (long-term).	Treasury bills, commercial papers, certificates of deposit, call money, trade bills.
Risk Level	Comparatively higher risk due to market fluctuations.	Low risk, as instruments are safe and backed by government/banks.
Return	Higher returns over long term.	Lower but stable returns.
Market Division	Primary Market (new issue) and Secondary Market (stock exchange).	No formal divisions; mostly over-the-counter (OTC) transactions.
Regulator	SEBI (Securities and Exchange Board of India).	RBI (Reserve Bank of India).
Participants	Companies, retail investors, FIIs, mutual funds, banks, government.	Banks, RBI, financial institutions, corporates, mutual funds.

Liquidity	Liquidity is lower compared to money market.	Highly liquid due to short-term maturity.
Return Variability	High variability depending on market conditions.	Low variability; returns are relatively predictable.
Purpose of Investment	Long-term wealth creation and capital formation.	Short-term cash management and maintaining liquidity.
Example of Platforms	Stock exchanges like NSE, BSE.	Inter-bank call money market, treasury bill auctions.
Suitability	Suitable for long-term investors.	Suitable for institutions needing short-term funds.

Role of Financial Market in the Economy

Financial markets play a vital role in the growth and stability of any economy. They act as a bridge between savers and borrowers, ensuring efficient allocation and use of financial resources.

1. Mobilization of Savings

Financial markets encourage households and individuals to save by providing various investment avenues like shares, bonds, mutual funds, deposits, etc.

2. Efficient Allocation of Resources

Funds flow from people who have surplus money (savers) to those who need money (businesses, industries, government).

3. Facilitates Capital Formation

By providing long-term funds through capital markets, businesses can invest in:

- New projects
- Expansion
- Technology upgradation

4. Provides Liquidity

Financial markets allow investors to easily buy and sell financial instruments (like shares and bonds).

5. Reduces Transaction and Information Costs

Financial markets provide a common platform where buyers and sellers meet.

6. Price Discovery

Prices of financial instruments (shares, bonds, etc.) are determined by demand and supply in the financial market.

7. Promotes Economic Stability

Financial markets support government and RBI to control inflation, interest rates, and money supply through:

- Government securities
- Treasury bills
- Repo/Reverse Repo operations

8. Facilitates Risk Sharing

Markets provide instruments like:

- Derivatives
- Futures
- Options

These help investors and businesses manage financial risks. 9. Encourages Foreign Investment

A strong financial market attracts Foreign Institutional Investors (FIIs) and Foreign Direct Investment (FDI).

10. Supports Innovation and Entrepreneurship

New businesses get funds through equity, venture capital, and angel investors.

Regulatory bodies in financial markets

India's Financial Regulatory Bodies:

1. Reserve Bank of India (RBI): Regulates banking, including commercial and cooperative banks, and acts as the central bank.

2. Securities and Exchange Board of India (SEBI): Regulates securities markets, including stock exchanges and brokers.

3. Insurance Regulatory and Development Authority of India (IRDAI): Oversees the insurance sector.

4. Pension Fund Regulatory and Development Authority (PFRDA): Regulates pension schemes.

5. International Financial Services Centres Authority (IFSCA): Regulates financial services in International Financial Services Centres (IFSCs).

SEBI (SECURITIES EXCHANGE BOARD OF INDIA)

The Securities and Exchange Board of India (SEBI) is the regulator of the Indian securities market established to protect investors, promote fair trading, and regulate the securities market efficiently. Constituted in 1988 and given statutory powers by the SEBI Act in 1992, SEBI has evolved into one of India's most powerful financial regulatory bodies.

Key Functions of SEBI

- ☐ Protective Functions: SEBI safeguards investors by preventing fraudulent and unfair trade practices, insider trading, price manipulation, and market scams. It ensures companies disclose accurate information for investor awareness.
- ☐ Regulatory Functions: It regulates stock exchanges, brokers, sub-brokers, merchant bankers, mutual funds, credit rating agencies, and other market intermediaries. SEBI formulates regulations and guidelines governing securities issuance, trading, and listing obligations. It also registers market participants and licenses intermediaries.

- Developmental Functions: SEBI promotes the growth of the securities market by introducing new systems, investor education programs, and encouraging innovation and technological advancement.

Powers of SEBI

SEBI exercises three types of powers:

- Quasi-legislative: It drafts and enforces regulations to govern the securities market.
- Quasi-executive: SEBI can inspect books of accounts, conduct investigations, monitor transactions, and take enforcement actions against violations, such as imposing fines or suspensions.
- Quasi-judicial: SEBI can adjudicate disputes, conduct hearings, pass rulings, and has the authority of a court in securities law matters. Its decisions can be appealed in higher courts.

Grievance redressal mechanism of SEBI

The grievance redressal mechanism of SEBI (Securities and Exchange Board of India) primarily operates through an online platform called SCORES (SEBI Complaints Redress System), which is a centralized web-based grievance handling system for investors to lodge complaints against entities in the securities market.

How SEBI's Grievance Redressal Works

1. Initial Complaint: Investors must first address grievances with the concerned entity's designated compliance officer (e.g., listed companies, brokers). If unresolved, they can escalate the complaint through SCORES.
2. Complaint Registration: Investors register complaints on SCORES online or via mobile app. The concerned entity has to respond by submitting an Action Taken Report (ATR) within 21 calendar days.
3. Review Process: Investors dissatisfied with the response can seek a first review with the stock exchange and then a second review with SEBI itself, each with defined timelines (usually 10-15 days).
4. Penalties for Non-compliance: If a complaint remains unresolved beyond 21 days, stock exchanges levy fines on the defaulting entity at INR 1000 per day per complaint and can issue notices for penalties and action.
5. Escalation by Value or Volume: Complaints exceeding 20 or involving amounts above INR 10 lakh get forwarded to SEBI for further action.
6. Stock Exchanges Role: NSE and BSE have dedicated investor grievance cells to handle direct complaints against trading members.
7. Alternate Dispute Resolution: SEBI also facilitates Online Dispute Resolution (ODR) for amicable settlement through mediation or arbitration within specified timelines.

This structured framework ensures investor complaints related to securities markets are addressed promptly, with enforced accountability and escalation paths through compliance officers, stock exchanges, and SEBI

Steps to file a grievance with SEBI using the SCORES portal are as follows:

1. Access the SCORES Portal: Visit the official SEBI SCORES portal by going to https://scores.sebi.gov.in/ or through SEBI's main website. The portal is specifically designed for investor complaints.

2. Register an Account: New users need to register by providing their personal details, including PAN and date of birth, then authenticate via OTP sent to the registered mobile number.

3. Login: After registration, log in using your username and password/OTP.
4. Lodge a Complaint: Navigate to the "Lodge a Complaint" section. Select the type of entity against which you want to file the complaint, such as stockbroker, mutual fund, depository participant, or listed company.

5. Fill Complaint Details: Provide accurate details related to the grievance, including the nature of the complaint and a clear description. Attach relevant supporting documents like transaction records or communications to substantiate the complaint.

6. Submit Complaint: Review all details for correctness and submit the complaint. You will receive a unique complaint registration number to track the progress.

7. Monitor Status: Use the portal to track the status of the complaint and any responses from the concerned entity.

8. Respond to SEBI: If SEBI or the concerned entity requests further information, respond promptly to facilitate the resolution process.

9. Resolution Communication: After investigation, SEBI will communicate the outcome, including any action taken against the concerned entity.

This process ensures systematic and efficient grievance redressal for investors in the Indian securities market through SEBI's SCORES platform.