

NISM-Series-VII — Securities Operations and Risk Management

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CH-1

Introduction to the Securities Market (Part 1)

Topic 1 — Role of the Securities Market in the Economy

- **Securities market** — The market in which securities are issued for the first time and later bought and sold.
- **Securities** — Under the Securities Contracts (Regulation) Act, 1956 they include shares, bonds, debentures, derivatives, mutual fund units, security receipts and Government securities.
- **Regulators** — SEBI regulates the securities market; RBI regulates the Government securities, money and foreign exchange markets.
- **Pending law** — The Securities Markets Code Bill, 2025 would merge the SCRA, the SEBI Act and the Depositories Act; it was still pending in Parliament on 30 Oct 2026.

Functions in the economy

Function	What the market does	Indian illustration
Mobilises savings	Pulls household and institutional surplus into productive use	A family's monthly SIP buys shares of listed companies
Allocates capital	Directs funds to firms with the best prospects	A profitable firm raises equity at a higher valuation
Price discovery	Sets a fair price from continuous buy and sell orders	Bids on the exchange fix a share's price every second
Liquidity	Lets an investor exit by selling to another investor	Shares sold today are paid out on T+1
Risk transfer	Moves price risk to those willing to bear it	A fund hedges its portfolio with index futures
Governance and disclosure	Listing rules force regular, public disclosure	Quarterly results and shareholder votes
Economic barometer	Index movements signal expectations about the economy	Sensex and Nifty 50 track business sentiment

Remember this

- Two segments: primary (new issue, money to issuer) and secondary (trading, money between investors).

Topic 2 — Channelling Savings into Investment

- **Surplus units** — Households, and some firms, earn more than they spend and have savings to invest.
- **Deficit units** — Companies and governments need more money than they hold to fund projects and budgets.
- **Market route** — Savers buy securities issued by users directly, so they bear the return and the risk.
- **Bank route** — Savers deposit with a bank, which lends onwards; the bank bears the credit risk.
- **Disintermediation** — A shift of savings from bank deposits to securities and mutual funds.

Point	Bank (indirect) finance	Market (direct) finance
Who holds the claim	Bank holds the loan; saver holds a deposit	Investor holds the issuer's security
Risk borne by	Bank, with deposit insurance up to ₹5 lakh	Investor, after disclosure
Return	Fixed deposit rate	Market-linked: dividend, interest, capital gain

Point	Bank (indirect) finance	Market (direct) finance
Liquidity	Premature withdrawal with penalty	Sale on the exchange
Cost to borrower	Bank's spread is built in	Usually lower for strong issuers

Example: Kaveri Power Ltd needs ₹2,000 crore for a solar park. It raises ₹1,200 crore through an IPO and ₹800 crore through listed NCDs. Savings of lakhs of investors reach the project without passing through a bank loan.

Topic 3 — Primary Market and Secondary Market

- **Primary market** — The new issue market, where securities are created and sold for the first time.
- **Money flow** — In a fresh issue, money goes to the issuer; in an offer for sale, it goes to the selling shareholders.
- **Secondary market** — The market where already-issued securities are traded between investors, mainly on stock exchanges.
- **No fresh capital** — A secondary trade changes the owner of a share; the company receives nothing.

Basis	Primary market	Secondary market
Nature	Issue of new securities	Trading of existing securities
Parties	Issuer and investors	Buyer and seller investors
Price set by	Issuer, through fixed price or book building	Demand and supply on the exchange
Intermediaries	Merchant bankers, registrars, bankers to the issue	Stock brokers, clearing corporations, depositories
Role	Capital formation	Liquidity and price discovery
Main SEBI rules	ICDR Regulations, 2018; NCS Regulations, 2021	Stock exchange, broker and depository rules

Topic 4 — Inter-linkage between the Primary and Secondary Markets

- **Exit route** — Investors buy in an IPO because they know they can sell later on the exchange.
- **Pricing signal** — Issue prices are set by comparing valuations of listed peers.
- **Market mood** — A rising secondary market brings more and larger new issues; a falling market delays them.
- **Follow-on funding** — A well-traded share makes FPOs, rights issues and QIPs easier.
- **Listing** — A public issue must be listed, which carries it into the secondary market.

From issue to trading

1. The issuer files the offer document and the issue opens for bids.
2. Bids are made through ASBA, with the application money only blocked in the bank account.
3. The issue closes; the basis of allotment is finalised.
4. Shares are credited to demat accounts and unallotted money is unblocked.
5. Shares list and start trading on T+3 working days after issue closure.
6. Later trades settle on T+1, the rolling cycle for listed shares.

Remember this

- IPO listing T+3 working days; secondary-market settlement T+1.

Topic 5 — Public Issues: IPO and FPO

- Initial public offer (IPO)** — An unlisted company's first offer of securities to the public; fresh issue, offer for sale or both.
- Follow-on public offer (FPO)** — A further public issue by an already listed company.
- Fixed-price issue** — The price is stated in the offer document; demand is known only after closure.
- Book building** — A price band is announced; the final price is discovered from bids.
- Price band** — The cap may not exceed 120% of the floor and must be at least 105% of the floor.
- Promoters** — Must hold at least 20% of post-issue capital, locked in for 18 months (3 years if proceeds mainly fund capital expenditure).

Eligibility under Regulation 6(1) of ICDR

- Net tangible assets** — At least ₹3 crore in each of the preceding three full years.
- Operating profit** — Average of at least ₹15 crore in the preceding three years.
- Net worth** — At least ₹1 crore in each of the preceding three full years.
- Alternative** — A company failing these tests may still issue if at least 75% of the net offer goes to QIBs (Regulation 6(2)).

Investor category	Book-built issue, Reg 6(1)	Book-built issue, Reg 6(2)
Qualified institutional buyers	Not more than 50%	At least 75%
Non-institutional investors	Not less than 15%	Not more than 15%
Retail individuals (up to ₹2 lakh)	Not less than 35%	Not more than 10%

Remember this

- Fixed-price issue: at least 50% to retail. Book-built 6(1): QIB ≤ 50%, NII ≥ 15%, retail ≥ 35%.

Topic 6 — Rights Issue and Bonus Issue

- Rights issue** — An offer of new shares to existing shareholders in proportion to their holdings, usually below market price.
- Rights entitlements** — Credited to demat accounts and tradable on the exchange, so a holder can renounce them for value.
- Timeline** — From 7 Apr 2025, a rights issue must be completed within 23 working days of the board approving it.
- Bonus issue** — Free shares to existing holders by capitalising free reserves or securities premium; no fresh money comes in.
- Bonus source limit** — Revaluation reserves cannot be used for a bonus issue.
- Bonus trading** — Bonus shares are credited and tradable from T+2, where T is the record date.

Point	Rights issue	Bonus issue
Money to company	Yes	No
Offered to	Existing shareholders, pro rata	Existing shareholders, pro rata
Can be renounced	Yes, by selling rights entitlements	No
Effect on share price	Falls to the ex-rights price	Falls in proportion to the bonus ratio
Effect on holder's value	Unchanged if he subscribes or sells the entitlement	Unchanged; more shares at a lower price

Example: A shareholder holds 600 shares of Narmada Textiles. In a 1:2 bonus he gets 300 shares and holds 900; the

company receives no money. In a 1:3 rights issue at ₹80 he may buy 200 shares for ₹16,000 or sell the entitlement.

Topic 7 — Private Placement, Preferential Allotment and QIP

- Private placement** — An offer to a select group of identified persons, not to the public, under section 42 of the Companies Act, 2013.
- 200-person cap** — Offers in a financial year to at most 200 persons per class of security, excluding QIBs and employees under ESOS.
- Minimum size** — Each offer per person must be of at least ₹20,000 face value.
- Allotment** — Within 60 days of receiving application money, else refund within the next 15 days.
- Debt placements** — Privately placed debt securities may carry a face value as low as ₹10,000 (from July 2024).

Route	Issuer	Who subscribes	Key rule
Preferential allotment	Listed company	Identified persons, including promoters	Floor price for frequently traded shares: higher of 90-day and 10-day VWAP; promoter lock-in 18 months, others 6 months
Qualified institutions placement (QIP)	Listed company, shares listed for at least one year	QIBs only; not promoters	At least 10% to mutual funds; minimum 2 allottees up to ₹250 crore, 5 above; no allottee over 50%
Private placement of NCDs	Listed or unlisted company	Identified investors	Listed debt must follow the NCS Regulations, 2021

Remember this

- QIP = QIBs only, listed at least 1 year, 10% to mutual funds, 2 or 5 allottees, no one above 50%.

Topic 8 — Exchange-Traded versus Over-the-Counter (OTC) Markets

- Exchange-traded market** — Standard contracts are traded anonymously on an exchange's screen and cleared by a clearing corporation.
- Novation** — The clearing corporation becomes buyer to every seller and seller to every buyer, guaranteeing settlement.
- OTC market** — Two parties deal directly or through a dealer, on terms they negotiate.
- OTC strengths** — Terms can be tailored to the exact amount, date and underlying the user needs.

Feature	Exchange-traded	OTC
Contract terms	Standardised lot, expiry and strike	Customised by the parties
Counterparty risk	Borne by the clearing corporation	Each party bears the other's default risk
Price transparency	Live public prices and volumes	Limited; prices known to the parties
Margins	Daily margins and mark-to-market	As agreed; collateral is bilateral
Exit	Easy offsetting trade	Usually only with the same counterparty
Examples	Shares, index futures and options, currency futures	Currency forwards, interest rate swaps, negotiated bond deals

- **Bond OTC deals** — Corporate bond OTC trades are reported on an exchange platform within 15 minutes and settled through the exchange clearing corporation.
- **G-sec OTC deals** — Reported on NDS-OM and settled through CCIL, the central counterparty for Government securities.

Example: An exporter expects USD 3,45,500 on 17 November. A bank forward covers that exact sum and date; exchange currency futures come only in lots of USD 1,000 and fixed expiry dates.

Topic 9 — The Money Market: Meaning, Participants and Role

- **Money market** — The market for borrowing and lending for an original maturity of up to one year.
- **Regulator** — RBI regulates the money market, which is wholesale and largely run by institutions.
- **Platforms** — Deals are done on electronic platforms such as NDS-Call and, for collateralised deals, the CCIL group's systems.

Participant	Main role
Reserve Bank of India	Regulator; injects or absorbs liquidity through its operations
Commercial and co-operative banks	Borrow and lend call money; issue certificates of deposit
Primary dealers	Borrow and lend; underwrite Government securities
Mutual funds and insurers	Lend surplus cash through TREPS and repo; buy CPs, CDs and T-bills
Corporates, NBFCs and HFCs	Issue commercial paper; park surplus in liquid funds and TREPS
Central Government	Borrows through Treasury Bills and Cash Management Bills

Role of the money market

- **Liquidity balance** — Banks short of cash borrow from banks with surplus for a day or a few weeks.
- **Policy transmission** — The weighted average call rate (WACR) is the operating target of monetary policy.
- **Corridor** — Overnight rates move between the SDF rate of 5.25% and the MSF rate of 5.75%, around the repo rate of 5.50% (from 7 Oct 2026).
- **Funding and parking** — Firms raise short-term money cheaply and invest idle cash safely for short periods.

Remember this

- Money market = up to 1 year. WACR is the operating target; repo 5.50%, SDF 5.25%, MSF 5.75%.

Topic 10 — Call, Notice and Term Money

- **Call money** — Unsecured inter-bank borrowing for one day (overnight).
- **Notice money** — Unsecured borrowing for 2 to 14 days.
- **Term money** — Unsecured borrowing for 15 days up to one year.
- **Participants** — Scheduled commercial banks (including small finance banks), payments banks, RRBs, co-operative banks and primary dealers.
- **Non-banks** — Mutual funds, insurers and corporates cannot deal in call money; they use TREPS and market repo.

Participant	Call and notice money borrowing limit
Scheduled commercial banks	100% of capital funds on a fortnightly daily average; 125% on any day
Co-operative banks	2% of aggregate deposits at the end of the previous year (with term money)
Primary dealers	225% of net owned funds at the end of the previous year

Example: Godavari Bank has capital funds of ₹3,000 crore. It may borrow call and notice money up to ₹3,000 crore on a fortnightly daily average and up to $125\% \times 3,000 = ₹3,750$ crore on any single day.

Remember this

- Call = overnight; notice = 2–14 days; term = 15 days to 1 year; all unsecured.

Topic 11 — Treasury Bills and Cash Management Bills

- **Treasury Bills** — Short-term Government of India borrowing issued in 91-day, 182-day and 364-day tenors.
- **Discount** — Issued below face value and repaid at face value; there is no coupon.
- **Auction** — RBI auctions T-bills, normally every week; the cut-off price is set by bids.
- **Cash Management Bills** — Issued for less than 91 days to bridge temporary gaps in the Government's cash flow.
- **Safety** — Sovereign paper with no credit risk; eligible for banks' SLR.

$$\text{Yield \%} = \frac{F - P}{P} \times \frac{365}{d} \times 100$$

N1. [Numerical] A mutual fund buys a 364-day T-bill at the auction cut-off price of ₹94.60 per ₹100 face value. Find the annualised yield.

Item	Value
Face value (F)	₹100
Price (P)	₹94.60
Days to maturity (d)	364

Solution:

Formula:

$$\text{Yield} = \frac{F - P}{P} \times \frac{365}{d} \times 100$$

Discount earned = $100 - 94.60 = ₹5.40$ per ₹100.

$$\frac{5.40}{94.60} = 0.057082$$

$$0.057082 \times \frac{365}{364} \times 100 = 5.72\%$$

Answer: Yield = 5.72% a year, computed on the price paid, not on face value

Remember this

- T-bills: 91/182/364 days, discount, weekly auctions. CMB: under 91 days.

Topic 12 — Commercial Paper and Certificates of Deposit

- **Commercial paper (CP)** — An unsecured promissory note issued by companies, NBFCs, HFCs, all-India financial institutions and primary dealers.
- **Certificate of deposit (CD)** — A negotiable, discounted or coupon-bearing deposit instrument issued by banks and select all-India financial institutions.

Feature	Commercial paper	Certificate of deposit
Issuer	Corporates, NBFCs, HFCs, AIFs, primary dealers	Banks (including SFBs and RRBs); select AIFs
Tenor	7 days to 1 year	Banks 7 days to 1 year; AIFs 1 to 3 years
Minimum amount	₹5 lakh and multiples	₹5 lakh and multiples
Rating	At least A3 from an RBI-accepted agency	Not a separate RBI entry test
Pricing	Always at a discount	Discount, or fixed or floating coupon



Feature	Commercial paper	Certificate of deposit
Form	Demat only	Demat only
Special rule	Issuing and paying agent must be a scheduled bank	No loans against CDs; buy-back only after 7 days

$$P = \frac{F}{1 + y \times \frac{d}{365}}$$

N2. [Numerical] Sabarmati Finance Ltd issues 90-day CP of face value ₹5 crore at a yield of 7.20%. Find the issue price and the discount.

Item	Value
Face value (F)	₹5,00,00,000
Yield (y)	7.20%
Days (d)	90

Solution:

Formula:

$$P = \frac{F}{1 + y \times \frac{d}{365}}$$

$$1 + 0.072 \times \frac{90}{365} = 1.017753$$

$$P = \frac{5,00,00,000}{1.017753} = 4,91,27,813$$

Discount = 5,00,00,000 – 4,91,27,813 = ₹8,72,187.

Answer: Issue price ₹4,91,27,813; discount ₹8,72,187

Remember this

- CP and CD: ₹5 lakh minimum, demat. CP 7 days–1 year, A3. AIFI CD up to 3 years.

Topic 13 — Repo, CBLO and TREPS

- **Repo** — A sale of securities with an agreement to buy them back at a set price on a set date; in substance, a secured loan.
- **Two sides** — The seller borrows cash; the buyer lends cash and holds the securities until the second leg.
- **Policy repo** — RBI's own repo with banks at the policy rate, distinct from market repo between participants.
- **CBLO** — CCIL's earlier collateralised borrowing and lending product, replaced by TREPS from 5 Nov 2018.
- **TREPS** — Tri-party repo in which CCIL acts as the tri-party agent, selecting, valuing and holding the collateral.
- **Users** — Mutual funds, insurers, corporates and NBFCs lend surplus; banks and primary dealers borrow.

$$\text{Repo interest} = \text{First leg} \times r \times \frac{\text{Days}}{365}$$

N3. [Numerical] Tapti Securities Ltd, a primary dealer, borrows ₹50 crore in market repo for 3 days at 5.45% against G-secs. Find the repo interest and the second-leg amount.

Item	Value
First leg	₹50,00,00,000
Repo rate (r)	5.45%
Days	3

Solution:

Formula:

$$\text{Interest} = \text{First leg} \times r \times \frac{\text{Days}}{365}$$

$$50,00,00,000 \times 0.0545 \times \frac{3}{365} = 2,23,973$$

Second leg = 50,00,00,000 + 2,23,973 = ₹50,02,23,973.

Answer: Repo interest ₹2,23,973; second-leg payment ₹50,02,23,973

Point	Call money	Market repo	TREPS
Security	Unsecured	G-secs and specified debt	G-secs held by CCIL
Who may deal	Banks and primary dealers	Regulated entities and eligible users	Banks, PDs, mutual funds, insurers, corporates, NBFCs
Third party	None	None (bilateral)	CCIL as tri-party agent

Remember this

- Repo seller = borrower. TREPS replaced CBLO; CCIL is the tri-party agent.

NISM-Series-VII | Module A | CH-1 | MCQs

Q1. Rekha, a salaried saver, applies for NCDs in the public issue of a power utility, and the issue money funds its new plant. Which function of the securities market does this show most directly? [Ref: Topic 2, p. 2]

- Bank intermediation of household deposits into project loans
- Channelling household savings directly into investment
- Price discovery for shares already listed on an exchange
- Transfer of price risk from hedgers through derivatives

Q2. Which of the following statements is/are correct? I. In the offer-for-sale part of an IPO, money goes to the selling shareholders. II. A secondary-market purchase brings fresh capital to the company. III. Shares allotted in an IPO list within T+3 working days of issue closure. [Ref: Topic 3, p. 2]

- I and III only
- I, II and III
- II and III only
- I only

Q3. Just before Indus Cables plans an FPO, its listed share falls 40% in a weak market. What is the most likely effect on the FPO? [Ref: Topic 4, p. 2]

- No effect, since FPO pricing is fixed by SEBI regardless of market price
- The FPO must convert into a QIP once the market price has fallen
- A lower price band or deferral, since investors compare the offer with the market price
- A higher price band, because a fall makes new shares look scarcer

Q4. A profitable company makes a book-built IPO under Regulation 6(1) with a net offer of ₹1,000 crore. What is the minimum amount that must be offered to retail individual investors? [Ref: Topic 5, p. 3]

- ₹500 crore
- ₹150 crore
- ₹100 crore
- ₹350 crore

Q5. An issuer announces a floor price of ₹500 for its book-built IPO. Which cap price would be permitted? [Ref: Topic 5, p. 3]

- ₹520
- ₹590
- ₹610
- ₹650

Q6. Satluj Steel, listed for three years, wants ₹600 crore within weeks only from institutions, without a public offer to retail investors. Which route fits best? [Ref: Topic 7, p. 3]

- Rights issue to all shareholders
- Follow-on public offer through book building
- Qualified institutions placement
- Bonus issue from free reserves



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Q7. For the ₹600 crore QIP of Satluj Steel, which arrangement complies with the rules? [Ref: Topic 7, p. 3]

- (a) At least 5 allottees, none above 50%, with at least 10% offered to mutual funds
- (b) At least 2 allottees, none above 50%, with at least 10% offered to mutual funds
- (c) At least 5 allottees, none above 50%, with at least 25% offered to mutual funds
- (d) At least 5 allottees, including the promoter group as an anchor allottee

Q8. An unlisted company plans to offer NCDs this financial year by private placement to 230 persons, of whom 45 are QIBs. What is the position under section 42? [Ref: Topic 7, p. 3]

- (a) Not permitted, because the offer exceeds 200 persons
- (b) Permitted only if each person subscribes at least ₹1 lakh
- (c) Not permitted unless a red herring prospectus is filed
- (d) Permitted, because QIBs are excluded and only 185 persons count

Q9. Mr Bhatia receives rights entitlements in his demat account but does not wish to invest more money. What is the best course for him? [Ref: Topic 6, p. 3]

- (a) Wait for the company to refund the value of unused rights after the issue closes
- (b) Sell the rights entitlements on the exchange before the trading window closes
- (c) Ask the registrar to convert the entitlements into bonus shares
- (d) Do nothing, since unexercised rights are paid out in cash later

Q10. A treasurer must hedge an import payment of USD 3,45,500 due on 17 November. Why might she prefer an OTC bank forward to exchange currency futures? [Ref: Topic 8, p. 3]

- (a) It removes counterparty risk through a clearing guarantee
- (b) It gives live public prices and a daily mark-to-market
- (c) Its amount and date can be tailored to match the payment exactly
- (d) It can be closed easily with any other market participant

Q11. Which of the following is NOT a feature of an exchange-traded market? [Ref: Topic 8, p. 3]

- (a) Settlement guaranteed by the clearing corporation through novation
- (b) Standardised lot sizes and expiry dates
- (c) Daily margins and mark-to-market of open positions
- (d) Contract terms negotiated bilaterally to suit each pair of parties

Q12. A scheduled commercial bank has capital funds of ₹3,000 crore. What is the most it may borrow in call and notice money on any single day? [Ref: Topic 10, p. 4]

- (a) ₹3,750 crore
- (b) ₹3,000 crore
- (c) ₹6,750 crore
- (d) ₹60 crore

Q13. A liquid fund lends ₹200 crore overnight through TREPS. Who selects, values and holds the collateral in this deal? [Ref: Topic 13, p. 5]

- (a) CCIL, acting as the tri-party agent
- (b) The borrowing bank, as custodian of its own securities
- (c) RBI, through its liquidity adjustment facility
- (d) The fund's own custodian bank, as agent of the lender

Q14. A 91-day T-bill is allotted at a cut-off price of ₹98.62 per ₹100. What is its annualised yield (365-day basis)? [Ref: Topic 11, p. 4]

- (a) 5.54%
- (b) 1.40%
- (c) 5.61%
- (d) 5.84%

Q15. Which of the following statements about CPs and CDs is correct? [Ref: Topic 12, p. 4]

- (a) Both CPs and CDs may be issued only by banks for 7 days to 1 year
- (b) A select all-India FI may issue CDs of up to 3 years, but a CP cannot exceed 1 year
- (c) A CP may carry a fixed coupon, but a CD must always be issued at a discount
- (d) CPs are secured by a charge on the issuer's assets, while CDs are unsecured

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	d	7	a	10	c	13	a
2	a	5	b	8	d	11	d	14	c
3	c	6	c	9	b	12	a	15	b

CH-2

Introduction to the Securities Market (Part 2)

Topic 1 — Equity Shares

- **Equity share** — A unit of ownership in a company that carries the residual claim on profits and assets.
- **Face value** — The nominal value printed on the share, such as ₹1, ₹2, ₹5 or ₹10; market price can be far higher.
- **Dividend** — Not fixed; the board recommends it from distributable profits.
- **Voting** — Equity holders elect directors and approve major decisions at general meetings.
- **Last in line** — On winding up they are paid only after creditors, debenture holders and preference holders.
- **Demat** — Every public offer must be made only in dematerialised form (section 29, Companies Act, 2013).

Shareholder right	Meaning
Dividend	Share in profits declared by the company
Vote	One vote per share on resolutions at general meetings
Pre-emption	First right to new shares through a rights issue
Corporate benefits	Bonus shares, splits and buy-back offers
Residual claim	Whatever is left after all others are paid on winding up
Information	Annual report, results and disclosures under listing rules

Topic 2 — Preference Shares

- **Preference share** — Share capital with a preferential right to a fixed dividend and to repayment of capital before equity.
- **Redeemable only** — Indian companies may issue only redeemable preference shares, repayable within 20 years (section 55).
- **Infrastructure** — Infrastructure projects may issue for up to 30 years, redeeming at least 10% a year from the 21st year.
- **Voting** — Normally none; voting rights arise if dividend remains unpaid for two years (section 47).

Basis	Type	What it means
Dividend	Cumulative / non-cumulative	Missed dividend carried forward, or lost
Surplus	Participating / non-participating	Share, or no share, in surplus profits or assets