



TIRM-TM — Treasury Management

Complete Book | Table of Contents | 12 chapters + 11 sections

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CH-1 Financial Markets

Topic 1 — Financial Markets and Their Functions

- **Meaning** — A **financial market** is a market for **financial assets**, not goods.
- **Assets traded** — Equity shares, bonds and debentures, government securities, money-market paper and derivatives.
- **Also traded** — Foreign currency, insurance contracts, units of collective schemes and commodities in contractual form.
- **Nature** — Nothing physical is produced; what is traded is a **claim**.
- **Kinds of claim** — A promise of future cash, of future delivery, or to absorb somebody else's loss.
- **Why markets exist** — Savings and investment opportunities sit in different hands.
- **Households** — They save small amounts for short, uncertain horizons and want safety.
- **Firms and governments** — They need large amounts for long, fixed horizons and can carry risk.
- **Meeting point** — The market lets both sides meet at scale.
- **Transfer of purchasing power** — Every trade moves funds from surplus units to deficit units.
- **Transfer of risk** — Risk moves to the party most willing to carry it.
- **Continuous valuation** — Each trade gives a fresh opinion on what the claim is worth.

Function	What the market does	What fails without it
Mobilisation of savings	Aggregates small, scattered household surpluses into blocks large enough to fund a plant, a highway or a fiscal deficit	Capital formation stalls; savings sit idle
Allocative efficiency	Channels funds to issuers whose expected return justifies the risk	Money flows by relationship, not merit
Price discovery	Aggregates every participant's information into one quoted price, rate or exchange rate	No reference price for valuation, collateral or accounting
Liquidity	Lets a long-dated claim be exited quickly at a fair price in the secondary market, without disturbing the issuer	Nobody would subscribe to a 20-year bond
Risk transfer and pooling	Derivative, insurance and forex segments move price, event and currency risk to willing holders	Every business must self-insure every exposure
Lower transaction and search cost	Standard contracts, recognised venues, licensed intermediaries and settlement infrastructure replace bilateral search	Cost of finding and vetting a counterparty exceeds the gain from trade

- **Policy transmission** — Markets transmit **monetary policy**.
- **Sequence** — A repo change moves overnight rates first, then deposit, loan and bond rates.
- **Government finance** — Markets fund government deficits through G-Sec and T-bill auctions.
- **Efficiency needs** — **Depth, breadth, resilience and transparency**.
- **When weak** — Spreads widen and funds cost more.

Remember this

- Six functions: **Mobilise, Allocate, Price, Liquidity, Risk transfer, lower Cost**.

Topic 2 — Classification of Financial Markets

Segment	Defining feature	Typical instruments	Regulator
Capital market	Long-term funds — debt or equity of tenor beyond one year	Equity and preference shares, debentures, bonds, dated G-Secs	SEBI (securities); RBI (G-Secs)
Money market	Short-term funds — liquidity of one year or less	Call money, T-bills, CDs, CP, repo, TREPS	RBI
Foreign exchange market	Exchange of one country's currency for another's	Spot, forward, swap, currency futures and options	RBI (SEBI for exchange-traded currency derivatives)
Derivatives market	Contracts whose value derives from an underlying asset, rate or index	Forwards, futures, options, swaps	SEBI / RBI by underlying and venue
Commodity market	Raw materials and primary produce as standardised contracts	Spot, forward and futures on metals, energy, agri produce	SEBI (commodity derivatives)
Insurance market	Transfer of pure risk to an insurer for a premium	Life, general, health policies; reinsurance	IRDAI
Mutual funds	Pooling of public money against units, invested in securities	Units of open-ended and close-ended schemes	SEBI

- **Two cuts** — Two different classifications run across the same market and are often confused.
- **By tenor** — Capital market (long term) versus money market (one year or less); it is about how long money is committed.
- **By stage of issue** — **Primary** (securities created) versus **secondary** (securities change hands).
- **Stage test** — It is about who receives the sale proceeds.
- **Both apply at once** — A new 91-day T-bill is a money-market instrument sold in the primary market.
- **Resale** — The same bill resold a week later trades in the secondary market.

Other basis	Classes	Key distinction
Nature of claim	Debt vs equity	Debt: fixed or floating claim with priority; equity: residual ownership claim
Timing of delivery	Cash / spot vs derivatives	Spot settles promptly (equity T+1 , forex spot T+2); derivatives settle on a future date
Organisation	Exchange-traded vs OTC	Exchange: standard contracts, central counterparty; OTC: bilateral, customised
Geography	Domestic vs international	International deals in foreign currency or with non-residents; GIFT IFSC is regulated by IFSCA
Organised status	Organised vs unorganised	Regulated banks, exchanges, funds, insurers vs moneylenders, indigenous bankers

Remember this

- Money market = **one year or less**; capital market = **more than one year**. Equity has no maturity, so it is always a capital-market instrument.

Topic 3 — Capital Market — Primary Market

- **Capital market** — It trades long-term debt and equity-backed securities: shares, debentures and bonds.
- **SEBI** — Regulates securities markets under the **SEBI Act, 1992** and the **Securities Contracts (Regulation) Act, 1956**.
- **RBI** — Government securities fall within **RBI's** remit.
- **Different rules** — Primary offers and secondary trading carry different issuance, trading and disclosure rules.
- **Primary market** — Fresh securities raise money for the issuer.
- **Offer for sale (OFS)** — A public offer may include an OFS; its proceeds go to the **selling shareholder**.
- **New capital** — Only the fresh component creates new capital.
- **Wider scope** — Primary issuance is **not IPO and FPO alone**.
- **ICDR** — Specified equity and convertible issues follow the **SEBI ICDR Regulations, 2018**.
- **Other issues** — Other private placements and debt issues follow the Companies Act, 2013 and the applicable debt-issue rules.

Route	Offered to	Distinguishing feature
Initial Public Offer (IPO)	Public, by an unlisted issuer	First offer of specified securities to the public; results in listing
Further Public Offer (FPO)	Public, by an already-listed issuer	Subsequent public offer
Rights issue	Existing shareholders, in proportion to holdings on a record date	Pre-emptive right; entitlement is renounceable
Preferential issue	A selected group of identified persons	Private allotment with pricing, lock-in and disclosure conditions
Qualified Institutions Placement (QIP)	Qualified Institutional Buyers only, by a listed issuer	Fast, domestic, institution-only; floor price formula ; may include a permitted promoter OFS
Private placement	A limited, identified set of investors	Chief route for corporate bonds; governed also by the Companies Act, 2013
Other routes	As prescribed	Bonus issues, OFS, employee schemes — a bonus issue or OFS creates no fresh capital

Pricing method	How the price is fixed
Fixed price	Issuer, advised by the merchant banker, states the price in the offer document; demand is known only after the issue closes
Book building	Issuer states a price band and floor price; investors bid within it; the cut-off price emerges from the bid book; demand is visible as the book builds — used for large issues
QIP floor pricing	Formula based on recent traded prices, so an institution-only placement cannot be made at an arbitrary discount to existing shareholders

Example: Alpha Ltd makes a wholly fresh IPO of **1 crore** shares at ₹120 (face value ₹10): 1 crore × ₹120 = ₹120 crore reaches Alpha (before issue expenses) — capital formation, price fixed by the issuer. Investor P, allotted 10,000 shares, later sells them on the exchange at ₹165: 10,000 × ₹165 = ₹16.5 lakh reaches P, not Alpha; the market fixed that price. P subscribed at ₹120 only because an exit existed — secondary liquidity makes primary

subscription possible.

Remember this

- Fresh issue → money to the **issuer**; OFS or secondary sale → money to the **selling shareholder**.

Topic 4 — Secondary Market and Stock Exchanges

- **Secondary market** — Investors buy securities from other investors.
- **Issuer's role** — The issuer is not a party, receives no money, and the market sets the price.
- **Coverage** — It covers both equity and debt markets.
- **Listing** — Trading on a **stock exchange** generally requires listing.
- **OTC transfer** — **Unlisted securities may still be transferred over the counter** (off-market, bilaterally).
- **Conditions** — Such transfers are subject to the articles and the Companies Act, 2013.
- **Regulators** — SEBI for securities markets (SEBI Act, SCRA); RBI for government securities and money-market instruments.
- A stock exchange is an organised venue on which securities of the **government, companies and semi-government bodies** are bought and sold under structured rules.
- It **does not buy or sell on its own account**; it provides venue, trading system, rules and surveillance.
- Securities traded must be **listed** and meet continuing disclosure obligations.
- Trades are executed only through **SEBI-registered brokers / members**.
- Dealings are regulated by **SEBI** under the SEBI Act and SCRA. Equity settles on a **T+1** rolling cycle; G-Sec outright trades on **NDS-OM** settle T+1 through **CCIL**.

Wrong option in an exchange question	Whose job it actually is
Underwrites an undersubscribed issue	Underwriter / merchant banker
Buys shares in bulk and resells at a mark-up	Dealer or proprietary trader
Issues fresh shares when a listed firm needs funds	The issuer, in the primary market
Guarantees settlement of every trade	Clearing corporation as central counterparty — a separate legal entity

For a bond, **current yield** relates the annual coupon to the market price:

$$\text{Current Yield} = \frac{\text{Annual Coupon}}{\text{Market Price}} \times 100$$

Example: A 7.10% G-Sec quoted at ₹98.50: current yield = 7.10 ÷ 98.50 × 100 = **7.21%** — above the coupon because the price is below par.

Topic 5 — Money Market — Segments, Participants and Policy Rates

- **Money market** — It trades short-term financial assets with liquidity of **one year or less**.
- **Regulator** — RBI regulates the money market.
- **Wholesale** — Players are banks, primary dealers, mutual funds, insurers and large corporates.
- **Policy transmission** — The policy repo rate acts first on overnight call and repo rates.
- **Operating target** — The **weighted average call rate (WACR)** is RBI's operating target.
- **Later effect** — Only then do deposit, lending and bond yields move.

Instrument	Issued / dealt by	Tenor	Nature
Call money	Banks and permitted entities	Overnight (one business day)	Uncollateralised lending of surplus reserves
Notice money	Banks and permitted entities	2 to 14 days	Uncollateralised
Term money	Banks and permitted entities	15 days to 1 year	Uncollateralised inter-bank term funds
Treasury bills	Government of India through RBI	91, 182, 364 days	Sovereign, zero-coupon, issued at discount, redeemed at face value
Certificate of Deposit	Scheduled commercial banks and select FIs	7 days to 1 year (banks)	Negotiable usance note at discount or coupon
Commercial Paper	Corporates, NBFCs, other eligible issuers	7 days to 1 year	Unsecured promissory note at discount; needs a credit rating
Repo / reverse repo	Banks, PDs, other eligible entities	Mostly overnight to 14 days	Sale with agreement to repurchase — collateralised
TREPS	Banks, PDs, MFs, others	Predominantly overnight	Tri-party repo; replaced CBLO

Call / notice participant	Borrowing limit
Scheduled commercial banks	Within Board-approved limits, inside the prudential inter-bank liability limit
Small finance banks, payments banks, RRBs	100% of capital funds (fortnightly average); 125% on any day
Co-operative banks	2% of aggregate deposits at end of the previous financial year
Standalone primary dealers	Average borrowing in a fortnight up to 225% of NOF; average lending up to 25% of NOF

- **Policy corridor** — Repo 5.50%, SDF 5.25%, MSF / Bank Rate 5.75%; CRR 3% and SLR 18% of NDTL (MPC, 7 October 2026).
- **See** — Ch 9 (p. 54) for the LAF corridor, CRR and SLR. Money-market interest is computed on an **actual/365** basis, where d is the number of days:

$$\text{Interest} = \text{Principal} \times r \times \frac{d}{365}$$

Example: A bank lends ₹50 crore in the notice market for 10 days at 5.60%: interest = $50,00,00,000 \times 0.056 \times 10/365 = ₹7,67,123.29$.

Remember this

- Corridor: SDF 5.25 — repo 5.50 — MSF 5.75. Call 1 day; notice 2–14 days; term 15 days–1 year.

Topic 6 — Money Market Instruments — T-bills, CMBs, CP and CD

- **Boundary** — The dividing line is an **original tenor of one year**.
- **364-day T-bill** — A money-market instrument, even though it is a government security.
- **10-year G-Sec** — A capital-market instrument, even though RBI regulates it.
- **Equity shares** — They have no maturity; they are the usual answer to 'which is NOT a money-market instrument'.

Instrument	Issuer	Tenor	Key rules
Treasury bills	Government of India through RBI	91, 182, 364 days	Discount, redeemed at par; minimum ₹25,000 and multiples; auctioned; SLR-eligible
Cash Management Bills	Government of India	Less than 91 days	Meet temporary cash-flow mismatches; T-bill character
Commercial Paper	Companies, NBFCs (incl. HFCs), AIFIs; other bodies corporate with net worth ₹100 crore or more	7 days to 1 year	Unsecured, demat; minimum ₹5 lakh; rating at least A3; no underwriting
Certificate of Deposit	SCBs, RRBs, SFBs; eligible AIFIs	Banks 7 days–1 year; AIFIs 1–3 years	Negotiable, demat; minimum ₹5 lakh; no loans against CDs unless RBI permits

- **Reporting** — OTC secondary trades in CP and CD are reported on **F-TRAC within 15 minutes**.

- **No coupon** — A T-bill's whole return is the discount.

- **Price and yield** — They move in opposite directions.

With F = face value, P = price and D = days to maturity:

$$y = \frac{F - P}{P} \times \frac{365}{D} \times 100$$

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

Example: 91-day T-bill of face value ₹100 bought at ₹98.66: discount ₹1.34; yield = $1.34/98.66 \times 365/91 \times 100 = 5.45\% \text{ p.a.}$ If bought later at ₹99.52 with 30 days left: $0.48/99.52 \times 365/30 \times 100 = 5.87\% \text{ p.a.}$ — always annualise before comparing returns.

Example: 182-day T-bill at a cut-off yield of 5.60%: price = $100 \div (1 + 0.056 \times 182/365) = ₹97.2835$. A company issues ₹5 crore CP for 90 days at 6.40%: proceeds = $5,00,00,000 \div (1 + 0.064 \times 90/365) = ₹4,92,23,217.18$; discount cost = ₹7,76,782.82.

Remember this

- CP and CD: minimum ₹5 lakh; tenor from 7 days; CP rating at least A3; F-TRAC 15 minutes.

Topic 7 — Repo, Reverse Repo, TREPS and LAF

- **Repo** — A sale of securities with a simultaneous agreement to **repurchase** them at a fixed price on a future date.
- **Reverse repo** — The same deal seen from the cash lender's side.
- **Rate** — Being collateralised, it is normally slightly **below** the unsecured call rate.
- **Haircut** — The excess of collateral value over cash lent.
- **TREPS** — Tri-party repo on **Clearcorp's** RBI-authorized platform.
- **CCIL** — Acts as tri-party agent and handles clearing and settlement.
- **Predecessor** — TREPS replaced the erstwhile **CBLO**.

Situation	Operation	Liquidity
Banks short of funds	Borrow from RBI under repo / VRR against G-Secs, or at MSF (overnight, penal)	Injected
Banks with surplus	Park with RBI under SDF (no collateral) or VRRR	Absorbed
Inter-bank	Market repo and TREPS cleared through CCIL	Redistributed

Standalone primary dealers may participate in **all RBI repo operations irrespective of tenor**. The second-leg (repurchase) amount is:

$$\text{Second leg} = \text{First leg} \times \left(1 + r \times \frac{d}{365}\right)$$

Example: A bank borrows ₹100 crore for **7 days** at the repo rate of **5.50%**: second leg = 100 crore × (1 + 0.055 × 7/365) = ₹1,00,10,54,794.52; interest = ₹10,54,794.52. With a **5%** haircut the bank delivers securities worth about ₹105 crore.

Topic 8 — Derivatives Market — OTC and Exchange-Traded

- **Derivative** — An instrument whose value is **derived** from an underlying asset, rate or index.
- **Underlyings** — A share, index, bond, interest rate, currency pair or commodity.
- **What changes hands** — Only a contract is created; what moves is **exposure**.

Feature	OTC derivatives	Exchange-traded derivatives (ETD)
How dealt	Directly between two eligible parties	On a recognised exchange's order book, anonymously
Contract terms	Size, maturity, underlying, settlement mutually agreed	Standardised by the exchange — lot size, expiry, tick size, settlement
Counterparty risk	Borne by each party on the other, unless collateralised or novated	Novated to the clearing corporation as central counterparty
Margining	By applicable law and/or bilateral collateral agreement	Initial margin plus daily mark-to-market
Exit	Negotiate with the same counterparty or offset	Square off in the market any time before expiry
Chief advantage	Exact fit for an odd size and date	Liquidity and guaranteed settlement

- **See** — Ch 7 (p. 42) for forwards, futures, options and swaps in detail.

Comparison	Forward	Futures
Traded on organised exchange	No	Yes
Standardised terms	No	Yes
Clearing house guarantees performance	No	Yes
Margin and daily settlement	May apply	Yes
Easy close-out before maturity	No	Yes
Regulated by identifiable agencies	Yes	Yes
Usually ends in physical delivery	Yes	Rarely — most positions squared off
Counterparty risk sits with	The other party	The clearing corporation

Daily **variation margin** on a futures position of quantity Q is:

$$\text{Variation margin}_t = Q \times (F_t - F_{t-1})$$

Example: A refiner buys 1,000 barrels for 3-month delivery at **\$80**. The price falls to \$68, then ends at \$81. Hedged cost is \$80 either way; at expiry the hedge is worth 1,000 × (81 – 80) = **\$1,000**. Under an unsecured forward no cash moves in between, but the refiner carries **counterparty credit risk**. Under futures it must fund 1,000 × (80 – 68) = **\$12,000** of margin calls before recovery — credit risk is replaced by **liquidity (funding) risk**.

Participant	Motive	Effect on market
Hedger	Reduces a pre-existing or perceived risk (farmer, miller, exporter, bank with a rate gap)	Transfers unwanted risk; the economic reason the market exists
Speculator	Seeks profit, accepting risk on a price view	Supplies liquidity ; takes the other side of hedgers
Arbitrageur	Exploits price gaps between venues or spot and futures with little net exposure	Keeps related prices aligned
Broker	Conveys customers' instructions to the market	Provides access; earns brokerage

- **Hedgers** — They are naturally one-sided and rarely match in size and timing.
- **Speculator** — Takes the unmatched side of the hedger's trade.
- **Without speculators** — The hedger faces a wide spread or no counterparty at all.
- **Regulatory concern** — **Manipulation and excessive concentration**, not speculation as such.

Topic 9 — Foreign Exchange Market

- **Forex market** — The market where currencies are traded.
- **Purpose** — It makes cross-border trade, investment and remittance possible.
- **Indian participants** — **Authorised dealer (AD) banks**, their customers (importers, exporters, corporates, travellers) and **RBI**.
- **RBI's dual role** — RBI is both regulator and participant.
- **Size** — It is the **largest financial market** by turnover.
- **Structure** — **No single central exchange**; mostly an OTC network of dealing banks.
- **FEDAI** — Frames inter-bank rules and practices.
- **Relay of centres** — As one centre closes another opens: Tokyo, Singapore and Mumbai, London, New York.
- **Global hours** — The market runs **around the clock on business days**, commonly **24 × 5**.
- **Weekends** — It is **not open through the weekend**.
- **Local hours** — **Local market hours** still apply in each centre.
- **India** — The onshore inter-bank market works within hours prescribed by **RBI**; RBI sets Indian hours, not global ones.

Product	What it is	Typical user
Spot	Purchase or sale for delivery on the standard date — two business days for most pairs	Importer paying an invoice due now
Forward	OTC contract to exchange currencies on a fixed future date at a rate agreed today	Exporter with a receivable in six months
Swap	Simultaneous spot purchase and forward sale (or vice versa) of the same pair	Bank managing a currency funding mismatch
Currency futures and options	Exchange-traded, standardised, centrally cleared	Mid-size corporate hedging without a bilateral credit line

- **Value dates** — Cash same day, TOM next working day, spot second working day, forward any date beyond spot.
- **See** — Ch A2 (p. 81) for value dates and forward pricing.
- **OTC market** — Spot, forward and swap deals with AD banks sit under **RBI** under **FEMA, 1999**.
- **Exchange-traded** — Currency derivatives on stock exchanges fall under **SEBI**.
- **Product framework** — Exchange products stay within the framework RBI permits.

The annualised forward premium, with S = spot, F = forward and n = months, is:

$$\text{Premium (\% p.a.)} = \frac{F - S}{S} \times \frac{12}{n} \times 100$$

Example: USD/INR spot **88.40**, 3-month forward **89.06**: premium = $0.66/88.40 \times 12/3 \times 100 = 2.99\%$ p.a. The dollar is at a premium; the rupee at a discount.

Remember this

- Forex = 24×5 , not 24×7 . Spot = $T+2$.

Topic 10 — Insurance Market

- Insurance market** — Individuals and businesses transfer risk to insurers in exchange for a **premium**.
- Aim** — Financial protection against uncertainties and losses.
- Pooling** — The losses of the few are met from the premiums of the many.
- Condition** — Pooling needs a large pool of broadly independent risks.
- Regulator** — The **Insurance Regulatory and Development Authority of India (IRDAI)**.
- Law and seat** — Established under the **IRDA Act, 1999**; headquartered at **Hyderabad**.
- Functions** — Registers insurers and intermediaries, and approves products and pricing frameworks.
- Prudential norms** — Prescribes **solvency margins** and investment norms, and protects policyholders.
- Name trap** — The Act's name (IRDA Act) and the authority's name (IRDAI) are not the same string.
- FDI** — Permitted up to **100%** in Indian insurance companies.

Segment	Coverage	Players
Life	Mortality, savings, annuity and pension; long-term	LIC and private life insurers
General	Property, motor, marine, fire, liability, crop; usually annual	Public and private general insurers
Standalone health	Health, personal accident, travel	Specialised health insurers
Reinsurance	Insurance for insurers	GIC Re and foreign reinsurer branches
Intermediaries	Agents, corporate agents (incl. banks — bancassurance), brokers, web aggregators, TPAs, surveyors	Banks earn fees; they do not carry insurance risk

Insurers, especially life insurers, collect long-term premiums and are among the largest **institutional investors** in G-Secs, SDLs, infrastructure and corporate bonds and equity.

Topic 11 — Mutual Funds

- Mutual fund** — Pools money from the public by issuing **units** and invests it in securities.
- Investors** — They are **unit holders**.
- Structure** — Constituted as a **trust**.
- Regulation** — **SEBI** regulates it under the **SEBI (Mutual Funds) Regulations, 2026**.
- Management** — Schemes are managed by **Asset Management Companies (AMCs)**.

Constituent	Role	Why the structure is built this way
Sponsor	Promotes the fund, sets up the trust, contributes to AMC capital	Puts identifiable, capitalised promoters behind public money
Trustee company	Legal owner of scheme assets in trust for unit holders	Separates investors' assets from the AMC's balance sheet
AMC	Manages schemes, takes investment decisions, earns a management fee	Concentrates expertise, accountable to trustees

Constituent	Role	Why the structure is built this way
Custodian	Holds scheme securities in safe custody, independent of the AMC	No single entity both decides trades and holds assets
Registrar and Transfer Agent	Maintains unit-holder records; processes purchases and redemptions	Independent record of who owns what

Classification	Types
By structure	Open-ended (continuous sale and repurchase at NAV); close-ended (fixed maturity, listed); interval (open at set intervals)
By asset class	Equity, debt (incl. liquid and overnight funds), hybrid, solution-oriented, other (index funds, ETFs, fund of funds)

- Gains and losses pass to unit holders; market-linked returns are **not assured** unless lawful scheme terms say so.
- AMFI** is the industry association that sets distribution standards and registers distributors — it is **not** the statutory regulator; **SEBI** is.
- Liquid and money-market funds are major lenders in TREPS, CP and CD, linking retail savings to the money market.

Return to the unit holder comes from the **Net Asset Value (NAV)** plus distributions:

$$\text{NAV} = \frac{\text{Market value of assets} + \text{Accrued income} - \text{Liabilities}}{\text{Units outstanding}}$$

Example: Assets ₹520 crore, accrued income ₹8 crore, liabilities ₹6 crore, 40 crore units: NAV = $(520 + 8 - 6) \div 40 = ₹13.05$.

Topic 12 — Commodity Markets

- Scope** — Commodity markets cover **physical commodities** and **contracts** on them.
- Two segments** — Spot deals and exchange-traded commodity derivatives have different venues and rules.
- Regulator** — **SEBI** regulates **commodity derivatives**, not every physical commodity transaction.

Contract	Definition	Key characteristic
Spot	Purchase or sale for immediate delivery	Price and delivery both now
Forward	Bilateral agreement to deliver a physical asset (oil, gold) at a future time at a price fixed today	Customised, usually settled by delivery
Futures	Binding agreement for a specific quantity and quality at a predetermined price on a specific date	Standardised, exchange-traded; reduces counterparty risk

- FMC merger** — The **Forward Markets Commission (FMC)** was merged into **SEBI** on **28 September 2015**.
- FMC's law** — It was constituted under the **Forward Contracts (Regulation) Act, 1952**.
- Now** — **SEBI** regulates commodity derivatives; the FMC is historical context only.
- Inherited functions** — Recognising or withdrawing recognition of exchanges, and observing and regulating the markets.
- More functions** — Collecting and publishing demand, supply and price data, recommending improvements and inspecting books.
- SEBI's added tools** — Contract approval, position limits, margining, surveillance and member registration.
- Exchange and clearing corporation** — standard contract, platform, margining and settlement guarantee.

Remember this

- Commodity derivatives regulator = **SEBI** (FMC merged **28 Sep 2015**).

Topic 13 — Emerging Markets and BRICS

- **Emerging markets** — Fast-growing economies with rising financial depth and progressively open capital accounts.
- **Trade-off** — Higher growth, but higher **volatility, currency and policy risk**.
- **FPI flows** — Sensitive to interest rates in advanced economies.
- **BRIC origin** — Brazil, Russia, India, China: a research label coined by **Jim O'Neill** of Goldman Sachs.
- **BRICS** — South Africa joined to form BRICS.
- **2026 membership** — After successive expansions BRICS has **eleven members** in 2026.
- **Members** — Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, the UAE and Indonesia.
- **Chair** — India holds the BRICS chair in 2026.
- **Caution** — Old world-GDP-share figures for the five-member group are not current figures.
- Members share **large economies, strong growth** and a demand for stronger representation in global governance.
- Distinct characters: Russia commodity-driven, China export powerhouse, India domestic-demand-driven, Brazil a developed economic structure, South Africa the African growth region.
- The group presses for a **multi-polar world order** and reform of the **World Bank, IMF and UN Security Council**.

	New Development Bank (NDB)	Contingent Reserve Arrangement (CRA)
Size	USD 100 billion authorised capital	USD 100 billion, a separate pool
Purpose	Long-term finance for infrastructure and sustainable development	Short-term liquidity through currency swaps against balance-of-payments and currency stress
Comparable to	World Bank	IMF
Status	Operational; headquarters Shanghai	Standing arrangement; commitments China USD 41 bn, Brazil, Russia, India USD 18 bn each, South Africa USD 5 bn

Remember this

- BRICS = 11. NDB USD 100 bn + CRA USD 100 bn separately — neither merged, nested nor halved.

Topic 14 — Banks, Primary Dealers and Financial Institutions

- **Banks** participate in both capital and money markets — in the capital market chiefly in **bonds**; they also invest in equity and mutual funds within prudential limits.
- They deal in forex as **authorised dealers** for customers and on own account, and hold G-Secs for **SLR (18%)**.
- In the money market they borrow and lend in call, notice and term money, repo and TREPS, and issue CDs.
- They participate in **payment and settlement systems**; some are designated **settlement banks**. A bank is **not automatically a clearing house** — clearing-house or CCP roles arise only where an entity is specifically **authorised or designated**.

Role	What it does
Participant	Submits and receives payment or settlement obligations
Settlement bank	Holds the accounts across which net obligations are discharged

Role	What it does
Central counterparty (CCP)	Novates trades, guarantees settlement, manages the default waterfall — a designated entity (e.g. CCIL, exchange clearing corporations)

- **Primary Dealers (PDs)** — RBI-registered entities, introduced in **1995**, licensed to buy and sell G-Secs.
- **Primary auctions** — They buy directly from RBI with an **obligation to bid**.
- **Market makers** — They give two-way quotes.
- **Types** — Bank PDs or **standalone PDs (SPDs)**, which are NBFCs.

SPD norm	Requirement
Minimum Net Owned Fund	₹150 crore (core activities); ₹250 crore with non-core activities
CRAR	At least 15%
Investment mix	G-Secs at least 50% of total financial investments
Obligations	Underwrite dated G-Sec auctions; bid in T-bill and dated auctions with the minimum success ratio; retail distribution

Example: An SPD with NOF ₹400 crore may borrow on average up to $225\% \times 400 = ₹900 \text{ crore}$ and lend up to $25\% \times 400 = ₹100 \text{ crore}$ in call / notice money in a fortnight.

- **Financial institutions (FIs)** — EXIM Bank, NABARD, SIDBI, NHB and NaBFID.
- **Role** — They provide **long-term funds** for infrastructure, industry and social projects.
- **Funding** — Mainly **long-term bonds**; they are large primary-market issuers.
- **External borrowing** — Also from international bodies such as IFC and ADB.
- **Short-term paper** — AIFIs may issue CDs of **1–3 years** and CP.

Topic 15 — Brokers, Investment Bankers and Underwriting

- Only **SEBI-approved brokers** can operate on a stock exchange; they intermediate between buyers and sellers and earn **brokerage** — the commission, not a trading spread on client business.
- Money-market and forex brokers arrange inter-bank deals under RBI / FEDAI norms.

Investment (merchant) bankers, registered and regulated by **SEBI**, help companies raise funds through equity and debt.

Function	What it involves
Issue management	Filing documents, compliance, acting as lead manager / book running lead manager
Advice	Book building, issue pricing, appointment of registrars and bankers to the issue
Underwriting	Commitment to take up any unsubscribed portion for a commission
Corporate advisory	Mergers, takeovers (open offers), buybacks, delisting, restructuring
Own-account dealing	May buy and sell securities on their own account

Merchant banker category	Minimum net worth	Scope
Category I	₹50 crore	All permitted activities
Category II	₹10 crore	All permitted activities except managing main-board equity issues

- **Underwriting** — Closes the gap between issue and subscription.

- **Commitment** — For a commission, the underwriter subscribes to whatever the public leaves untaken.
- **Benefit** — The issuer gets certainty of proceeds; the underwriter carries the undersubscription risk.
- **Exchange** — A stock exchange never underwrites; it takes no positions.

Topic 16 — Foreign Portfolio Investors and QIBs

- **Registration** — FPIs register through a **Designated Depository Participant** on SEBI's behalf.
- **Rules** — **SEBI (FPI) Regulations, 2019**, read with the **FEMA (Non-Debt Instruments) Rules, 2019**.
- **Old regime** — The old **FII** and sub-account regime was subsumed into the FPI framework.
- **Investments** — Permitted equity, debt, units and derivatives through applicable routes.
- **Repatriation** — FPIs may **repatriate** sale proceeds, subject to FEMA and tax conditions.

Category	Who
Category I	Government and related investors, multilateral bodies, appropriately regulated entities (banks, insurers, pension funds, mutual funds) from eligible jurisdictions
Category II	All other eligible investors — unregulated funds, corporate bodies, family offices, individuals

Limit	Position
Single FPI with investor group	Below 10% of fully diluted equity; on breach, divest or reclassify as FDI within five trading days of settlement, with required approvals
Aggregate FPI in a company	Applicable Schedule II , sectoral and company limits
Sectors where FDI is prohibited	Aggregate FPI 24%

Other labels in option lists: **Overseas Corporate Bodies (OCBs)** — a withdrawn route; **Foreign Venture Capital Investors (FVCIs)** — a real but separate registration for unlisted venture investment.

- **QIB** — **Qualified Institutional Buyer** under the **SEBI ICDR Regulations, 2018**, not 'Borrower'.
- **Who is covered** — Scheduled commercial banks, mutual funds, insurers, pension and provident funds and similar entities.
- **FPIs** — Included, other than individuals, corporate bodies and family offices.
- **Why it matters** — It decides who may take part in a **QIP** and who fills the **QIB portion** of a book-built issue.

Remember this

- FPI single limit **below 10%**; breach → divest or FDI in **5 trading days**. QIB = Qualified Institutional Buyer.

Topic 17 — Custodians and Depositories

- **Custodians** hold securities on behalf of customers and carry out operations for them, handling funds and securities of **QIBs** including FPIs. They are supervised by **SEBI** (SEBI Custodian Regulations, 1996). Banks, which already run cash accounts and settlement plumbing, carry most custodial business.
- **Depositories** hold securities in **demat** form and maintain accounts of **depository participants (DPs)**, who maintain their customers' accounts — a **two-tier** structure. They make trading, settlement and transfer efficient and secure.
- India has two depositories — **NSDL** and **CDSL** — under the **Depositories Act, 1996** and SEBI regulations.
- G-Secs are held in **SGL** accounts with RBI, gilt / CSDL accounts with custodians, in demat, or in an **RBI Retail Direct** account; CP, CD and listed securities are held in demat.

Entity	Job
Depository	Holds the security record and transfers ownership by book entry
Custodian	Safekeeping and asset servicing for large clients — settlement, corporate actions, income collection, reporting
Clearing corporation	Settles the obligation as central counterparty

Remember this

- Depository = record (NSDL, CDSL); custodian = safekeeping; clearing corporation = settlement.

Topic 18 — Regulator Grid

Regulator	Governs	Standard distractor
SEBI	Securities markets, stock exchanges, brokers, merchant bankers, mutual funds, custodians, depositories, FPIs, commodity derivatives	RBI or the defunct FMC for commodity derivatives
RBI	Money market, government securities, OTC forex, payment and settlement systems, banks, primary dealers	SEBI for the money market
IRDAI	Insurers, intermediaries, products, solvency, policyholder protection	SEBI or AMFI as insurance regulator
PFRDA	Pension sector including the National Pension System	IRDAI, because both concern long-term savings
AMFI	Mutual fund industry association — distribution standards and conduct; not a statutory regulator	Treated as the MF regulator (it is SEBI)
IFSCA	Financial services in GIFT IFSC	SEBI / RBI for IFSC units

Three questions identify any segment

- **Tenor** — One year or less → money market; longer debt or equity → capital market (regulator depends on instrument).
- **Fresh issue or not** — Fresh subscriptions reach the issuer; an OFS or secondary sale pays the seller.
- **Exchange-traded** — Struck on an exchange with standard terms, margins and a clearing guarantee.
- **OTC** — Bilateral with negotiated terms; the counterparty credit risk is on you.

TIRM-TM | Module T | CH-1 | MCQs

Q1. Rohit says primary-market issuance in India means only IPOs and FPOs. Which statement correctly states the current position? [Ref: Topic 3, p. 3]

- It covers every trade where one investor buys from another investor
- It also includes rights issues, preferential issues, QIPs and private placements
- It is confined to IPOs and FPOs alone
- It is confined to offers made only to qualified institutional buyers

Q2. Alpha Ltd makes a wholly fresh IPO of 1 crore shares at ₹120. An allottee later sells 10,000 shares on the exchange at ₹165. How much does Alpha receive in total from both transactions (ignoring issue expenses)? [Ref: Topic 3, p. 3]

- ₹16.5 lakh
- ₹120.165 crore
- ₹121.65 crore
- ₹120 crore



Q3. A shareholder of an unlisted private company wants to sell shares to a friend. Which statement is correct? [Ref: Topic 4, p. 3]

- (a) The transfer must be routed through a stock exchange
- (b) Unlisted shares cannot be transferred until the company lists
- (c) Only debt can move off-exchange; equity must trade on-exchange
- (d) Exchange trading needs listing, but unlisted shares can be transferred over the counter

Q4. Which of the following is a recognised feature of a stock exchange? [Ref: Topic 4, p. 3]

- (a) It underwrites public issues that remain undersubscribed
- (b) It buys shares in bulk and resells them to members at a mark-up
- (c) It provides the venue but does not buy or sell securities on its own account
- (d) It guarantees settlement itself without any clearing corporation

Q5. A 91-day T-bill of face value ₹100 is allotted at ₹98.70. Its annualised yield (actual/365) is closest to: [Ref: Topic 6, p. 4]

- (a) 5.17% (b) 5.21% (c) 5.36% (d) 5.28%

Q6. At a cut-off yield of 5.60%, the price of a 182-day T-bill of face value ₹100 (actual/365) is closest to: [Ref: Topic 6, p. 4]

- (a) ₹97.20 (b) ₹97.35 (c) ₹97.28 (d) ₹97.13

Q7. A company issues commercial paper of face value ₹25 crore for 120 days at a discount rate (yield) of 6.75% p.a. (actual/365). The amount it receives is closest to: [Ref: Topic 6, p. 4]

- (a) ₹24.55 crore (b) ₹24.44 crore (c) ₹24.50 crore (d) ₹24.46 crore

Q8. A bank borrows ₹250 crore in market repo for 14 days at 5.40%. The second-leg (repurchase) amount is closest to: [Ref: Topic 7, p. 4]

- (a) ₹250.05 crore (b) ₹251.08 crore
- (c) ₹250.52 crore (d) ₹263.50 crore

Q9. With the policy repo rate at 5.50%, a bank with surplus funds wants to park them overnight with RBI without giving collateral. Which facility and rate apply? [Ref: Topic 5, p. 3]

- (a) SDF at 5.25% (b) Repo at 5.50%
- (c) Variable rate repo at 5.50% (d) MSF at 5.75%

Q10. A refiner hedges crude purchases with exchange-traded futures instead of an unsecured bilateral forward. What mainly changes in its risk profile? [Ref: Topic 8, p. 5]

- (a) Price risk rises because futures are not standardised
- (b) Counterparty credit risk is largely replaced by liquidity risk from daily margin calls
- (c) It loses the hedged price because futures settle at spot
- (d) Counterparty risk rises because the exchange is the counterparty

Q11. A refiner is long futures on 1,000 barrels at \$80. The price falls to \$68 before recovering. What is the cumulative variation margin it must fund at the low point? [Ref: Topic 8, p. 5]

- (a) \$1,000 (b) \$12,000 (c) \$13,000 (d) \$68,000

Q12. USD/INR spot is 88.80 and the 6-month forward is 89.70. The annualised forward premium on the dollar is closest to: [Ref: Topic 9, p. 5]

- (a) 2.03% (b) 1.01% (c) 4.05% (d) 2.00%

Q13. Which statement on the BRICS New Development Bank and the Contingent Reserve Arrangement is correct? [Ref: Topic 13, p. 7]

- (a) NDB capital is USD 200 billion with the CRA folded into it
- (b) NDB has USD 100 billion authorised capital and the CRA is a separate USD 100 billion pool
- (c) The CRA forms one half of the NDB's USD 100 billion capital
- (d) Each is a USD 50 billion pool

Q14. Which statement on a bank's clearing role is correct? [Ref: Topic 14, p. 7]

- (a) Banks participate in payment and settlement systems; clearing-house or CCP roles arise only where designated
- (b) Banks are barred from settlement work, which is reserved for RBI alone
- (c) Every bank automatically acts as the clearing house for the money market
- (d) Banks may act only as settlement banks and never in clearing

Q15. An FPI and its investor group come to hold 10.4% of a listed company's fully diluted equity. What follows? [Ref: Topic 16, p. 8]

- (a) Divest within five trading days of settlement or reclassify the holding as FDI
- (b) The FPI registration is cancelled at once
- (c) Only the excess 0.4% is treated as FDI
- (d) The holding is frozen until SEBI approves it

Answer key

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

CH-2 Money Market

Topic 1 — Money Market — Scope, Functions and Policy Setting

- **Meaning** — The **money market** is the market for debt whose original life is **one year or less**.
- **Test** — Paper maturing within 12 months is a money-market instrument.
- **Capital market** — **Long-term debt and equity** belong to the capital market.
- **Money-market regulator** — **RBI** regulates the money market.
- **Capital-market regulator** — It follows the instrument and activity: **SEBI** for securities-market activities, **RBI** for Government securities and other assigned markets.
- **Instruments** — **Call, notice and term money, T-Bills, Cash Management Bills, CDs, CP, IBPCs, triparty repo and market repo**.
- **Legal forms** — They differ: deposit, promissory obligation, or sale-and-repurchase.
- **Common job** — Each moves a temporary cash surplus at one institution to a temporary shortage at another.
- **Term** — Measured in days.
- **Two tests** — A money-market instrument must be **short-term and tradable**.
- **Bank FD** — Being non-transferable, a **bank fixed deposit** is strictly **outside** the set.

Function	What it does
Matching short-term borrowers and lenders	A 2-day surplus meets a 2-day deficit without disturbing longer-term assets
Support for growth	Keeps short-term funds available to industry, agriculture and services so temporary illiquidity does not hit the real economy
Monetary-policy transmission	Policy and liquidity operations move overnight rates and wider financial conditions; WACR is RBI's operating target