“बेटी बचाओ, बेटी पढ़ाओ”

JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

FACULTY OF LAW & MANAGEMENT

Faculty Name	:	**JV'N Priyanka Badarda**
Department Name	:	**Management & Commerce**
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Topic Name	:	**Capital Market Structure and Instruments**

Differences between Money Market and Capital Market

Basis for Comparison	**Money market**	**Capital market**
Definition	The part of the financial market where borrowing and lending are done in the short term.	The part of the financial market where borrowing and lending are done in the long term.
Types of instruments involved	Treasury bills, commercial paper, trade credit, certificate of deposit, etc.	Bonds, debentures, preference shares, equity shares, and more.
Nature of Market	Informal	Formal
Liquidity of the Market	Very liquid	Not very liquid
Maturation period	Up to a year.	More than a year. However, there is no fixed time frame.
Types of investors/institutions	Commercial banks, financial banks, companies, central banks, chit funds, etc.	Individual investors, commercial banks, underwriters, mutual funds, stockbrokers, etc.

Purpose	Fulfills the short-term credit needs of companies and businesses.	Fulfills the long-term credit needs of companies and businesses.
Risk Factor	Low risk.	High risk.
Return on investment	Low.	High.
Functional Merit	The liquidity of funds in the economy is increased.	Long-term savings help stabilize the economy.

Capital Market

The capital market is a segment of the financial market where long-term securities such as stocks, bonds, and other financial instruments are bought and sold. It provides a platform for raising capital for businesses and governments and allows investors to invest in these securities to earn returns. The capital market plays a vital role in channelling funds from savers to borrowers and facilitating long-term investments in the economy.

Capital Market – Structure

Capital markets structure is made of primary and secondary markets.

Primary markets consist of companies that issue securities and investors who purchase those securities directly from the issuing company. These securities are called Initial Public Offerings (IPO). Whenever a company goes public it sells its stocks and bonds to large scales institutional investors like hedge funds and mutual funds.

Secondary markets are places where the trade of already issued certificates between investors are overseen by regulatory bodies. Issuing companies play no part in the secondary market. Examples of secondary markets are New York Stock Exchange (NYSE), London Stock Exchange (LSE), Bombay Stock Exchange (BSE).

Parameters	Primary Market	Secondary Market
Functions	This market allows entities to issue fresh securities through Initial Public Offerings.	Existing Securities are traded in this market.
Market Participants	Major players in the primary market are financial institutions, mutual funds, underwriters and individual investors.	Major players in the secondary market are all of these and stockbrokers who are members of the stock exchange.
Listing requirement	No such requirement in case of primary market.	Only securities of the listed companies are traded in this market.
Price Determination	The prices are determined by the management with due compliance with SEBI's requirement for new issues of securities.	The price of securities are determined by the market mechanism (i.e. the forces of demand and supply).
Regulation	The primary market is regulated by SEBI	The Secondary market is also regulated by SEBI

Equities

Equities refer to the money invested in an organization by purchasing shares in the stock market.

1. **Equity Shares :** Equity shares are part ownership where the shareholders are fractional owners and initiate the maximum entrepreneurial liability related to a trading concern. Equity shareholders reserve the right to vote. However, holders of this instrument rank bottom on the scale of preference in the event of company liquidation because they are considered owners of the enterprise.

2. **Preference Shares :** Preference shares are issued by corporate bodies, and on the scale of preference, the investors rank second when the company goes under. These shares are often treated as debt instruments as they do not confer voting rights to the holders. They also have a dividend payment structured like a coupon or interest paid for bond issues.

Debt Securities :

Debt securities are financial assets entitling the owners to a stream of interest payments. Borrowers must repay the principal borrowed and are classified into bonds and debentures.

1. **Bonds :** Bonds are fixed-income instruments primarily issued by the state and center governments, municipalities, and organisations for financing infrastructural development and other projects. It is referred to as a loaning capital market instrument, and the bond issuer is the borrower. Typically, bonds carry a fixed lock-in period, and on the maturity date, bond issuers must repay the principal amount to the bondholders.
2. **Debentures :** Debentures are unsecured investment options and not backed by any collateral. The lending is based on mutual trust. Investors act as potential creditors of the issuing company or institution.

Derivatives :

Derivatives are capital market financial instruments. Their values are determined by underlying assets like stocks, currency, stock indexes and bonds. The most common types of derivative instruments are:

- Forward : It is a contract between two parties in which the exchange occurs at the end of the contract at a specific price.
- Future : It is a derivative transaction involving the exchange of derivatives on a determined future date at a predetermined price.
- Options : It is an agreement between two parties. Here, the buyer has to right to buy or sell a specific number of derivatives at an exact price for a particular period.
- Interest Rate Swap : An agreement between two parties involving swapping interest rates. Both parties must agree to pay each other interest rates on their loans in different options, currencies, and swaps.

Exchange-Traded Funds

Exchange-traded funds are a pool of financial resources from many investors. These are utilized to purchase different capital market instruments like debt securities (derivatives and bonds), shares, etc.

Most ETFs are registered with the SEBI (Securities and Exchange Board of India). Therefore, it is an appealing option for investors with limited knowledge of the stock market.

In the stock market, ETFs with features of mutual funds and shares are traded as shares produced through blocks. They are listed on stock exchanges, and investors can purchase and sell them according to their requirements during the equity trading.

Foreign Exchange Instruments

Foreign exchange instruments are represented on the foreign market. It primarily consists of derivatives and currency agreements.

They can be broken into three categories – outright forwards, spot, and currency swaps.