Financial Service
Part-A

1. What is Financial Service?

Services offered by banking and financial companies are called 'financial services' Banking and financial companies include both Asset Management Companies and Liability Management Companies.

2. Define Financial Services,

Financial services are an important component of the financial system. Financial services through the network of elements such as financial institutions. Financial markets and financial instruments, serve the needs of individuals, institutions and corporate.

3. List any four Financial Services?
   1. Merchant Banking 2.Factoring 3.Leasing 4.Hire purchase.

4. What is Merchant Banking?

   Merchant Banking is on prior to the enactment of the Indian companies Act, 1956, managing agencies acted as an issue house for securities. They have National Grind lays bank in India initiated Merchant banking services in 1969. The Citibank followed it in 1970. The state bank of India was the fuirst Indian commercial bank to set up a separate Merchant banking division in 1973.

5. When and whom started Merchant Banking in India?

   SBI in 1973.

6. Define Mutual Fund.

The Securities and Exchange Board of India (Mutual Fund) Regulations, 1993 defines a Mutual Fund as a fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale units to the public, under one or more schemes, for investing in securities in accordance with these regulations.

7. What is NAV

$$NAV = \frac{\text{Net Asset Value of fund}}{\text{Number of outstanding units}}$$

8. What is meant by close-ended Mutual Fund?

A Close-Ended Mutual fund has its Mutual Fund open for a fixed period and whatever money invested forms the basis for investment in various securities. These Mutual Funds have fixed maturity period, ranging from 2 to 15 years. EX: UTI Master Share, 1986.

9. What is AMC?

   The Asset Management Company actually manages the funds of the various schemes. The AMC employs a large number of professionals to make investments, carry out research and to do agent and investor servicing. Infact, the success of any Mutual Fund depends upon the efficiency of this AMC.

10. What is Leasing?

    Most of the leasing agreements are modified according to the requirements of the lessee. The lesses is able to derive the benefits out of the asset without owning it. The lessee is able to save considerable an amount of capital which otherwise will be locked up in the asset.

11. Write the types of Leasing?

    1. Financial Lease. 2. Operating Lease. 3. Leveraged and Non-LeaveragedLease. 4. Conveyance type lease. 5. Sale and lease pack. 6. Full and non pay-out lease. 7. Specialised service lease. 8. Net and non-net lease. 9. Sales and lease. 10. Cross border lease. 11. Tax oriented lease. 12.Import Leasing, 13. International lease.

12. What is NIM?

NIM also known as 'Primary Market' is a market, which is characterized by the presence of a set of all institutions, structures, people, procedures, services, and practices involved in rising of fresh capital funds by both new and existing companies.

13. What are the terms used in Leasing?

There are basically two parties involved in a leasing contract, lessor and lesses. Lessor is a person who is leasing the equipment to the lesses, whereby the lessee becomes the bailee, as he is in possession of the equipment and is using it in production.

14. What is Balanced Fund?

The Mutual Fund that maintains a balanced portfolio, generally 60% bonds or preferred stocks and 40% common stocks is known as Balanced Fund.

15. What is Factoring?

Factoring means an arrangement between a factor and his client which includes at least two of the following services to be provided by the factor: (1) Finance, (2) Maintenance of Accounts, (3) Collection of debts and (4) Protection against Credit Risks.

16. List out the 4 Factor system?

    2. Two factor system. 2. Single Factor System. 3. Direct Export system 4. Direct Import Factor System.

17. What are the components of Hire Purchase Price?

Hire Purchase contract, we have two important components:

1. interest and Finance charges. 2. Principal amount.

The interest component is based on a flat rate of interest. The hire purchaser has the option of paying earlier the balance amount and avail some concession on the interest rate. The principal amount is payable on equal installment basis along with the interest amount.

PART-B

1. Origin of Merchant Banking in INDIA?

Prior to the enactment of the Indian Companies Act, 1956, managing agencies acted as an issue house for securities. They evaluated the projects before promoting them. They designed the capital structures. They provided the venture capital in a small way. Few share broking firms functioned as merchant bankers with small capital base.

National Grind lays Bank in India initiated Merchant Banking services in 1969. the Citibank followed it in 1970. the State Bank of India was the first Indian commercial bank to set up a separate Merchant Banking Division in 1973. ICICI followed it in 1974. both these Indian Merchant Bankers emerged as leaders in merchant banking having done significant business during the period 1974-85 in comparison to foreign banks. A Number of commercial banks, financial institutions and other organizations are now engaged in providing merchant banking services. The merchant banks in India operate as issue houses rather than full-fledged merchant banks.

Somewhere above, you have read that there is no difference between the functions of merchant banking and commercial banking. What makes the difference between these two terms? A well-timed question. A few differences are given for clarity purpose.

2. Difference between NIM & Secondary Market?

NIM is different from the secondary market in the following respects:

S.NO	Feature	NIM	Secondary Market
1	Issue of securities	NIM deals only with new or fesh issue of securities. Issues are considered fresh or new provided such issues are made for the first time either by the existing company or by the new company	Deals in existing securities.
2.	Location	No fixed geographical location needed	Needs a fixed piace to house the secondary market activities, viz.,

			trading.
3	Transfer of securities	Securities are created and transferred from corporates to investors for the first time.	Securities are transfeered from one investor to another through the stock exchange mechanism.
4	Entry	All companies are make fresh issue or securities	For the securities to enter the portals of stock exchanges for the purpose of trading, listing is mandatory.
5	Administrati on	Has no tangible form of administrative set-up	Has a definite administrative set-up that facilitates trading in secur5ities
6	Regulation	Subject to regulations mostly from outside the company-SEBI, stock Exchange, companies Act, etc.,	Subject to regulation both from within and outside the stock exchange framework.
7	Aim	Creating long-term instruments for borrowings	Providing liquidity through marketability of those instruments.
8	Price Movement	Stock Price movement in secondary market influences pricing of new issues	Both macro and micro factors influence the stock price movement.
9	Depth	Depends on number and the volume of issue	Depth depends upon the activities of the primary market as it brings into the fore mre corporate entities and more instruments to raise funds.

3. Difference between Commercial Bank & Merchant bank?

Merchant banking is the forerunner of modern commercial banking. Its foundational value is being increasingly recognized and its resurrection seriously considered. The proff is that this ancient form of merchant banking has begun to make a comeback in the UK and the USA. Particularly when the limitations of contemporary commercial banks are gradually showing through in the face of certain practical problems of present-day commercial banking.

1. the basic difference between Merchant Banking and Commercial banking is that the Merchant bank offers mainly finance advice and services for a fee. It also collects deposits through the non-

cash mode of finance, i.e., security papers. Commercial banks accept deposits and lend money in the mode of cash.

2. The Merchant bank offers portfolio services to its customers (individuals and corporate). The Commercial bank provides retail trade bankingh services to its customers.
3. The regulatory body for commercial banks in the India is ministry of Finance/Reserve Bank of India. The Banking Regulation Act has also guided those banks. On the other hand, the regulatory body for merchant banks in India is the Securities Exchange Board of India (SEBI). They define merchant banking as follows.
   Merchant banks mostly provide advisory services, issue management, portfolio management and underwriting which require less capital but generate more income (non-interest income) Since these services require fewer funds, Commercial banks could opt to provide these services side by side with their traditional services/functions. Merchant banking services reduce the pressure of supervision/monitoring activities that reduce the related cost.
4. Merchant banks invest their funds mostly in project-oriented and security papers. These security papers are encashable in the stock marker. This will solve the liquidity crises of merchant banker. The liquidity problems of commercial banks cannot easily be solved as they lend their funds to the trading or commercial houses in the form of Term Loan, Working Capital, etc.,

4. Advantages and Disadvantages of Leasing?

Advantages:

1. Most of the leasing agreements are modified according to the requirements of the lessee.
2. The lessee is able to derive the benefits out of the asset without owning it.
3. The lessee is able to save considerable amount of capital which otherwise will be locked up in the asset.
4. Leasing is the cheapest and faste mode of acquiring an asset. From the creditors' point of view, it is the safest method of finance as they have a good security in the form of asset.
5. Capital projects can be financed by leasing method and hence most of the financial institutions have started entering leasing business.
6. Because of leasing the lessee is able to have better debt-equity ratio. He can also go for additional borrowings in case of business requirements.

7. it is only by leasing method, 100 % finance is available for buying equipement.
8. Equipment which are likely to be obsolete very soon can be acquired under operating leasing.
9. Small scale industries will be benefited by leasing as they can go for modernization of production.
10. Technocrats will get more benefits by leasing as the promoters will find it difficult to contribute margin money.
11. The lease charge forms a part of P & L A/C and does not appear in the balance sheet. Hence, the return on investment for the investment capital.
12. Tax benefits are available to both lessor and lessee in leasing.
13. Leasing is the best method available to monopoly companies to escape MRTP Act. They are able to operate within restricted capital and thereby do not come under control of Monopoly commission.

Disadvantages:

1. The lessee has to pay the rent immediately on acquiring the asset. This will be a burden as the lessee would not have experienced benefit of the asset leased. Hence, it will be an extra cash outflow.

2. The lessor may sue the lessee in case of damages to the leased goods. Any default by the lessor or owner of the asset will also affect the lessee.

3.Compared to term loand by banks, lease finance is costlier. If there is no investment allowance, the lease transactions bring tax loss. At the termination of the lease agreement the asset is taken by the lessor and the lessee will lose the residual value.

4.In case of damage due to natural calamities, the lessor may be indemnified by the insurance company but not the lessee who suffers the loss due to the loss of production.

5. What are the Legal aspects involved in leasing?

Legal Aspects involved in Leasing:

There are basically two parties involved in a leasing contract, lessor and lessee. Lessor is a person who is leasing the equipment to the lessee, whereby the lessee becomes the bailee,. As he is in possession of the equipment and is using it in production. In the case of financial lease,. The lessee will become the owner after paying the full value of the lease equipment. For this purpose, an agreement will be entered into under the Indian Contract Act between the lessor and lessee. Such a contract will contain the following details.

1. Details of contracting parties i.e., lessor and lessee.
2. Details of the asset or equipment or property which is leased.

3. Terms of Lease: Terms of lease which deal about the period for which the agreement will remain in force and provisions for either reducing or increasing the perior. In some cases, the period may be renewed or it may be curtailed.
4. Rent as part of lease: Here, the lease rent has to be clearly mentioned and it forms the consideration in the contract.
5. Termination of lease: The agreement should clearly mention details on termination of the lease, about various conditions and also how the ownership of the asset or equipment will be treated at the point of termination of the contract.

Legally speaking it is the Indian Contract Act, 1872 which regulates leasing agreement. At the same time, where the leasing involves vehicles, it is the Motor Vehicles Act, applicable to NBFCs also regulates lease contracts.

6., What are the Types of Leasing?

a. Financial Lease: it is a contract involving payment over a longer period. It is a long-term lease and the lessee will be paying much more than the cost of the property or equipment to the lessor in the form of lease charges. It is irrevocable in this type of leasing the lessee has to bear all costs and the lessor does not render any service.

b. Operating Lease: The lessee uses the asset for a specific period. The lessor bears the risk of obsolescence and incidental risks. There is an option to either party to terminate the lease after giving notice.

c. Leaveraged and non-leaveraged leases: The value of the asset leased may be of a huge amount which may not be possible for the lessor to finance. So, the lessor involves one more financier who will have charge over the leased asset.

d. Conveyance type lease: Here, the lease will be for a long-period with a clear intention of conveying the ownership of title on the lessee.

e. Sale and lease pack: Here, a company owning the asset sells it to the lessor. The lessor pays immediately for the asset but leases the asset to the seller. Thus the seller of the asset becomes the lessee. The asset remains with the seller who is a lessee but the ownership is with the lesser who the buyer is. This arrangement is done so that the selling company obtains finance for running the business along with the asset.

f. Full and non pay-out lease: A full pay-out lease is one in which the lessor recovers the full value of the leased asset by way of leasing. In case of a non pay-out lease, the lessor leases out the same asset over and over again.

g. Specialized service lease: The lessor or the owner of the asset is a specialist of the asset which he is leasing out. He not only lease out but also gives specialized personal service to the lessee. Examples are electronic goods, automobiles, air-conditioners, etc.,

h. Net and non-net lease: In non-net lease, the lessor is in charge of maintenance insurance and other incidental expenses. In a net lease, the lessor is not concerned with above maintenance expenditure. The lessor confines only to financial service.

i. Sales aid lease: In case, the lessor enters into any tie up arrangement with manufacturer for the marketing, it is called sales aid lease.

j. Cross border lease: Lease across national frontiers is called cross border lease. Shipping, air service, etc., will come under this category.

k. Tax oriented lease: Where the lease is not a loan on security but qualifies as a lease, it will come under this category.

l. Import Leasing: Here, the company providing equipment for lease may be located in a foreign country but the lessor and the lessee may belong to the same country. The equipment is more or less imported.

m.International lease: Here, the parties to the lease transactions may belong to different countries which is almost similar to cross border lease.

7. What are the features of Hire Purchase Agreement?

1.The Seller contacts a finance company to finance a hire purchase deal.
2. The customer selects the goods and expresses his desire to acquire them on hire purchase basis.
3. The customer makes the down payment after filling up the proposal form. The down payment amount will be retained by the seller on account of the price to be paid by him to the finance company.
4. The seller sends the documents to the finance company, requesting it to purchase the goods and accept the hire purchase transactions.
5. The finance company signs the agreement and sends a copy of the agreement to the purchaser/hirer along with instructions with regard to payment of installments. The seller is also informed by the finance company and is instructed to deliver the goods to the purchaser/hirer.
6. The seller delivers the goods to the purchaser/hirer and the ownership now gets transferred to the finance company.
7. The Purchaser/hirer makes payment in the form of instalments periodically as per the
8. On payment of the last installment or on completion of the hire term, the ownership is transferred to the purchaser on issue of completion certificate by the finance company.

8. Write about the Hire Purchase companies in India?

The Hire Purchase Act was passed in 1972, which is controlling the hire purchase transactions. The hire purchase finance companies come under non banking finance companies (NBFCs) and are subject to the regulations of Reserve Bank of India Act (section 45 (i)).
Earlier, these NBFCs were accepting deposits from the public by offering attractive interest rates and were collecting higher interest rates from the buyers of durable goods on hire purchase. But in 1998 certain restrictions

ere imposed on the acceptance of deposits by non banking finance companies involved in hire purchase finance. Since then the acceptance of deposits by these companies has been curtailed as a result of which there has been some decline in the hire purchase activities in our country.
To overcome the above handicap, many automobile companies such as Marti Udyog Limited and Tata's have themselves promoted their own hire purchase finance companies. Ashok Leyland finance has been there already in the market. The foreign banking companies are also undertaking hire purchase finance and they are a big competitor to the Indian hire purchase finance companies.

Of late, Housing Finance has been taken up on hire purchase by most of the commercial banks and with the introduction of floting interest rate. It is picking up both in urban and rural areas. The floating rate of interest is beneficial to the customer as a long as the interest is beneficial to the customer as long as the interest rate is declining. Even banks are allowing the swapping of the interest rate. By this the old loan with the higher interest rate is repaid and it is replaced by a new loan with a lower rate of interest. Thus, in India hire purchase finance is mainly encouraged by the middle income group consumers in the purchase of houses and durable goods, whereas in industries, it is leasing which is becoming very popular.

9. Write the contents of Hire purchase Agreement?

An Hire Purchase agreement has the following clauses:

1. Agreement: Containing details such as nature and, term of the agreement. Also commencement of the agreement period.
2. Delivery of the goods: Here, the mode of delivery, place and time and the details of expenses to be borne by the purchaser (or buyer or the hirer) with regard to the delivery of goods are mentioned.
3. Place: This refers to the place where the goods, bought under hire purchase have to be kept.
4. Inspection: Contains details that the purchaser has inspected the goods before purchase.
5. Hire Charges: This contains details such as (a) instalment amount (monthly or fortnightly) which includes interest, (b) time schedule: and (c) in case of delay, any penalty.
6. Repair: The purchaser/buyer/hirer will bear the cost of repair. He will obtain an insurance policy on the equipment and will hand over the insurance policy in the owners/sellers.
7. Alteration of agreement: No alteration can be made by the purchaser/hire without the consent of the seller/owner.
8. Termination of contract: In the event of the hirer violating any of the provisions, such as non payment or misuse of the product, the contract may be terminated.

9. Promissory note: The agreement is usually accompanied by a promissory note signed by the purchaser/hirer for the amount which includes interest and other financial charges.
10. Tax Implications: Tax benefits can be had in hire purchase transactions from three angles. They can be had in (a) Income Tax (b) Sales Tax and (c) Interest Tax.

10., What are the benefits in Factoring?

There are two factoring 1. Financial Factoring 2. Non-Financial factoring.

Benefits of Financial Factoring:

1. It provides liquidity to the supplier as the tied up receivable is released.
2. Capital, locked up in outstanding is available for use in the business. As a result of this, all sales become cash sales, either directly or indirectly.
3. The funds released by the factoring agencies facilitate more investment in fixed assets and thereby increase the degree of operational leverage and maximum return.
4. Factoring agreement minimizes bad debts as the factor chooses the correct party or whose bills are taken for providing advances to the supplier.

Benefits of Non-financial factoring:

1. In non recourse factoring, the supplier is provided credit security.
2. The Money supplier is relieved of the botheration of administering sales ledger and control of debts.
3. As the factor adopts a professional approach for collection of debts, the consumer is disciplined and it helps the supplier to improve his sales. Thus, these customers become permanent asset to the supplier.

11.,Difference between Hire Purchase and Instalment?

	Hire Purchase	Instalment
1.	There are 3 parties in H.P trade namely the seller, the financier and the buyer.	There are only 2 parties, seller and buyer.
2	There are 3 agreements, namely between the (a) seller and financier, (b) financier and buyer and (c) buyer and seller.	There is only one agreement between the buyer and seller.
3	It is an agreement to hire and later to buy.	It is an agreement to buy.

4	The ownership transfers from the seller to the financier and them to the buyer on the payment of the last instalment.	The ownership transfers on the first instalment from the seller to buyer.
5	On default, the financier will take back the goods from the buyer.	On default, the seller cannot take back the goods, but can only sue the buyer.
6	Any damage to the goods will only lead to claiming of insurance by the financier from the insurance company since the ownership has not been transferred.	Any damage to the goods will be claimed by the buyer from the insurance company.
7	Buyer cannot sell the goods to any third party until he pays the last instalment to the financier.	Buyer can sell any third party s he is the owner of the goods.
8	The interest rate will be on a flat rate basis and is included in the instalment and recovered as equated monthly instalment (EMI). Ex: Car finance by Sundaram finance.	The interest rate is on a declining basis as every instalment paid will reduce the principal amount and hence the total interest payable is lesser than H.P scheme. Ex: Bank finance for purchase, of consumer goods.

12. Reasons for the Slow Growth of Mutual Fund in India?

In India, the Mutual Fund industry has been monopolized by the Unit Trust of India ever since 1963. now the commercial banks like the State Bank of India, Canara Bank, Indian Bank, Bank of India and the Punjab National Bank hve entered into the field. To add to the list are the LIC of India and the private sector banks and other financial institutions. These institutions have successfully launched a variety of schemes to meet the diverse needs of millions of small investors. The unit Trust of India has introduced ghuge portfolio of schemes like Unit 64, Mastergain, Mastershare etc. it is the country largest mutual fund company with over 25 Million investors and a corpus exceeding Rs. 55,000 crores, accounting for nearly 10% of the country stock market capitalization. The total corpus of the 13 other mutual funds in the country is less than Rs, 15,000 crore. The SBI fund has a corpus of Rs. 2925 crore deployed in its 16 schemes servicing over 2.5 million shareholders.

There are also mutual funds with investments sourced abroad called offshore funds they have been established for attracting NRI investments to the capital market in India. The India Fund Unit scheme1986 traded in the London Stock Exchange and the India Fund unit scheme 1988 traded in the New York Stock Exchange were floated by the Unit Trust of India and the India Magnum Fund was floated by the State Bank of India. At present, there are 16 different offshare Indian funds which have brought about $2.7 billion to the Indian market.

Besides the above, the LIC and GIC have also entered into the market. Again many private organizations have entered into the field. Most of the schemes have declared a dividend ranging between 13.5% and 17%. In most of the cases it is around 14 % only.

The recent trend in the mutual fund industry is to go for tie-up arrangements with foreign collaborators. We find Tatas tying up with Kleinworth Benson; GIC with George Soros; Credit Capital with Lazard Brothers; Kothari with Pioneer; ICICI with JP Morgan; 20th century with Morgan and so on. Ofcourse, these tie-ups would bring in new perspective, systems and technology and this very foreign tag may add credit to the institutions.

The private sector which entered the arena in 1993 is concentrating on the primary market. It is so because, investments in new shares fetch appreciation between 30 and 1500 percen in a very short period. Promoters to give preferential treatment to mutual funds because it reduce their marketing cost. Again, they go for fund-participation in a venture even before it goes public. They see potent al for inmmense appreciation in unlisted securities which intend to go to public with a short period of one year.

In India, Mutual funds have been preferred as a avenue for investment by the household savers only from 1990s. the sales of units or UTI which were Rs. 890 crores in 1985-86 those to Rs. 4,100 crores in 1990-91 and Rs. 9,500 crores in 1993-94. the public sector mutual funds were able to collect RS. 3,800 crores in 1990-91. however, they could collect only Rs. 400 crores in 1993-94. the private sector mutual funds mobilized Rs. 1,700 crores in 1993-94. on the whole, the mutual fund industry was able to mobilize approximately Rs. 12,000 crores is 1993-94 which amounts to 8 % of the gross domestic householding savings in the country. As on 31 Jan 2007 there were 30 Mutual Funds with 66 schemes in India. Rs. 2,31,862 crore of assets were under the management of Mutual funds on 31 Jan 2007. it is a good going indeed. However, the rate of growth is comparatively slow and not very satisfactory. Today Mutual Funds have started laying a positive role in the countrys saving revolution.

PART-C

1. Explain the SEBI guidelines in respect of Merchant Banking?

SEBI has made the following reforms for the Merchant banker.

1. Multiple categories of merchant banker will be abolished and there will be only one equity merchant banker.
2. The merchant banker is allowed to perform underwriting activity. For performing portfolio manager, the merchant banker has to seek separate registration from SEBI.
3. A merchant banker cannot undertake the function of a non banking financial company, such as accepting deposits, financing others' business, etc.
4. A merchant banker has to confine himself only to capital market activities.

Recognition by SEBI on merchant bankers

SEBI will grant recognition a merchant banker after taking into account the following aspects.

1. Professional competence of merchant bankers.
2. Their capital adequacy.
3. Track record, experience and general reputation of merchant bankers.
4. Adequacy and quality of personal employed by them and also the available infrastructure.

After considering the above aspects, SEBI will grant permission for the merchant banker to start functioning.

Conditions by SEBI has laid for merchant bankers

SEBI the following conditions on the merchant bankers, for conducting their operations. They are:

a. SEBI will give authorization for a merchant banker to operate for 3 years only. Without SEBI's authorization, merchant bankers cannot operate.
b. The minimum net worth of merchant banker should be Rs. 1 crore.
c. Merchant banker has to pay authorization fee, annual fee and renewal fee.
d. All issue of shares must be managed by one authorized merchant banker. It should be the lead manager.
e. The responsibility of the lead manager will be clearly indicated by SEBI.
f. Lead managers are responsible for allotment of securities, refunds, etc.,
g. Merchant banker will submit to SEBI all returns and send reposrts regarding the issue of shares.
h. A code of conduct for merchant bankers will be given by SEBI which has to be followed by them.

i. Any violation by the merchant banker will lead to the revocation of authorization by SEBI.

Conditions by SEBI pertaining to pre issue obligations:

Recent regulations by SEBI on Merchant bankers with regard to pre issue obligations involve the following;

1. Registration
2. Capital structure decision
3. Public issue
4. Rights issue
5. Prospectus, etc.,

1. Registration:

All merchant bankers must compulsorily register themselves with SEBI. SEBI has classified merchant bankers under categories. They are given below:

Classification of Merchant Bankers by SEBI

Issue Management	Underwriters	Consultants to issue	Mobalisation of foreign funds for companies.
1.Prospectus 2.Financial structure 3.Tie up of finance. 4.Aliotment of securities 5.Refund of subscription	1.Advisory 2. Consultancy 3.Co-Manager, 4.Portfolio Manager		

SEBI will grant certificate of registration to merchant bankers under following conditions;

1. Merchant bankers should be a body corporate and should not be a NBFC.
2. They must have necessary infrastructure for maintaining an office.
3. 3. They must have employed a minimum of two persons with experience in merchant banking business.
4. They should not be connected with any company directly or indirectly.
5. They should not have involved in any litigation connected with Stock Exchanges.
6. They must have a professional qualification in finance, law or business management.
7. Their registration must be in public interest.

Capital structure decision:

According to SEBI, they must have a minimum net worth (paid up capital + Free reserves) of Rs. 5 crores. But this will vary according to the category Rs. 5 crores for first category and none for the fourth category.
Registration fee to be paid to SEBI:

1. For category, 1 Rs. 2.5 crores per annum for the first 2 years and Rs. 1 lakh for the third year have to paid to SEBI towards registration fee.
2. For category 2. Rs.1.5 lajhs for the first 2 years per annum and Rs. 50,000 for the third year.
3. For category 3 Rs. 1 lakh per annum for the first 2 years and Rs. 25,000 for the third year.
4. From 1999 onwards, Rs.2.5 lakhs for every year, failing which the registration will be suspended for all categories.

Role of Merchant banker in public issue:

While acting as a banker to an issue, a merchant banker has to disclose full detail to SEBI. The details should contain the following.

1. Furnishing information:

a. Number of issues for which the merchant banker is engaged axis banker to issue.
b. Number of applications received and details of application money received.
c. Dates on which applications from investors were forwarded to issuing company.
d. Details of amount as refund to investors.

2. Books to be maintained:

a. Books of accounts for a minimum period of 3 years.
b. Records regarding the company.
c. Documents such as company applications, names of investors, etc.,

3. Agreement with issuing company:

a. Number of collection centers.
b. Application money received.
c. Daily statement by each branch which is a collecting centre.

4. Action by RBI:

Any action by RBI on Merchant banker should be informed to SEBI by the Merchant banker concerned.

5. **Code of Conduct**:

a. Having high integration in dealing with clients.
b. Disclosure of all details to the authorities concerned. Avoiding making exaggerated statements.
c. Disclosing all the facts to its customers.
d. Not disclosing any confidential matter of the clients to third parties.

Responsibilities of Merchant Banker in Right Issue:

1. The merchant banker will ensure that when Rights issues are taken by a company, the merchant banker who is responsible for the right issue shall see that an advertisement regarding the same is published

in an English national daily, in an Hindi national daily and in a regional daily. These newspapers should be in circulation in the city/town where the registered office of the company is located.

2. It is the duty of the merchant banker to ensure that the application forms for Rights issue should be made available to the shareholders and if they are not available, a duplicate composite application form is made available to them within a reasonable time.
3. If the shareholders are not able to obtain neither the original not the duplicate application for Rights shares, they can apply on a plain paper through the merchant banker.
4. The details that should be furnished in the plain paper , while applying for rights shares shoul be provided by the merchant banker.
5. The merchant banker should mention in the advertisement, the company official to whom the shareholders should apply for Rights shares.
6. The merchant banker should also inform that no individual can apply twice, in standard form as well as in plain paper.

Role of Merchant banker in the issue of prospectus:

It is the duty of the lead merchant banker to ensure that the prospectus are properly made and should not contain any false information. The merchant banker will also ensure that

a. the application form issued will be accompanies by abridged prospectus by the issuer company.
b. In the abridged prospectus, application form may be inked as a perforated part.
c. Unconnected matters should not be furnished in the prospectus.

Managing public issue:

1. No merchant banker is permitted to carry on business other than that in the securities market with effect from December 1997.
2. The maximum number of lead managers is related to the size of the issue. For an issue of Rs. 50 crores two lead managers are appointed.
3. Between Rs. 50 crores to Rs. 100 crores, three lead managers and Rs. 100 to Rs. 200 crores 4 lead managers are appointed.
4. 5 or more lead managers are appointed, if size of the issue is between Rs. 200 and Rs. 400 crores.

Disclossure to SEBI:

Action can be taken against a merchant banker when he is found guilty of non compliance of regulations. The defaults committed by the merchant banker can be categorized into a. general, b.minor. c. major d. Serious defaults.

General default: The general default may be the failure to submit the diligence certificate in the prescribed manner to SEBI or failure to despath refund orders, etc.,

Minor default: May consist of advertisements not being n conformity with prospectus, delay in allotment of securities, etc.,

Major default: When underwriting is not properly taken up or when there are excess metabers of merchant bankers for an issue that the permissible limit.

Serious default: Unethical practice or non cooperation with SEBI.

Furnishing details on capital structure of the company:

A merchant banker should provide details of the capital structure of the company in the following manner.

1. Authorized, Issued, Subscribed and paid up capital.
2. Size of the present issue including contribution by promoters.
3. Paid up capital after the issue
4. Share premium account.

The merchant banker should also provide details regarding lock-in-period nature of allotments rights, bonus and face value of securities and issue price of securities etc.,

Issue price:

1. Earning per share.
2. P/E ratio in comparisons with the industries P/E.
3. Average return on net worth in the last 3 years.
4. Minimum return on increased net worth.
5. NAV method.

Approval for raising foreign capital:

When a company decides to raise foreign capital, it requires the approval of the following:

1. At the company level.
2. AT the government level.
3. At the market level
4. From the monetary authority.

If the foreign capital is raised through a merchant banker or venture capital company, then it requires the approval of SEBI.

Approval for raising foreign capital.

1. Monetary authority = RBI
2. All the company level= Share holders, Board of Directors.
3. All the Government level= Department of company affairs, Ministry of finance.
4. At the market level = Financial institutions, stock exchange.

Document to be furnished for raising foreign capital:

1. Subscription agreement: the leading merchant banker has to give an undertaking for subscribing the GDR as underwriters.
2. Depository agreement : Detailed agreements entered into by the company with the depository company. It should clearly spell out the rights and duties of the depository with whom shares and securities are deposited against which cash and other securities are received.
3. Custodian agreement: A custodian is fully responsible to the depository and he undertakes the responsibility of fulfilling the agreement for the repayment of the amount.

4. Agency agreement: A company enters into an agreement with an agency which takes the responsibility of principal and interest payment to the holders of FCCB, from the funds provided by the company.
5. Trust Deed: It is an agreement entered by the trustees with whom the foreign capital in entrusted and they should guarantee for the repayment of principal and interest.

Arranging inter corporate loans:

With the amendments to companies act, no company can purchase the shares of other companies. However existing investments made will be valid. A company may invest its funds as an investing company n another company known as investee company subscribed equity share capital. Moreover the uinvesting company cannot invest more than 30 % of its paid up capital in other campanies.

Investing companies can invest funds under the same management upto 30 % of its subscribed capital.

The borrowing powers of the company are restricted to its paid up capital and free reserves under section 293 of the Indian companies Act. Hence a merchant banking company while arranging for the borrowings of a company has to take this aspect into account.

2. Explained the Indian Scenario of Financial Service.

When First Leasing Company of India was started in Chennai in 1973, equipment leasing, as an industry, had its birth.

The need for financial services was not feat in the 70's and early 80's. so this line of activity did not take roots.

The public sector financial institutions like IDBI, IFCI, ICICI and the several state finance companies catered to the needs of terms loans and the commercial banks looked after the working capital requirements at easier terms.

The need for alternative other source of financing was not felt and so the 20^{th} Century leasing limited started its operation only in 1979.

There was a change in the scenario in the early 80's the credit squeeze announced by the RBI and the implementation of Tendon and Chore committee norms on maximum permissible bank finance for working capital made the manufacturing companies set apart a portion of long-term funds for working capital.

The paucity of funds for working capital requirements made the companies seek out alternative sources of funding their capital expenditure plans.

Equipment leasing was seen as a viable alternative because of :

1. Easy documentation.
2. Fewer restrictive terms and conditions.
3. Absence of convertibility clause that may dilute ownership and control
4. Availability of hundred percent finance.

The existing leasing companies started performing well because of increased demand and this paved the way for active investor's participation in equity stocks of these companies.

As a result of this upsurge in the leasing business by the end of 1985 there were about 300 leasing and finance companies in these industries. The enhanced demand lured the financial institutions and commercial banks to enter this industry.

In 1983 the ICICI entered this industry, followed by industrial reconstruction bank of India and a host of state finance corporations. IDBI also joined the list of operators.

In 1983 with an amendment to the banking regulation act of 1949, commercial banks were allowed to promote subsidiaries specializing in equipment leasing and financial services, but not hire purchase.

SBI was the first commercial bank to have its subsidiary- SBI capital markets limited which started functioning in 1986.

Canare Bank established can bank financial services limited, Punjab National Bank, Promoted PNB Financial Services Limited. Some commercial banks promoted subsidiaries with equity participation from financial institutions.

The Infrastructure leasing and financial services limited (LIFS) was one such promoted by central bank of India, HDFC and UTI.

The internationals finance corporation Washington (IFCW) and a host of multinational banks entered the leasing industry as co-promoters.

The IFCW promoted two leasing companies with commercial banks and finance companies in the private sector.

1. the India Equipment Leasing Limited (IEL) at Chennai with equal equity participation from State Bank of India and Sundaram finance.
2. The Leasing corporation of India, at Mumbai, with equal equity participation from the bank of India and the Twentieth century finance corporation limited.

The first foreign bank to participate in the equity of a leasing company was the standard chartered bank.

It promoted the cholamandalam investment and finance company n Chennai with Tube Investments of India limited a constituent of Murugappa Group. Foreign banks began offering the service of lease brokering to their corporate clientele as an agent of the corporate customer. The bank locates the lessor who presents a lease package to suit the requirements of the customers. The bank receives a commission for its services.

There were no entry barriers and this opened the floodgates scale entry of private sector companies, financial institutions and banks into the industry. This created stiff competition and resulted in fall in the lease rates.

The lease rate of a five-year non-cancelable lease had declined 32 ptpm to Rs. 25 ptpm, by 1985-86. the excess pressure on the profit margins with increase in the cost of lease; several state governments imposed a sales tax on lease rental further aggravated this problem.

Hence several small leasing companies in the private actor either down or diversified by adding related activities like bill discounting portfolio. Some others diversified into unrelated areas like manufacturing.

3., Explain the Importance of Mutual Funds?

The Mutual fund industry has grown at a phenomenal rate in the recent past. One can witness a revolution in the mutual fund industry in view of its importance to the investors in general and the country economy at large. The following are some of the important advantages of mutual funds:

1.Channellsing Savings for Investment:

Mutual funds act as a vehicle in galvanizing the savings of the people by offering various schemes suitable to the various classes of customers for the development of the economy as a whole. A number of schemes are being offered by MFs so as to meet the varied requirements of the masses, and thus, savings are directed towards capital investments directly. In the absence of MFs these savings would have remained idle. Thus, the whole economy benefits due to the cost efficient and optimum use and allocation economy benefits due to the cost efficient and optimum use and allocation of scarce financial and real resources in the economy for its speedy development.

2.Offering wide portfolio investment:

Small and medium investors used to burn their fingers in stock exchange operations with a relatively modest outlay. If they invest in a select few shares, some may even sink without a trace never to rise again. Now these investors can enjoy the wide portfolio of the investment held by the mutual fund. The fund diversifies its risks by investing large varieties of shares and bonds which cannot be done by small and medium investors. This is in accordance with the maxim 'Not to lay all eggs in one basket'. These funds have large amounts at their disposal, abed disposal, and so, they carry a clout in respect of stock exchange transactions. They are in a position to have a balanced portfolio which is free from risks. Thus MFs provide instantaneous portfolio diversification.

3.Providing Better Yields:

The pooling of funds from a large number of customers enables the fund to have large funds at its disposal. Due to these large funds, mutual funds are able to buy cheaper and sell dearer than the small and medium investors. Thus, they are able to command better market rates and lower rates of brokerages. So they provide better yields to their customers. They also enjoy the economies of large scale and can reduce the cost of capital market participation. The transaction costs of large investments are definitely lower than that of small investments. In fact all the profits of a mutual fund are passed on to the investors by way of dividends and capital appreciation. The expenses pertaining to a particular scheme alone are charged to the respective scheme. Most of the mutual funds so far floated have given a dividend at the rate ranging between 12% p.a. and 17% p.a. it is fairly a good yield. It is an ideal vehicle for those who look for long term capital appreciation.

4.Rendering Expertise Investment service at Low cost:

The management of the fund is generally assigned to professionals who are well trained and have adequate experience in the field of investment. The investment decisions of these professionals are always backed by informed judgments and experience. Thus, investors are assured of quality services in their best interest. Due to the complex nature of the securities market, a single investor cannot do all these works by himself or he cannot go to a professional manager who manages individual portfolios. In such a case, he may charge hefty management fee. The intermediation fee is the lowest being 1 percent in the case of a mutual fund.

5.Providing Research Service:

A Mutual fund is able to command vast resources and hence it is possible for it to have an in-depth study and carry out research on corporate securities. Each fund maintains a large research team which constantly analyses the companies and the industries and recommends the fund to buy or sell a particular share. Thus, investments are made purely on the basis of a thorough research. Since research involves a lot of time, efforts and expenditure, an individual investor cannot take up this work. By investing in a mutual fund, the investor gets the benefit of the research done by the fund.

6.Offering Tax Benefits:

Certain funds offer tax benefits to its customers. Thus apart from dividends, interest and capital appreciation, investors also stand to get the benefit of tax concession.

For instance, under section 80L of the Income tax Act, a sum of Rs, 10,000 received as dividend (Rs.13,000 to UTI) from a MF is deductible from the gross total income. Under section 88 A 20% of the amount invested is allowed to be deducted from the tax payable. Under the wealth Tax Act, investments in MF are exempted upto RS. 5 lakhs.

The Mutual funds themselves are totally exempt from tax on all income on their investments. But all other companies have to pay and they can declare dividends only from the profits after tax. But mutual funds do not deduct tax at source from dividends. This is really a become to investors.

7.Introducing Flexible Inv estment schedule:

Some Mutual funds have permitted the investors to exchange units from one scheme to another and this flexibility is a great boon investors. Income units can be exchanged for growth units depending upto the performance of the fund. One can not derive such a flexibility in an other investments.

8.Providing Greater Affordability and Liquidity:

Even a very small investor can afford to invest in Mutual fund they provide an attractive and cost effective alternative to direct purchase of shares. In the absence of MFs, small investors cannot think participating in a number of investments with such a meager sum. Again there is greater liquidity units cn be sold to the fund at any time at the Net Asset Value and thus quick access to liquid cash is assured. Beside branches of the sponsoring bank is always ready to provide loan facility against the unit certificates.

9.Simplified Record Keeping:

An investor with just an investment in 500 shares or so in 3 or companies has to keep proper records of dividend payments, bonus issue price movements, purchase or sale instruction, brokerage and other relate items. It is tedious and it consumes a lot of time. One may even forget record the rights issue and may have to forfeit the same. Thus, record keeping is the biggest problem for small and medium investors. Now mutual fund offers a single investment source facility, i.e., a single by order of 100 companies. The investor has to keep a record of only one do with the Mutual fund. Even if he does not keep a record, the MF send statements very often to the investor. Thus, by investing in MFs, the record keeping work is also passed on to the fund.

10.Supporting capital market:

Mutual funds play a vital role in supporting the development of capital markets. The mutual funds make the capital market active by means providing a sustainable domestic source of demand for capital market instruments. In other words, the saving of the people is directed towards investments in capital markets through these mutual funds. Thus funds serve as a conduit for dis-intermediating bank deposits into stocks, shares and bonds. Mutual funds also provde a valuable liquidity to the capital market, and thus, the market is made very active and stable. When foreign investors and speculators exit and re-enter the markets en masse mutual funds keep the market stable and liquid. In the absence of mutual funds, the prices of shares would be subject to wide price fluctuation due for the exit and re-entry of speculators into the capital market en massee. Thus it is rendering an excellent support to the capital market and helping in the process of institutionalization of the market.

11.Promoting Industrial Development:

The economic development of any nation depends upon its industrial advancement and agricultural development. All industrial units have to raise their funds by resorting to the capital market by the issue of shares and debentures. The mutual funds not only create a demand for these capital market instruments but also supply a large source of funds to the market, and thus, the industries are assured of their capital requirements. Infact the entry of mutual funds has enhanced the demand for India stock and bonds. Thus mutual funds provide financial resources to the industries are market rates.

12.Acting as substitute for initial public offering (IPO's)

In most cases investors are not able to get allotment in IPO's of companies because they are ofter oversubscribed many time. Moreover, they have to apply for a minimum of 500 s larger which is very difficult particularly for small investors. But in mutual funds, allotment is more or less guaranteed. Mutual funds are also guaranteed a certain percentage of IFOs by companies. Thus, by participating in MFs, investors are able to get the satisfaction of participating in hundre is of varieties of companies.

13.Reducing the Marketing cost of new issue:

The Mutual funds help to reduce the marketing cost of the new issues. The promoters used to allot a major share of the Initial Public offering to the mutual funds and thus they are saved from the marketing cost of such issues.

14. Keeping the money market active:

An individual investor can not have any access to money market instruments since the minimum amount of investment is out of his reach. On the other hand, mutual funds keep the money market active by investing money on the money market instruments. In fact, the availability of more money market instruments itself is a good sign for a developed money market which is essential for the successful functioning of the central bank in a country.

Thus Mutual funds provide stability to share prices, safety to investors and resources to prospective entrepreneurs.

4.. The Recommendation of KALYANASUNDARAM COMMITTEE on factoring?

Recommendations of Kalyanasundaram committee:

Kalyanasundaram committee was appointed in 1989 by RBI to study the feasibility of introducing factoring services in India. Accordingly in 1990 the recommendations of the committee were accepted. These are:

1. There is more scope for introducing factoring in India, especially through banks.
2. Exporters can enjoy more benefits by factoring services.
3. The growth of factoring will be so fast that within 2 or 3 years, it will be a viable business.
4. Export factors can provide various other services also.
5. All the industries as well as services can avail factoring services.
6. Factors can arrive at a price by taking into account various cost of funds and provide a low cost fund to the seller.
7. The discount and finance house of India Ltd., (DFHI) can be approached by factors for discounting time bills of different periods.
8. Initially, the factoring can be introduced at the zonal level.
9. Banks can take up factoring business due to their excellent network of branches.
10. SIDBI can also take up factoring along with other commercial banks for the benefit of small-scale industries.
11. The commercial banks should educate the business community on the benefits of factoring.
12. Factors should use computers for efficient and economical operations.

13. Competition among factors will ensure efficient service to clients.
14. Government can enact suitable legislations to make factoring more attractive

5, Problems of Unit Trust of India:

1. Lack of investor confidence: For the first time in 2002, UTI suspended the repurchase of its units as the NAV of Unit 64 not only fell below its par value, but fell to less than 50% of its value. This has affected the confidence of investors.

2. Wrong investment policies: Some of the companies in which investments were made did not perform well and the market value of these shares fell far below, bringing down NAV of Unit 64.

3. Securities scam: the Securities scam in the Bombay Stock Exchange has affected the share prices of many companies which has affected UTI.

4. Multiplicand of Mutual funds: In 1964, UTI was a monopoly in the public sector and could play a major role in the stock market. But during 1980s and 1990s, we could see a plethora of mutual funds springing up both in the public sector and in the private sector, thereby reducing the quantum of investiable funds in the hands of UTI.

5. Lack of efficient investment policy: The officials of UTI could not play a dynamic role in investing in various companies' equity as they are more governed by government regulations. UTI lacks the dynamism and business acumen shown by the private sector mutual funds.

5, How factoring is functioning in India?

There are two factoring companies in public sector banks:

1, SBI Factors and Commercial Service Ltd.,

2, Can bank Factors Ltd.,

1. SBI Factors and commercial services Ltd.,: SBI factors and commercial services Ltd., was floated jointly by SBI, SIDBI and Union Bank of India in March 1991. this factoring company has become an associate member of the factors Chain International, based in Amsterdam. It also joined recently EDIFACT-which is a communication network of factors chauin international for electronic data interchanges.

2. Can bank Factors Ltd: Can bank Factors Limited was jointly proofed by Canada Bank, Andhra Bank and SIDBI, in August 1992 to operate in South India. Its paid up capital of RS. 10 crores is contributed in the ratio of 60:20:20 by its three promoters. It can have its operations throughout India due to the lifting up of restrictions by RBI.

Export factoring is undertaken by Export credit Guarantee corporation (ECGC). Here, ECGC provides 100% finance for export bills drawn on overseas buyers.

Factoring in India its still in the infant stage. If we have to improve factoring organizations in the country, there should be more credit investigating agencies so that they can recommend genuine business transactions. However, factoring

service has a very bright future in India. In fact, it will be a boon for small scale sector.

7, Difference types of Mutual Fund?

In the investment market, one can find a variety of investors with different needs, objectives and risk taking capacities. For instance, a young businessman would like to get more capital appreciation for his funds among he would be prepared to take greater risks than a person who is just on the verge of his retiring age. So, it is very difficult to offer one fund to satisfies all the requirements of investors. Just as one show is not suitable for all legs, one fund is not suitable to meet the vast requirements of all investor. Therefore, many types of funds are available to the investor. It is completely left to the discretion of the investor to choose any one of them depending upon his requirement and his risk taking capacity.

Mutual fund schemes can broadly be classified into many types as given:
(a) Close-ended Funds: Under this scheme, the corpus of the fund and its duration are prefixed. In other word, the corpus of the fund and the number of unit are determined in advance. Once the subscription reaches the pre-determined level the entry of investors is closed. After the expiry of the fixed period of the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their holding. Thus, the fund ceases to be a fund, after the final distribution.

Features: the main features of the close-ended funds are:

1. the period and/or the target amount of the fund is definite and fixed beforehand.
2. Once the period is over and/or the target is reached, the door is closed for the investors. They cannot purchase any more units.
3. These units are publicly traded through stock exchange and generally, there is no repurchase facility by the fund.
4. The main objective of this fund is capital appreciation.
5. The whole fund is available for the entire duration of the scheme and there will not be any redemption demands before its maturity. Hence the fund manager can manage the investments efficiently and profitably without the necessity of maintaining may liquidity.
6. At the time of redemption the entire investment pertaining to a closed-end scheme is liquidated and the proceeds are distributed among the unit holders. At the time of redemption, the entire investment pertaining to a closed-end scheme is liquidated and the proceeds are distributed among the unit holders.
7. From the investors point of view, it may attract more tax since eht entire capital appreciation is realized in at one stge itself.
8. If the market condition is not favourable, it may also affect the investor since he may not get the full benefit of capital appreciation in the value of the investment.

9. Generally, the prices of closed-end scheme units are quoted at the discount of upto 40 % below their Net Asset Value (NAV).

(B) Open-ended funds:

It is just the opposite of close-ended funds. Under this scheme, the size of the fund and / or the period of the fund is not pre-determined. The investors are free to buy and sell any number of units at any point of time. For instance, the unit scheme (1964) of the Unit Trust of India is an open ended one, both in terms of period and target amount. Anybody can buy this unit ny time and sell it also at any time at his discretion

The main features of the Open-Ended Funds are:

1. There is complete flexibility with regard to one's investment or disinvestment. In other words, there is free entry and exit of investors in an open-ended fund, There is no time limit. The investor can join in and come out from the fund as and wheare he desires.
2. These units are not publicly traded but, the fund is ready to repurchase them and resell them at any time.
3. The investor is offered instant liquidity in the sense that the units can be sold on any working day. Infact the fund operates just like a bank account wherein one can get cash across the counter for any number of units sold.
4. The man objective of this fund is income generation. The investors get dividend, rights or bonuses s rewards for their investment.
5. Since the units are not listed on the stock market, their prices are linked to the Net Asset Value (NAV) of the units. The NAV is determined by the fund and it varies from time to time.
6. Generally,the listed prices are very close to their Net Asset Value. The fund fixes a different price for their purchases and sales.
7. The fund manager has to be very careful in managing the investments because he has to meet the redemption demands at any time made during the life of the scheme.

To put it in a nutshell, the open ended funds have a perpetual existence and their corpus is ever-changing depending upon the entry and exit of members.

On the Basis of Income:

(a) Income Funds: As the name suggests, this fund aims at generating and distributing regular income to the members on a periodical basis. It concentrates more on the distribution of regular income and it also sees that the average return is higher than that of the income from bank deposits.

The main features of the income funds are:

(1) The investor is assured of regular income at periodic intervals, say half-yearly or yearly and so on.
(2) The main objective of this type of fund is to declare regular dividends and not capital appreciation.
(3) The pattern of investment is oriented towards high and fixed income yielding securities like debentures, bonds etc.,

(4) This is best suited to the old and retired people who may not have any regular income.
(5) It concerns itself with short run gains only.

(B) Pure Growth funds (Growth Oriented Fund): Unlike the income funds, growth funds concentrate mainly on long run gains, capital appreciation,. They do not offer regulr income and they aim at capital appreciation in the long run.

The main features of the growth fund are:

(1) The growth oriented fund aims at meeting the investors need for capital appreciation.
(2) The investment strategy therefore, conforms to the fund objective by investing the funds predominantly n eaquities with high growth potential.
(3) The fund tries to get capital appreciation by taking much risks and investing on risk bearingequities and high growth equity shares. The fund may declare dividend, but its principal objective is only capital appreciation.
(4) This is best suited to salaried and business people who have high risk bearing capacity andability to defer liquidity. They can accumulate wealth for future needs.

© Balanced Funds: This is otherwise called "Income-Cum-Growth"fund. It is nothing but a combination of both income and growth funds. It aims at distributing regular income as ell as capital appreciations. This is achieved by balancing the investments between the high growth equity shares and also the fixed income earning securities.

(d) Specialised Funds: Beides the above a large number of speciailised funds are in existence abroad. They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows etc. there are also funds for investments is securities of specified areas. For instance, Janan fund, South Korea fund etc. in fact these funds open the door for foreign investors to invest on the domestic securities of these countries.

(E) Money-Market Mutual Funds (MMMDs):

These funds are basically open ended mutual funds and as such they have all the features of the open ended fund. But they invest in highly liquid and safe securities like commercial paper, bankers acceptances, certificates of deposists, treasury bills etc. these instruments are called money market instruments. They take the place of share, debentures and bonds in capital market. They pay money market rates of interest. These funds are called money funds in USA and they have been functioning since 1972. investors generally use it a parking place or stop gap arrangement for their cash resources till they finally decide about the proper avenue for their investment long-term financial assets like bonds and stocks.

Since the RBI has fixed the minimum amount of investment as Rs. 1 lakhs it is out of the reach of many small investors. In the USA the minimum amount is only $100. recently, the private sector funds have been permitted to deal in

money market mutual funds. Generally, it is best suited only to institutional investors like banks and other financial institutions.

(F) Taxation funds: A taxation fund is basically a growth oriented but it offers tax rebates to the investors either in the domestic or oreign capital market. It is suitable to salaried operople who want to enjoy tax rebates particularly during the month of February and March. In India at present the law relating to tax rebates is covered under sec.88 of the Income Tax Act, 1961. An investor is entitled to get 20% rebate in Income Tax for investments made under this fund ubject to a maximum investment of Rs. 10,000/- per annum. The Tax Saving magnum of SBI capital Market limited is the best example for the domestic type. UTI's US $60 million India fund, based in the USA is an example for the foreign type.