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S3904

Q-1) a) State whether following statements are True or False: (Any 8) (8)

- 1) There are three main segments of the Debt market in India, named government securities, public sector unit bonds and private corporate securities. - True
- 2) Reserve Bank of India do not interfere in Debt Market. False
- 3) The risk that one party fail to deliver the terms of a contract with another party at the time of settlement is called as Settlement risk. - True
- 4) Corporate bonds are the most dominant category of debt markets. - False
- 5) YTM is used to calculate the required rate of return. - False
- 6) FII are not permitted to invest in G-sec. - False
- 7) When the interest rate increases, bond price decreases. True
- 8) RBI acts as the Registrar and Transfer Agent for government securities. - True
- 9) Call feature means to redeem after maturity. False
- 10) Credit rating is an assessment of the credit worthiness of a borrower. - True

b) Give full forms of: (Any 7)

(7)

- 1) CCIL – Clearing Corporation of India Limited
- 2) SGL – Subsidiary General Ledger
- 3) STRIPS – Separate Trading of Registered Interest and Principal of securities
- 4) PDAI – Primary Dealers Association of India
- 5) SRs -Security Receipts
- 6) EXIM – Export Import Bank of India
- 7) NBFCs – Non Banking Financial Companies
- 8) OTCEI – Over The Counter Exchange of India
- 9) NDS - OM - Negotiated Dealing System - Order Matching
- 10) CRISIL – Credit Rating and Information Services of India Ltd.

Q-2) a) What kind of problems Debt owners face?

(8)

Ans- Meaning of Debt Market, 1) High cost of servicing for company, 2) Put restrictions on company's activist, 3) Risky for the company having high debt equity ratio, 4) Burden of fixed repayment, 5) Keeping assets as collateral, 6) High cost increases company's Break even point.

b) Who are the major players of Indian debt Market?

(7)

Ans – 1) Central Government, 2) RBI, 3) SEBI, 4) Primary Dealers, 5) Banks, 6) Corporates, 7) Financial Institutions.

OR

a) How Debt market is different than Equity market?

(8)

Ans – 1) Meaning, 2) Types of funds, 3) Term, 4) Nature, 5) Status of holders, 6) Risk involved, 7) Instruments, 8) Returns

b) How Open Market Operations functions? (7)

Ans – Meaning, 1) Order matching through NDS-OM, 2) Settlement through CCIL, 3) Settlement done under Delivery versus payment system, 4) Account maintenance with SGL/CSGL Account, 5) Taking guarantees of CCIL.

Q-3) a) Describe the Quantitative characteristics of Debt Securities. (8)

Ans – 1) An issue date, 2) Issue price, 3) Redemption date, 4) Redemption price, 5) Maturity date, 6) Conversion ratio, 7) Face value, 8) Coupon rate.

b) Which new types of instruments are issued in debt market? (7)

Ans -Meaning, 1) STRIPS, 2) Cash Management Bills, 3) Masala Bonds ( 2 Marks each)

OR

a) 'Primary Dealers play a major role in the Government Securities Market', Explain. (8)

Ans -Meaning, 1) Underwriting of dated securities- a) Dated securities of central govt. , b) dated securities of state governments, 2) Bidding in primary auctions, 3) Sources and application of funds ( 2Marks each)

b) With what mission FIMMDA (Fixed Income Money Market and Derivatives Association of India) is working? (7)

Ans - 1) Smooth functioning of markets, 2) undertake developmental activities, 3) to develop standardised practises, 4) Function as an arbitrator, 5) Provide training, 6) Educate participants, 7) Adopt international standards

Q-4) a) What role Clearing Corporation of India Limited plays for securities market? (8)

Ans - Meaning, 1) Risk management, 2) Membership department, 3) Operations for Fixed income & money market, 4) Collaterals and Fund management segment, 5) Product development department, 6) Information technology, 7) Research

b) What are the different Types of Bonds available in market for investment? (7)

Ans- 1) Government Bonds, 2) Corporate Bonds, 3) Treasury Bills, 4) Dated securities. 5) CBLO, 6) Fixed Rate bonds, 7) Floating rate Bonds

OR

a) What functions Credit Rating Agencies serve? (8)

Ans - 1) Provide unbiased opinion, 2) Quality and dependable information, 3) Information at low cost, 4) Basis for investment, 5) Easy to understand information, 6) Healthy discipline in corporate borrowers, 7) Formulation of public policy

b) A Rs. 100 par value bond bearing a coupon rate of 12% for 5 years & the principal repayment will be Rs. 100 after 5 years, the value of the bond , at a discount rate ( required rate of return ) of 15% (7)

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$$\text{Ans} - B_0 = I (PVAF) + F (DF)$$

$$= 12 (PVAF 15\%, 5 \text{ years}) + 100 (PV, 15\%, 5 \text{ yrs})$$

$$= 40.22 + 49.70$$

$$= \text{Rs. } 89.92$$

Q-5) a) Explain process of credit rating followed by rating agencies. (8)

Ans - 1) Receipt of the request, 2) assignment to analytical team, 3) Obtaining information, 4) Plant visits, 5) Presentation of findings, 6) Rating committee meeting, 7) Communication of decision, 8) dissemination to public.

b) Which Theories are used for Term Structure of Interest Rates? (7)

Ans- 1) the Liquidity Preference Theory, 2) The Expectations Hypothesis Theory, 3) The Preference Habitat Theory ( 2 Marks each)

OR

a) Write short notes on: (Any 3) (15)

1) STCI

2) Demerits of Credit Rating

3) The Liquidity Preference Theory

4) Open Market Operations-

5) Importance of Debt Market in Indian Economy