Faculty **:Commerce and Management**
Program No. & Name of the Examination :(2C00452/F.Y.B.Com(A & F)(CBSGS)(R-2016-17) SEMESTER-II
Subject(Paper code) :76411/Innovative Financial Services(R2019)
Date of Exam :Monday 08th April,2019
Q.P.Code:70208 Marks:75

N.B.: 1. Q.1 is compulsory.
2. Q.2 to Q.5 are compulsory with internal choice.
3. All questions carry equal marks.

INSTRUCTIONS FOR THE EXAMINERS AND MODERATORS

For all the theory questions the examiners may use their own discretion while giving marks. Full marks can be given, if the candidate has justified the answer.

Q.1 A Select the appropriate options and rewrite the following sentences.(any eight) (8)

1-(b)forfaiting	2-(c)merchant banker	3-(d)all of the above	4-(b)National Housing Bank	5- (a)fund based
6- (b)illiquid	7-(b)operating	8-(d)all of these	9-(c) revolving	10-(a) limit order

Q.1 B True or False. (any seven) (7)

1	2	3	4	5	6	7	8	9	10
False	True	True	True	True	False	True	False	True	False

Q.2 (a) Definition of financial services- (8)

Financial Services means the following services provided by a banking company or a financial institution including a non banking financial company, viz,

(i) financial leasing services including equipment leasing and hire purchase by a body corporate
(ii) credit card services
(iii)merchant banking services
(iv) securities & foreign exchange broking
(v) asset management including portfolio management, all forms of fund management, pension fund management, custodial depository and trust services, but does not include cash management,
(vi) advisory and other auxiliary financial services including investment and portfolio research and advice.

The functions of financial services can be broadly classified into following two types:
(a) fund based services (or asset based services) and
(b) non-fund services (or fee-based services)

(a) Fund based Services (any three to be explained)

The fund based or asset based services include the following:
1. Underwriting
2. Lease financing
3. Hire purchase
4. Venture capital
5. Bill discounting
6. Factoring & Forfaiting

(b) Non-fund based Services (any three)

The financial service companies or financial intermediaries provide services on the basis of non-fund activities also. Such services are also known as fee based services.
The non-fund based services include the following:
1. Securitisation
2. Merchant banking
3. Credit rating
4. Portfolio management
5. Merger and acquisition

Q.2 (b)Factoring V/s forfeiting.(any seven points) (7)

FACTORING	FORFAITING
1.Meaning It is an arrangement that converts the receivables into ready cash by selling these to factor.	Forfaiting is an arrangement in which the forfaiter purchases claims from the exporter in return for cash payment.
2.Domestic /Foreign Trade Finance Factoring is both domestic and foreign trade finance.	Forfaiting is only financing of foreign trade.
3.Maturity of receivables Factoring involves account receivables of short maturities.	Forfaiting involves account receivables of medium to long term maturities.
4.Extent of finance Factoring provides only 80% of invoice.	100% finance is provided in forfaiting..
5.Letter of Credit There is no letter of credit involved in factoring.	Forfaiting requires letter of credit.
6.Recourse or no recourse Factoring may have recourse to seller in case of default by buyer.	There is no recourse to exporter in fofaiting.
7.Scope for discounting in secondary market Factoring does not provide scope for discounting in the market as only 80% is	Forfaiting provides scope for discounting the bill in the secondary market due to 100% finance.

financed.	
8.Series of sales or single sale Factoring may be for financing a series of sales involving bulk trading.	Only a single shipment is financed under forfaiting.
9.Cost Cost of factoring is borne by the seller(client).	Cost of forfaiting is borne by the overseas buyer.
10.Dealing with negotiable instruments There is no dealing with negotiable instruments under factoring.	Forfaiting is evidenced by bills of exchange, promissory note or letter of credit.

OR

Q.2(c) Definition of Merchant Banker. (8)

As per SEBI, a merchant banker refers to,

"Any person who is engaged in the business of issue management either by making arrangement regarding buying, selling or subscribing to securities or acting as manager, consultant or rendering corporate advisory services in relation to such issue management".

Thus merchant bankers are the persons who are engaged in the business of issue management.

Services provided by Merchant Bankers

1.Raising finance

Merchant Bankers help their clients in raising finance by way of issue of a debenture, shares, bank loans, etc. They tap both the domestic as well as the international markets. Finance raised by this method may be used for commencing a new project or business or it may even be used for expansion and modernization of an existing business.

2.Management of public offer

This is traditional operation for the most Merchant Bankers in India. He has to assist his corporate clients in raising funds from the market. He may also be required to advice the client on various matters that affect their finances.

The main area of his role includesDesigning of instrument

- Pricing the issue
- Registration of offer document
- Underwriting
- Marketing of the issue
- Allotment and refund
- Listing on stock exchanges

3.Placement and distribution

The distribution network of a Merchant Banker can be classified as institutional and retail. The network of institutional investors consist of Mutual Funds, Foreign

Institutional Investors, banks etc. The size of this network represents the wholesale reach of the Merchant Banker. A good quality research report would help Merchant Banker to justify the investment recommendation. The retail distribution depends upon the networking with the investors.

4.Corporate advisory services

Merchant Bankers provide customized solutions to the financial problems of their clients. One of the key areas for advisory role is financial restructuring. Another area of advise is rehabilitation and turnaround management.

5.Project Advisory

Merchant Bankers are sometimes associated with their clients from the early stage of their project. Merchant Bankers provide inputs to their clients in preparation of the detailed project report**.**

6.Loan Syndication

Merchant Bankers arrange to tie up loans for their clients. The Merchant Banker also helps the client in documentation procedures.

7.Advise on modernisation and expansion

Merchant bankers advise on amalgamations, mergers, acquisitions, takeovers, foreign collaborations, diversification of business, technology up-gradation, joint-ventures, etc.

8.Special assistance to entrepreneurs and small companies

Merchant banker advises entrepreneurs and small companies on availability and existence of business opportunities, concessions, incentives and government policies and helps them to take advantage of this option available to them, to the best of their capabilities.

9.Revival of sick units

A merchant bank helps in reviving sick industrial units. They negotiate with various agencies such as banks, long-term lending institutions, and the Board for Industrial and Financial Reconstruction (BIFR). They also plan and execute full revival packages.

Q.2 (d)Definition of Securitisation and its features. (7)

Securitisation is the process of pooling and repackaging of homogenous illiquid financial assets into marketable securities that can be sold to investors. Securitisation is the process of turning assets into securities. Specific assets are pooled together and repackaged as interest-bearing securities.

FEATURES OF SECURITISATION

A securitised instrument, as compared to a direct claim on the issuer, will generally have the following features:

1.Process of converting illiquid assets into liquid assets

Securitisation is the process of converting illiquid assets into liquid assets by converting longer duration cash flows into shorter duration cash flows

2.Marketability:

The main purpose of securitisation is to ensure marketability to financial claims. Hence, the instrument is structured in such a way that it becomes marketable.

3.Merchantable Quality:

A securitised product should be of marketable quality. Merchantable quality, in case of physical goods, is the quality which is acceptable to merchants in normal trade. When applied to financial products, it would mean that the financial commitments embodied in the instruments are secured to the investors' satisfaction.

4.Wide Distribution:

The basic purpose of securitisation is to distribute the product. With wider distribution, the issuer is able to market the product with lower financial cost to him. But a wide investor base involves the high cost of distribution and servicing.

5.Commoditization:

Securitisation is the process of commoditization, where the basic idea is to take the outcome of this process into the capital market. Thus, the result of every securitisation process is to create certain instruments which can be placed in the market.

6. Homogeneity:

To serve as a marketable instrument, the instrument should be packaged into homogenous lots. Homogeneity is a function of retail marketing.

7. Integration and Differentiation

Securitisation is the process of integration and differentiation where the entity that securitises its assets first pools them together into a common hotch pot.This is the process of integration. Then, the pool itself is broken into instruments of fixed denomination. This is the process of differentiation.

8.Difficult to understand for retail investors:

In practice, securitisation issues are difficult for retail investors to understand.

Q.3 (a) Operating lease V/S financial lease. (8)

OPERATING LEASE	**FINANCE LEASE**
1.**Meaning as per AS -19** According to the AS -19, an operating lease is one which is not a finance lease.	As per AS-19, in a finance lease, the lessor transfers to the lessee, substantially all the risks and rewards incidental to the ownership of the asset whether or not the title is eventually transferred.
2. **Ownership** Ownership of the leased asset lies with the lessor for the entire period.	Ownership transfer option at the end of the lease period is available to the lessee. The title

	might or might not be transferred eventually.
3.**Purchase Option** In operating lease, the lessee does not have an option to buy asset during the lease period.	A finance lease allows the lessee to have a purchase option at less than the fair market value of the asset.
4. Lease term Lease term extends to less than 75% of the projected useful life of the leased asset.	The lease term is for the major part of the economic life of the asset.
5.Expenses Lessee pays only the monthly lease payment in operating lease.	In finance lease, lessee bears expenses such as insurance, maintenance and taxes.
6.Tax benefit Operating lease is similar to renting. The lease rental is considered as allowable expense from taxable profits. However, depreciation cannot be claimed as an expense.	The lessee can claim interest and depreciation both as deductions from taxable profit and thereby reduce tax liability.
7.Running costs In operating lease, no running costs or administrative costs such as registration, repairs are borne by the lessee as it gives only right to use the asset.	In finance lease, running costs and administrative costs are to be borne by the lessee and these are higher.
8.**Risk and rewards related to the asset** Risk and rewards related to the asset is with the lessor.	Risk and rewards related to the asset is with the lessee.

Q.3 (b)Meaning of Venture Capital (7)

Venture capital, also called VC, refers to the financing of a startup company by typically high-wealth investors who believe that the business has potential to grow substantially in the long run.
It is the provision of risk –bearing capital, usually in the form of participation in equity, to companies with high growth potential.

Such investments are risky as they are illiquid, but are capable of giving impressive returns if invested in the right venture.

FEATURES OF VENTURE CAPITAL

1.High Risk

The Venture capital financing is highly risky. The chances of failure are high as it provides long term start up capital to high risk-high reward ventures. Venture capital assumes four types of risks as follows:Management risk ,Market risk,Product risk ,Operation risk

2.High Technology

Though venture capital is not technology finance, there is a lot of financing of hi-tech projects which generally offer higher returns than projects in more traditional areas. Venture capital investments are made in high technology oriented areas using new technologies or producing innovative goods by using new technology.

3.Equity Participation & Capital Gains

Investments are generally in equity and quasi equity participation through direct purchase of shares, convertible debentures where the debt holder has the option to convert the loan instruments into stock of the borrower or a debt with warrants to equity investment.

4.Participation In Management

Venture capital provides value addition by managerial support, monitoring and follow up assistance. It monitors physical and financial progress as well as market development initiative. It helps by identifying key resource person.

5.Long term Investment

Venture capitalist help companies grow, but they eventually seek to exit the investment in three to seven years. An early stage investment may take seven to ten years to mature, while most of the later stage investment takes only a few years. The process of having significant returns takes several years and it depends on the capacity and talent of venture capitalist and entrepreneurs.

6.Illiquid Investment

Venture capital investments are illiquid, that is, not subject to repayment on demand or following a repayment schedule. Investors seek return ultimately by means of capital gains when the investment is sold at market place.

OR

Q.3 (c)Advantages of Hire Purchase. (8)

Hire purchase as a source of finance has the following advantages:

(1) Convenience in payment:

The buyer is greatly benefited as he has to make the payment in instalments. This system is advantageous to the people having limited income.

(2) Increased volume of sales:

This system attracts more customers as the payment is to be made in easy instalments. This leads to increased volume of sales.

(3) Increased Profits:

Large volume of sales ensures increased profits to the seller.

(4) Encourages savings:

It encourages thrift among the buyers who are forced to save some portion of their income for the payment of the instalments. This inculcates the habit to save among the people.

(5) Helpful for small traders:
This system is a blessing for the small manufacturers and traders. They can purchase machinery and other equipment on instalment basis.

(6) Earning of Interest:
The seller gets the instalment which includes cash price and interest. The interest is calculated in advance and added in total instalments to be paid by the buyer.

(7) Lesser Risk:
From the point of view of seller this system is greatly beneficial as he knows that if the buyer fails to pay one instalment, he can get the goods back.

(8)Easy
Financing of an asset through hire purchase is easy.

Q.3(d)Various sources of consumer finance. (7)

The main sources of consumer finance can be listed as follows:

1. **Traders**

Traders are the important sources of consumer finance. Traders include sales finance companies and non-banking finance companies.

2. **Commercial banks**

Commercial banks generally offer a greater variety of credit. Banks can offer credit cards, lines of credit, term loans and installment loans, both on a secured or an unsecured basis. Commercial banks provide consumer finance either directly or indirectly. **Credit card companies**

3.Credit card companies facilitate credit purchases of consumer goods through respective banks which issue the credit cards. The credit card system enables a person to buy goods on credit

4**. NBFC**
Non-banking finance companies constitute another important source of consumer finance. These finance companies charge a very high rate of interest. Consumers approach these companies as a last option.

5. **Co-operative Credit Societies**
Co-operative Credit societies accept savings from and make loans to member individuals. People qualify for membership by way of a job or organizational affiliation. Due to their membership status, they can participate in the financial services which are offered by the society.

6. **Consumer finance companies**

Finance companies are generally more willing to make relatively small loans that commercial banks avoid. If an individual's credit score is poor, the greater amount of collateral is required by a finance company before it approves a loan. This source of consumer finance is expensive due to high interest rates and fees.

7. **Sales finance companies**
   These companies are formed to lend money to customers of an affiliated company. For example, Tata Motor Credit Company acts as a credit source to car buyers at Tata dealerships.

Q.4 (a)Limitations of credit rating. (8)

1. Biased rating and misrepresentation

If the credit rating industry has a linkage with the company or the persons interested in the company , the reports may be biased and partial.

2. Static study

Rating is done on the present and the past historic data of the company and this is only a static study. Prediction of the company's health through rating is momentary and anything can happen after assignment of rating symbols to the company.

3. Concealment of material information

Rating company might conceal material information from the investigating team of the credit rating company. In such case, quality of rating suffers and renders the rating unreliable.

4. Rating is no guarantee for soundness of company

Rating is done for a particular instrument to assess the credit risk but it should not be construed as a certificate of quality of the company or its management.

5. Human bias

The investigation team may suffer with human bias due to unavoidable personal weakness of the staff which might affect the rating.

6. Reflection of temporary adverse conditions

Time factor affects rating. Sometimes, misleading conclusions are derived. For example, company in a particular industry might be temporarily in adverse condition and given low rating that time. This adversely affects the company's interest.

7. Downgrade

Once a company has been rated and if it is not able to maintain its performance, credit rating agencies would review the grade and down grade the rating.

8. Difference in rating of two agencies

Rating done by the two different credit rating agencies for the same instrument of the issuer company may not be identified.

Q.4(b) Frauds can be prevented in the following ways (7)

1. Skimming or cloning

Banks advice customers to replace cards after foreign trips to minimize skimming risk.

2.Beware of cyber swindles.
Cyber swindles involve unauthorised use of card details, such as the card number, the Card Verification Value (three-digit code printed on the back side of the card), to make purchases online.

3. Takeover of accounts and identity theft

User should check for unusual transactions, especially small ones, as fraudsters make these small transactions to check the card's validity.

4. Phising mails
The card holder should not fall prey to phishing mails (that appear to be sent by an institution he deals with but are not), SMSs or calls.

5. ATM safeguards
Stay away from ATMs that appear dirty or in disrepair. They may not work or may be fake machines set to capture confidential card information. Here are some other things a card holder should keep in mind:

Check machine: Do not use ATMs with unusual signage, such as a command to enter a PIN twice to complete the transaction.
Cover keypad: Make sure to cover the keypad with hand while entering the PIN to escape any cameras attached nearby.

Do not take help: Also, avoid taking the help of any person loitering outside the ATM or volunteering to assist in case stuck.

6. Online precautions
Use safe sites: Go only to well-known and established sites for e-shopping.

Anti-virus software: While banks deploy ATM network security measures, on an individual level a person can safeguard transactions by installing anti-virus software on his computer and smart phone to keep out malware.

Register for alerts: This is a very important step since the bank will alert the cardholder to any online card transaction or ATM withdrawals the moment these take place.
Log out: Always log out from social media sites and other online accounts to ensure data security .

Change passwords: Card holder should keep changing passwords from time to time

Other offline preventive measures

Do not disclose details: Never reveal PIN, CVV or password to anyone.
Check statements: Regularly go through bank or credit card statements so that any unauthorised transaction can be detected through identity theft and alert the bank immediately.

OR

Q.4 (c) Benefits of credit cards are listed as below. (8)

1. A credit card is safer than carrying cash.
2. A credit card can build holder's credit rating.
3. A card holder can get interest-free credit
   While a card holder pays by credit card he gets an interest free credit, if repayment is made before the due date.
4. Earn reward points when a card holder spend.
   Credit card purchases allow a card holder to earn reward points on every rupee he spends on eligible purchases
5. Credit cards can be used for payments in foreign currency.
   Although currency conversion fees usually apply,the card holder can use his credit card overseas to make payments in a foreign currency.
6. Credit cards give its holder an emergency line of credit.
   Credit cards can be a financial safety net for the holder if he does not have enough cash or savings to cover any unexpected costs.
7. Credit cards often have complimentary extras.
   Credit card provides other value-adding features including complimentary flight offers.

Q.4 (d)**Features of Recourse Factoring** **(7)**

a.The factor has recourse to the client if the debt purchased /receivables factored turns out to be irrecoverable.
b.The factor does not assume credit risks associated with the receivables.
c.If the customer defaults in payment, the client has to make good the loss incurred by the factor.
d.The factor is entitled to recover from the client the amount paid in advance in case the customer does not pay on maturity.
e.Credit risk is with the client.
f.Factor does not participate in the credit sanction process.
g.In India, factoring is done with recourse.

Features of Non-recourse Factoring

a.Factor purchases receivables on the condition that the factor has no recourse to the client, if the debt turns out to be non-recoverable.
b.Credit risk is with the factor.
c.Higher commission is charged to compensate for the loss arising out of irrecoverable receivables. The additional fee is charged by the factor as a premium for risk bearing referred to as a del credere commission.
d.Factor participates in credit sanction process and approves credit limit given by the client to the customer.
f.In USA/UK, factoring is commonly done without recourse.

Q.5 (A) **Advantages to the lessee-** **(8)**

(1) Financing of capital goods
Lease financing enables the lessee to have finance for large investments in capital assets upto 100%, without any immediate payment.
(2) Additional source of finance

Leasing facilitates the purchase of capital assets without finance. This improves working capital position of the lessee. Thus internal accruals are available for business operations.
(3)Balanced Cash Outflow
The biggest advantage of leasing is that cash outflow or payments related to leasing are spread out over several years, hence saving the burden of one-time significant cash payment.
(4)Less expensive
Leasing is less expensive mode of finance compared to other alternatives.
(5)No dilution of ownership
There is no dilution of ownership and control in case of leasing. The other modes of long term finance such as equity, dilutes the ownership and control.
(6) Free from restrictive conditions
Lease financing is beneficial compared to institutional finance as it is free from restrictive terms and conditions such as representation on the Board.
(7)Flexibility in structuring lease rentals
The lease rentals can be structured to accommodate the cash flow position of the lessee, making the payment of rentals convenient to him.
(8)Simplicity
A lease finance arrangement is simple to negotiate and requires simple documentation. Institutional finance requires compliance with terms and conditions. It also requires detailed documentation.
(9)Tax benefits
The lessee gets certain benefits in the payment of rent, maintenance of the equipment and other expenditure incurred by him in keeping the equipment operational. For all these expenses, the lessee will be claiming deductions resulting in tax benefits under the Income Tax Act. .
(10)Minimum delay
Usually, leasing companies take much lesser time in processing the lease proposal as compared to the lengthy procedure involved in the term-loan financing. Thus, a firm can avoid delay in the use of an asset by taking it on lease.
(11)Shifting the Risk of Obsolescence
Due to fast changing technologies, a firm has to bear the risk of obsolescence if it purchases the asset. The firm (lessee) can easily shift this risk upon the lessor by acquiring the use of the asset on lease rather than buying the same.
(12) Convenience
Operating or service leases are usually cancellable enabling the lessee to terminate the lease if it does not require the use of the asset any more. Hence, it is very convenient and flexible mode of financing fixed assets.

Q.5 (B) Meaning & importance of underwriters in issue management. (7)

MEANING

An underwriter is a person who engages in the business of underwriting the public issue of securities of a particular company. They agree to take up securities which are not fully subscribed. They make a commitment to get the issue subscribed either by others or by themselves. Underwriting an issue is optional and not mandatory. Underwriters are appointed by the issuing companies in consultation with the lead managers/merchant bankers to the issues.

IMPORTANCE OF UNDERWRITER

Underwriting has become very important in recent years with the growth of the corporate sector. It provides several benefits to a company:-

- It relieves the company of the risk and uncertainty of marketing the securities.
- Underwriters have a specialised knowledge of the capital market. They offer valuable advice to the issuing company in the preparation of the prospectus, time of floatation and the price of securities, etc. They also provide publicity service to the companies which have entered into underwriting agreements with them.
- It helps in financing of new enterprises and in the expansion of the existing projects.
- It builds up investors' confidence in the issue of securities. The association of well-known underwriters lends prestige to the company and the investors feel that the issue is sound enough for profitable investment.
- The issuing company is assured of the availability of funds. Important projects are not delayed for want of funds.
- It facilitates the geographical dispersal of securities because generally, the underwriters maintain contacts with investors throughout the country.

OR

Q.5 Short note on **(Any three)(5 Marks each)** **(15)**

(a) Role of NHB

1.The National Housing Bank was established under the National Housing Bank Act, 1987, with the objective to promote housing finance institutions, provide regulatory guidance to these institutions, financial support, knowledge and research support to these institutions for the development of the housing finance system in India.

2. The NHB aims to promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.

3.To ensure that HFCs are conducting their business affairs in a manner that is not detrimental to the interest of depositors, customers and the public at large, NHB intervenes in the executional and governance frameworks of HFCs.

4.NHB as the regulator of HFCs, guides, monitors and inspects the activities of HFCs so that their efforts are channelized in the right direction.

5.To provide value to the stakeholders, an online Grievance Registration and Information Database System (GRIDS) has been set up by NHB to look into the grievances of customers against HFCs.
6. Another key area where NHB actively intervenes is fraud containment in the housing finance industry.

7.Project Finance directly to Public Agencies such as Housing Boards, and Development Authorities or through the Public Private Partnership Mode for land development and housing projects available at normal interest rate, as well as at concessional interest rate through fund established at NHB for slum redevelopment and low income housing.
8.Promotion & Development

Creating new players through equity participation,Strengthening the existing network of lending institutions.

9.Implementation of Government Schemes: The NHB works for the implementation of the Government of India's schemes.

(b)Advantages of rating to the Investors

(i) **Helps in investment decision** :
Credit rating will guide the investors in selection of debt instrument. Thus it helps in decision making pertaining to investment. Usually, higher the rating, the more will be the willingness to invest in these instruments considering the safety and vise-versa.

(ii) Quality information at low cost
The investors will get the good quality of information at low cost.

(iii)**Benefits of rating reviews**: The rating review helps investors in investing their money according to risk. If company is highly rated, it means low risk and vice-versa. Thus, the investors can take the calculated risk on investment activities.

(iv) **Assurance of safety** : High credit rating gives assurance to the investors about the safety of the instrument and minimum risk of bankruptcy

(v) **Easy understandability of investment proposal** : The rating agencies gives different symbols of rating which is easy to understand by investors or public.

(vi) **Choice of instruments** : Credit rating gives choice of debt instruments to the public. This choice depends upon the safety or risk of the instrument.

(vii) **Saves investors' time and effort** : Credit ratings save the time of investors by providing them different symbols of rating.

(c)Importance of financial services

1. Economic growth

The financial service industry mobilises the savings of the people and channels them into productive investments by providing various services to people and corporate enterprises.

2. Promotion of savings

The financial service industry mobilises the savings of the people. It provides liability, asset and size transformation service by providing huge loan from small deposits collected from a large number of people.

3. Capital formation

Financial service industry facilitates capital formation by rendering various capital market intermediary services. Capital formation is the basis for economic growth.

4. Creation of employment opportunities

The financial service industry creates and provides employment opportunities to millions of people all over the world.

5. Contribution to GNP(Gross National Product)

The contribution of financial services to GNP has been increasing year after year in almost countries.

6. Provision of liquidity

The financial service industry promotes liquidity in the financial system by allocating and reallocating savings and investment into various avenues of economic activity. It facilitates easy conversion of financial assets into liquid cash.

7.Benefit to Government

The presence of financial services enables the government to raise both short-term and long-term funds to meet both revenue and capital expenditure.

(d) Code of conduct for Bankers to an issue

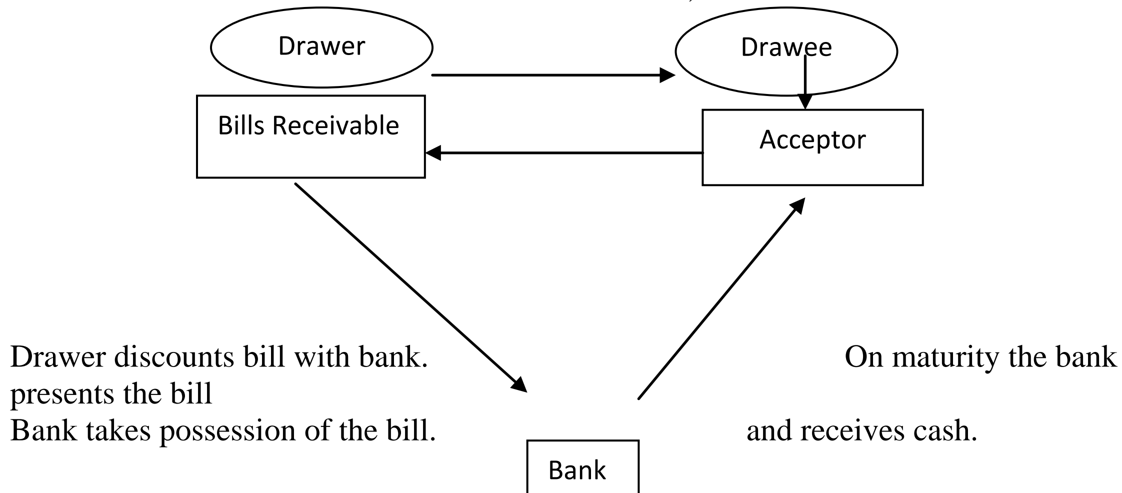
1. A banker to an issue shall make all efforts to protect the interests of investors.
2. A banker to an issue shall in the conduct of its business, observe high standards of integrity and fairness in the conduct of its business.
3. A banker to an issue shall fulfil its obligations in a prompt, ethical and professional manner.
4. A banker to an issue shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
5. A banker to an issue shall not at any time act in collusion with other intermediaries or the issuer in a manner that is detrimental to the investor.
6. A banker to an issue shall endeavour to ensure that— (a) inquiries from investors are adequately dealt with; (b) grievances of investors are redressed in a timely and appropriate manner; (c) where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.
7. A banker to an issue shall be prompt in disbursing dividends, interests, or any such accrual income received or collected by him on behalf of his clients.
8. A banker to an issue shall not make any exaggerated statement, whether oral or written to the client, either about its qualification or capability to render certain services or its achievements in regard to services rendered to other clients.
9. A banker to an issue shall always endeavour to render the best possible advice to the clients having regard to the clients' needs and the environments and his own professional skill.
10. A banker to an issue shall not divulge to anybody either orally or in writing, directly or indirectly, any confidential information about its clients which has come to its knowledge, without taking prior permission of its clients except where such disclosures are required to be made in compliance with any law for the time being in force.
11. A banker to an issue shall avoid conflict of interest and make adequate disclosure of his interest.

(e) Bill Discounting process

Bill discounting is an arrangement whereby the seller recovers an amount of sales bill from the financial intermediaries before it is due. Such intermediaries charge a fee for the service. It is an advance selling of a bill to an intermediary before it is due to be paid after reducing administrative charges, fees and interest.

For example, a drawer has a bill for Rs 10,000. He discounted this bill with his bank three months before its due date at 10% p.a. rate of discount. Discount will be calculated as the follow:Rs10,000 × 10/100 × 3/12 = Rs 250

Thus the drawer will receive a cash worth Rs 9,750 and will bear a loss of Rs 250.



BILL DISCOUNTING PROCESS

The bank will keep this bill in possession till the due date. On maturity i.e. due date, the bank will present the bill to the acceptor and will receive cash from him if the bill is honored. In case, the acceptor does not make the payment to the bank, then the drawer who has discounted the bill will have to take this liability and will pay cash to the bank.

Until the bill is honored on the due date, there is always a chance that the drawer will become liable on the bill. This is called a contingent liability for the drawer- a liability that will only arise, if a certain event occurs - the acceptor does not honor the bill.