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PAPER 6 B : FINANCIAL SERVICES AND CAPITAL MARKETS

(One paper – Three hours – 100 marks)

Objective:
1. To gain knowledge of financial services rendered by intermediaries and banks and their role and activities in the financial market in general and capital markets in particular;
2. To acquire the ability to apply such knowledge to address issues in practical scenarios.

Contents:
1. Global Financial Markets
   • Introduction to Global Financial Market
   • Role of Financial Market in Economic Development of a country
   • Stakeholders in Financial Market (Domestic and Global)
   • Indian Financial Market scenario
2. Impact of various Policies of Financial Markets
   • Credit Policy of RBI
   • Fed Policy
   • Inflation Index, CPI, WPI, etc.
3. Capital Market - Primary
   • New Issue Market – Domestic and Global
   • Private Placement, QIP, Disinvestment
   • Right Issue
4. Capital Market - Secondary
   • Secondary Market
   • Stock Market Operations
   • Indian Debt Market

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5. **Money Market**
   - Basics of Money Market
   - Money Market Participants
   - Money Market Instruments
   - Repo and Reverse Repo
   - CRR, SLR
   - MIBOR, LIBOR
   - Government Securities Market

6. **Institutions and Intermediaries**
   - Depository
   - Stock and Commodity Exchanges – Indian and Global
   - Intermediaries
   - Institutional Investors
   - FPIs
   - Custodians
   - Clearing Houses

7. **Commodity Market**
   - What are Commodity Markets
   - Role of Commodity Markets
   - Commodity Market in India
   - Application of Derivative in Commodities
   - Global Commodities Exchanges

8. **Banking as source of Capital including NBFCs**
   - Concept of Project Financing
   - Working Capital Management
   - Reverse Mortgage

9. **Mutual Funds**
   - Meaning
• Evolution
• Types
• Performance Measures, NAV
• Mutual Fund Organisation
• Advantages and Disadvantages of Mutual Fund
• Exchange Traded Funds (ETFs)
• Real Estate Investment Trusts (ReITs)
• Infrastructure Investment Trusts (Invits)

10. Private Equity
• Meaning and Classification
  - Venture Capital
  - Buyouts
  - Special Cases
  - Hurdle rate
  - Paid in Capital
  - Term Sheet
• Cost of Investing in Private Equity
• Exit Routes
• Valuation of Private Equity Transactions
• Private Equity Funds (Distribution of returns in General Partner and Limited Partners)

11. Investment Banking
• Concept
• Functions
• Challenges
• Developments in Investment Banking
• Merchant Banking and issue management
12. Credit Rating
   - Introduction
   - Rating Services
   - Objectives and types
   - Uses
   - Credit Rating Process
   - Credit Rating Methodology
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   - Limitations with case studies

13. Treasury Operations
   - Raising and Deployment of Funds
   - Risk Management

14. Risk Management
   - Preventive Controls
   - Early Signals
   - Credit Risk

15. Credit Derivatives
   - Credit Default Swaps
   - Collateralized Debt Obligations (CDO)
   - Pricing of Credit Derivative Instruments

16. Leasing
   - Meaning, types, advantages and disadvantages of Leasing
   - Financial evaluation of lease proposal from perspective of Lessee and Lessor
   - Break Even Lease Rental (BELR) from Lessee’s and Lessor’s point of view
   - Cross Border Leasing
   - Regulatory Aspects of Leasing
17. Factoring

- Concept, Definition and Mechanism of Factoring
- Types/Forms of Factoring
- Functions of a Factor
- Benefits of Factoring
- Factors inhibiting the growth of Factoring in India
- Forfaiting
- Forfaiting vs Export Factoring
- Regulatory Aspects of Factoring

18. SEBI Guidelines

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BEFORE WE BEGIN …

Revised Scheme of Education and Training: Bridging the competence gap

The role of a chartered accountant is evolving continually to assume newer responsibilities in a dynamic environment. There has been a notable shift towards strategic decision making and entrepreneurial roles that add value beyond traditional accounting and auditing. The causative factors for the change include globalisation leading to increase in cross border transactions and consequent business complexities, significant developments in information and technology and financial scams underlining the need for a stringent regulatory set up. These factors necessitate an increase in the competence level of chartered accountants to bridge the gap in competence acquired and competence expected from stakeholders. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being stepped up to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Introducing “Electives”: Significant feature of the Revised Scheme of Education and Training

In the Revised Scheme of Education and Training, the concept of electives is being introduced at the Final level in line with the school of thought that specialisation is the key to developing professionally competent chartered accountants. As per this school of thought, an emerging chartered accountant has to be geared up to assume new roles as consultants and advisors, necessitated on account of growing business complexity, dynamic changes in legislations and regulatory requirements and client expectations.

The seven core papers, namely, Financial Reporting, Strategic Financial Management, Advanced Auditing and Professional Ethics, Corporate and Economic Laws, Strategic Cost Management and Performance Evaluation, Direct Tax Laws and Indirect Tax Laws, represent the competence areas in respect of which an aspiring chartered accountant has to be technically well equipped, regardless of his intended future specialization or role. These subjects, in fact, provide the base to enable an aspiring chartered accountant to specialize in any professional accounting role. For instance, the core paper on direct tax laws and international taxation lays the foundation for further specialisation in the area of international taxation. Further, consequent to borderless economies, it has become imperative that subjects which transcend the borders be added in the curriculum, for instance, Global Financial Reporting Standards and International Taxation.

The six elective papers introduced in the Revised Scheme are Risk Management, Financial Services and Capital Markets, International Taxation, Economic Laws, Global Financial Reporting Standards and Multi-disciplinary case study. Students have to opt for one out of these six papers keeping in mind their desired area of specialization.

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Framework and brief introduction of Chapters

The Elective Paper 6B – Financial Services and Capital Markets is a blend of theory and practical. The Study Material has been segregated into two parts i.e. Part A and Part B. Part A consists of Chapter 1 to 17 as mentioned in the syllabus and Part B consists of SEBI Regulations as depicted in detailed contents of Part B of the Study Material.

The study material is prepared by keeping in mind the current scenarios in the financial services and capital markets operating, wherever, required. Similarly, students will also get familiarized with the various concepts of capital market. In the chapter, Capital Market – Primary, some of the new concepts currently in vogue has been introduced such as Green Shoe Option, Application Supported by Blocked Amount (ASBA), Anchor Investors etc. Similarly, in the Chapter, Capital Market - Secondary, certain interesting topics such as Straight Through Processing (STP), Securities Lending and Borrowing, Circuit Breakers, Margin Trading have been lucidly explained.

Banking plays an important role in the financial market in India. Therefore, a Chapter - Banking as source of Capital including NBFCs has been added. This chapter throws light on Project Financing, Bank Loan in the form of Working Capital and term loan, financing through NBFCs, Working Capital Management and Reverse Mortgage.

Further, some chapters such as Commodity Market, Risk Management, Treasury Operations, and Credit Derivatives have been added to give a wide coverage to the subject Financial Services and Capital Markets. In these chapters some contemporary topics have been added to give a new flavor to this dynamic subject.

Moreover, some more chapters such as Private Equity, Investment Banking and Credit Rating have been added to give a further boost to the ever evolving field of Financial Services and Capital Markets.

And, last but not the least; two chapters, i.e. Leasing and Factoring are included on account of their importance in Financial Services.

Features of this study material

There are several significant characteristics of this study material which are outlined as below:

(i) It comprehensively covers the course requirements of students preparing for Financial Services and Capital Markets paper.

(ii) The chapters have been organized in such a manner that the concepts of the students are cleared in a step by step process.

(iii) It is written in a very simple and lucid manner to make the subject understandable to the students.

(iv) At the beginning of each chapter, learning outcomes have been given so that the students have some sort of idea about what he will learn after going through the chapter.
(iv) Efforts have also been made to cover new concepts in various chapters of Financial Services and Capital Market Paper e.g. Primary Market, Secondary Market, Private Equity, Commodity Market, and Credit Derivatives.

(v) While preparing the study material, it has been kept in mind that students understand the concepts covered in the study material. Accordingly, chapters have been kept concise, giving appropriate headings, sub-headings and mentioning examples at suitable places.

**Strategy to approach this study material**

It is desired from the students that they cover the entire syllabus and also required to visit ICAI Website for additional material in the form of Supplementary, Case lets etc. Students are also advised to update themselves with the latest changes in the financial sector. The students are therefore required to refer academic updates in 'Students Journal' published by the Board of Studies, the monthly journal 'The Chartered Accountant', and financial newspapers such as Economic Times, Mint, Business Line and Business Standard.

This Part of Study Material has to be referred in conjunction with Part B of the Study Material. Please note that while Part A may be revised, if required, Part B will be revised on yearly basis. Hence, it is essential that students should refer the applicable edition of Part B of Study Material as per the announcement being hosted at ICAI Website on time to time basis.

Although, sincere efforts have been made to keep the study material error free, it is possible that some errors might have inadvertently crept in. In this respect, students are encouraged to highlight any mistake they may notice while going through the study material by sending an e-mail at fscm-final@icai.in or write to the Director of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida-201309.

**Happy Reading and Best Wishes!**
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