FACULTY OF JURIDICAL SCIENCES

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FACULTY NAME: Mr JP Srivastava

What is a Security?

A security is a financial instrument, typically any financial asset that can be traded. The nature of what can and can't be called a security generally depends on the jurisdiction in which the assets are being traded.

In the United States, the term broadly covers all traded financial assets and breaks such assets down into three primary categories:

1. Equity securities – which includes stocks
2. Debt securities – which includes bonds and banknotes
3. Derivatives – which includes options and futures

Types of Securities

1. Equity securities

Equity almost always refers to stocks and a share of ownership in a company (which is possessed by the shareholder). Equity securities usually generate regular earnings for shareholders in the form of dividends. An equity security does, however, rise and fall in value in accord with the financial markets and the company's fortunes.

2. Debt securities

Debt securities differ from equity securities in an important way; they involve borrowed money and the selling of a security. They are issued by an individual, company, or government and sold to another party for a certain amount, with a promise of repayment plus interest. They include a fixed amount (that must be repaid), a specified rate of interest, and a maturity date (the date when the total amount of the security must be paid by).

Bonds, bank notes (or promissory notes), and Treasury notes are all examples of debt securities. They all are agreements made between two parties for an amount to be borrowed and paid back – with interest – at a previously-established time.

3. Derivatives

Derivatives are a slightly different type of security because their value is based on an underlying asset that is then purchased and repaid, with the price, interest, and maturity date all specified at the time of the initial transaction.

The individual selling the derivative doesn't need to own the underlying asset outright. The seller can simply pay the buyer back with enough cash to purchase the underlying asset or by offering another derivative that satisfies the debt owed on the first.

A derivative often derives its value from commodities such as gas or precious metals such as gold and silver. Currencies are another underlying asset a derivative can be structured on, as well as interest rates, Treasury notes, bonds, and stocks.

Derivatives are most often traded by **hedge funds** to offset risk from other investments. As mentioned above, they don't require the seller to own the underlying asset and may only require a relatively small down payment, which makes them favorable because they are easier to trade.

MCQs

1. A merchant bank is a financial institution conducting money market activities and:

a. Lending

b. Underwriting and financial advice

c. Investment service

d. All of the above

2. In India Merchant banking along with management of public issues and loan syndication covering activities like

1. Project counseling

2. Portfolio management

3. Investment counseling

4. Mergers and amalgamation of the corporate firms

3. Securities and exchange a. 1, 2, 4, 5 b. 1,2, 3, 5 c. 1, 2, 3, 4 d. 2, 3, 4, 5 3. Formal merchant banking activity in India was originated in______.

a. 1978

b. 1969

c. 1769

d. 1987

4. In India, merchant-banking activity was originated with the merchant banking division set up by the ___________.

a. Barclays bank

b. Grind lays bank

c. Yes bank

d. None of the above

5. State Bank of India started merchant banking in _______ followed by ICICI in _______.

a. 1972, 1974

b. 1978, 1980

c. 1973, 1974

d. 1980, 1981