UNIT 17 – BANKING - BANKING PATHWAY 2015: MONEY MARKET

Dear Readers,
Today we are providing you the important brief of Money Market, as this is always asked in the General awareness section in all banking exams.
We hope that this will help you scoring well in your exams.

"**Money Market**" refers to the market for short-term requirement and deployment of funds. Money market instruments are those instruments, which have a maturity period of less than one year.

The most active part of the money market is the market for overnight call and term money between banks and institutions and repo transactions. Money Market is regulated by RBI.

Money Market can be further divided into 3 parts. These are:

a) Call Money Market

b) Term Money Market

c) Notice Money Market

The market to get funds for 1 day only is called as **Call Money** Market. The market to get funds for 2 days to 14 days is called as **Notice Money** Market. The market to get funds for 15 days to 1 year is called as **Term Money** Market.

Some of the Money Market instruments are:

1) Commercial Paper

2) Certificate of Deposit

3) T-bills

4) Cash Management Bills

Commercial Papers-

a) A CP is a short term security (7 days to 365 days) issued by a corporate entity (other than a bank), at a discount to the face value.

b) Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.

c) CPs normally give a higher return than fixed deposits & CDs.

d) CP can be issued in denominations of Rs. 5 lakh or multiples thereof. Amount invested by a single investor should not be less than Rs. 5 lakh (face value).

e) Only corporates who get an investment grade rating can issue CPs, as per RBI rules. It is issued at a discount to face value.

f) Bank and FI's are prohibited from issuance and underwriting of CP's.

Certificates of Deposit

a) CDs are negotiable money market instrument issued in demat form or as a Usance Promissory Notes.

b) CDs issued by banks should not have the maturity less than seven days and not more than one year.

c) Financial Institutions are allowed to issue CDs for a period between 1 year and up to 3 years.

d) CDs are like bank term deposits but unlike traditional time deposits these are freely negotiable and are often referred to as Negotiable Certificates of Deposit.

e) CDs normally give a higher return than Bank term deposit.

f) All scheduled banks (except RRBs and Co-operative banks) are eligible to issue CDs.

g) CDs are issued in denominations of Rs. 1 Lac and in the multiples of Rs. 1 Lac thereafter.

h) Discount/Coupon rate of CD is determined by the issuing bank/FI.

i) Loans cannot be granted against CDs and Banks/FIs cannot buy back their own CDs before maturity

Treasury bills

a) Treasury Bills are short term (up to one year) borrowing instruments of the Government of India which enable investors to park their short term surplus funds while reducing their market risk.

b) They are auctioned by Reserve Bank of India at regular intervals and issued at a discount to face value.

c) Any person in India including Individuals, Firms, Companies, Corporate bodies, Trusts and Institutions can purchase Treasury Bills.

d) Treasury Bills are eligible securities for SLR purposes.

e) Treasury Bills are available for a minimum amount of Rs. 25,000 and in multiples of Rs. 25,000 thereafter.

f) At present, RBI issues T-Bills for three different maturities: 91 days, 182 days and 364 days.

Cash Management Bills (CMBs)

a) Government of India, in consultation with the Reserve Bank of India, has decided to issue a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government.

b) The CMBs have the generic character of T-bills but are issued for maturities less than 91 days.

c) Like T-bills, they are also issued at a discount and redeemed at face value at maturity.

d) The tenure, notified amount and date of issue of the CMBs depends upon the temporary cash requirement of the Government.