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A STUDY ON FINANCIAL INSTRUMENTS IN MARKET AND INSTITUTIONS

M. Venkateswari[1], M.Sunil Manohar Subbaiah[2], K.Sreenivasulu[3], M Nagaraju[4]

[1,2]Asst.Prof., [3,4]PG Student of Gates Institute of Technology Gooty (India)

ABSTRACT

The financial instruments is a Document [Such as a check draft, bonds Share , bill of Exchange, futures(or) options contract] that has a monitory value or represent legally enforceable (binding) agreement between two or more parties regarding a right to payment of money, debt instruments, equity instrument and financial instrument. The key accounting requirements and business implications of this topic such as loans and investment is key to the success of every business. This classification of financial markets nature, equity, maturity, seasoning and claim immediate delivery or future delivery, organizational structure etc. to require the financial instruments in bonds represent borrowing ,stock represents owner ship, mortgages, options and futures contracts, capital market, money market, economic function of financial market, commercial banks, life insurance companies, pension and retirement funds, mutual funds, savings and loan, commercial and consumer finance companies, property and insurance companies, credit unions, mutual funds hedge fund etc. This financial risk factors is occurs in the market. The study on the financial instruments is to require funds and money or provided in institution what are there it deals with the financial instruments in market institution.

Keywords: Introduction, objectives, classifications, risk factors, impact on society.

I. INTRODUCTION

A document (such as a check daft,bond share bill of exchange futuresor options contract) that has a monetary value or represent a legally enforceable {binding} agreement Between two or more parties regarding a right to payment of money ,see also debt instruments equity instrument and financing instruments.

1.1 Meaning And Defination of Derivatives

Derivatives are instruments whose value is derived from one or more underlying financial asset. The underlying instrument could be a financial security, a securities index or some combination of securities, indexes and commodities. Derivatives are financial instruments that have no intrinsic value. They hedge the risk of owning things that are subject to unexpected price fluctuations, for example, foreign currencies, barrels of wheat, stocks and government bonds.

In the Indian context the Securities Contracts (Regulation) Act, 1956 defines "derivative" to include:

1) **A** security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

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2) A contract which derives its value from the prices or index of prices, of underlying securities.

1.2 Meaning in Financial Instruments

Financial instruments are a Areal or virtual document representing legal agreement innerving some sort of monetary value.

1.3 Importance of Financial Instruments

The strategic use of financial instruments such as loans and investments is key to the success of every business.

1.4 Objectives and Scope

View a brief over view of this topic or a more detailed summary of the key accounting requirement and business implications of this topic.

1.5 Summary of Classification of Financial Markets

- Classification by nature market of claim.
- Debt market, equity market.
- Classification by maturity of claim.
- Money market and capital market
- Classification by seasoning of claim.
- Primary market and secondary market.
- Classification by immediate delivery or future delivery.
- Cash or spot market and derivative market.
- Classification by organization structure.
- Auction market, over the counter market.
- Intermediated market.

1.6 Financial Instruments and Markets

- Primary market
- Secondary market.
- **Primary market:-**

  Market for issuing a new security and distributing to saver lenders.
- **Investment market:-**

  Information and marketing specialists for newly issued securities.
- **Secondary market:-**

  Market where existing securities can be exchanged

a) New York stock exchange

b) American stock exchange

c) Over –the- counter(OTC)market.

1.7 Bonds Represent Borrowing

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Agreement by issuer to pay interest on specified dates and redeem the bonds upon maturity.

a) Consol:-Bond with no maturity data pay interest forever

b) Coupon securities:-

c) Make interest payments –usually semiannually.

d) Zero-coupon:- Make no interest paymentsSold at price well below face value.

e) Tax exempt:- Interest earned is not taxed.

Stock Represents Owner Ship

II. STOCK HOLDER

Owns part of the corporation and receives dividends from the issuer.

III. CAPITAL GAINS

Difference between price initially paid and amount received when stock is sold.

IV. MORTGAGES

Debt incurred in order to buy land or building

1 **AMORTIZED:-**Principal and interest is gradually repaid over the life loan.

2 **FIXED RATE:-R**ate of interest is fixed.

3 **VARIABLE RATE :-**Rate of interest varies depending on financial environment.

4 CASH FLOW FOR LENDER IS UNCERTAIN:-

a) Interest payment may very variable rate mortgages

b) Home owner may prepay

c) Refinance a fixed mortgages if interest rates decline

5 MORTGAGES

1 SECURITIZATION :-

Individualmortgages may be pooled and sold as a unit to reduce uncertainty

MORTGAGES MAY BE INSURED BY GOVERNMENT AGENCIES.

a) Federal housing authority .

b) Veterans administration.

c) option and future contracts

V. CONTRACTUAL AGREEMENT BETWEEN TWO PARTIES TO EXCHANGE AN ASSETS IN THE FUTURE AT A STATED PRICE.

1. Derivative financial instruments:-Derive value from underlying assets.
2. Long financial instruments:-Primary held for tax exempt feature.
3. Short financial instruments :-Seller of the contract receive commodity in the future.
4. Speculators financial instruments:-Gamble on price flections and hope to profit.
5. Hedgers :-Eliminate the risk of price fluctuations.

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6. The capital market exchange of long-term securities in excess of one year generally used to term financing for capital investment.

a) Stock market:- largest part of capital market and held by private and intuitional investors.
b) Corporate bond market:-held by insurance companies pension and retirement funds .
c) Local and state government bonds:-primarily held for tax exempt feature.
d) Government securities:- held by commercial banks the fed individual americans/foreigners and dealers.

VI. USE OF A TEMPORARY SUPPLIES OF FUNDS BY BANK OR BUSINESS

1. U S tresdury bills:- Short term debts of us government
2. bank certification of deposits:-liabilities of issuing bank interest baring to corporation that hold them.
3. commercial paper:-short term liabilities of prime business firms and financial companies.
4. federation funds:- exchange of excess/ deficient reserves between banks on overnight basis.

6.1 Economic Function Of Financial Market

1. Interaction of buyers and sellers determines price , price discovery process
2. provides a mechanism to sell liquidity
3. Reduces transaction costs search costs and information costs.

6.2 Commercial Banks

Most prominent financial institution

Range in size from huge [bank American] to small local banks

1 MAJOR SOURCES OF FUNDS:

a) used to be demand deposits of public
b) Now rely more on others liabilities.
c) Also accept savings and time deposits.

2 USE OF FUNDS :-

a) short term government securities
b) Long term business loans
c) Home mortgages.

3. LIFE INSURANCE COMPANIES:-

- Insure against death
- Receive funds in form of premiums
- Use of funds is based on mortality statics.
- Funds will be needed.
- Invest in long term securities high yield.
- Long term corporation bonds
- Long term commercial mortgages.

4. PENSION AND RETIREMENT FUNDS.

- Concerned with long run

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- Receive funds from working individuals building nest egg
- Accurate prediction of future use of funds
- Invest in mainly in long term corporate bonds and high grade stock.

5. MUTUAL FUNDS

1. stock or bond market related institutions
2. pool funds from many people
3. Invest in wide variety of securities minimize risk.

6. MONEY MARKET MUTUAL FUNDS:-

1. Individuals purchases shares in the fund
2. Fund invests in highly liquid short term money market instruments.
3. large size negotiable cd's
4. treasury bills
5. High grade commercial paper.

7. SAVING AND LOAN ASSOCIATIONS(S&L'S)

1. traditionally acquired funds through saving deposits
2. used funds to make home mortgage loans
3. now perform same function as commercial banks.
4. Issue checking accounts
5. Make consumer and business loans.

8. COMMERCIAL AND CONSUMER FINANCE COMPANIES:-

- Acquire funds primarily by selling short term longs [commercialpaper] lend money for consumer purchases or business firms to finance inventories.

9. PROPERTYAND CASUALTY INSURANCE COMPANIES:-

1. insure home owner and business against losses receive premiums.
2. Need to be fairly liquid due to uncertainty of claims.
3. Purchase a variety of securities
4. High grade stock and bonds
5. Short term money market instruments for liquidity.

10. CREDIT UNIONS

1. Organized as cooperatives for people with common interest
2. Members buy shares [deposits] and can borrow
3. Changes in the low in 1980 broadened their powers
4. Checking (share) accounts
5. Make long term mortgage loans

VII. CONCLUSION

The global financial system is vast and global flows within this system have an enormous effect on the real economies of different countries; that is, on GDP, economic growth, and the well-being of individuals.

1. The global financial system is vast and consists of financial institutions (banks and shadow banks) as well as financial markets in stocks, bonds, commodities, and derivatives.
2. The global financial system promotes economic growth by performing key functions that facilitate and enhance the flow of capital from savers to investors, and increase the set of opportunities to individuals and businesses.
3. The global financial system is highly interconnected. This interconnectedness increases the complexity of international regulation harmonization, while simultaneously increasing the need for it. If regulation is not harmonized across national boundaries, regulatory arbitrage may occur as banks from more tightly regulated domains seek to escape to those with more lax regulation.
4. This may then lead to an increase in financial risk in the domain with lax regulation, but global interconnectedness may cause this risk to spill over elsewhere, increasing global systemic risk. Thus, regulators must be cognizant of the fact that any change in regulation in one part of the global financial system is likely to have global ripple effects.

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