“Marketable & Non-marketable Securities”

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Marketable Security

Marketable Securities is the securities easily convertible to cash because there is high demand allowing them to sell quickly. Marketable securities are the very liquid securities that can convert into currency quickly at a reasonable price. Marketable securities are liquid, as they tend to have maturities of less than one year. Furthermore, the rates at which these securities, by investors can buy and sell have little effect on their prices. Examples of marketable securities include commercial paper, Treasury bills, banker's acceptance, and other money market instruments. A marketable security is near-cash asset and recorded at acquisition cost, or market value.

Marketable securities are temporary investments one company might make in another company in the hopes of providing higher returns to its investors. For example, an investment in marketable securities may provide stockholders with a higher return than a cash account with a bank.

(1) Equity Shares:-

A share or stock is also known as an equity share as well. The equity share basically represents ownership in the company. When a company needs capital or money to operate, it generates the required funds by selling ownership in the company. This means that the company issues equity shares for a price and these shares represent ownership in the company for the one who purchases the shares. These shares are an ownership in the company and give the owner the right to have a share in the profits of the firm. For example, if a company has 1000 shares of stock outstanding and a person owns 50 of them, then he/she owns 5% of the company. Most stock also provides voting rights, which give shareholders a proportional vote in certain corporate decisions. Only a certain type of company called a corporation has stock; other types of companies such as sole proprietorships and limited partnerships do not issue stock, also called equity or stock or corporate stock.

(2) Preference shares:-

Capital stock which provides a specific dividend that is paid before any dividends are paid to common stockholders, and which takes precedence over common stock in the event of a liquidation. Like common stock, preference shares represent partial ownership in accompany, although preferred stock shareholders do not enjoy any of the voting rights of common stockholders. Also unlike common stock, preference shares pay a fixed dividend that does not fluctuate, although the company does not have to pay this dividend if it lacks the financial ability to do so. The main benefit to owning preference shares are that the investor has a greater claim on the company's assets than common stockholders. Preferred shareholders always receive their dividends first and, in the event the company goes bankrupt, preferred shareholders are paid off before common stockholders. In general, there are four different types of preferred stock: cumulative preferred, non-cumulative, participating, and convertible, also called preferred stock.

(3)Debentures:-

A Debenture is a long-term Debt Instrument issued by governments and big institutions for the purpose of raising funds. The Debenture has some similarities with Bonds but the terms and conditions of securitization of Debentures are different from that of a Bond. A Debenture is regarded as an unsecured investment because there are no pledges (guarantee) or liens available on particular assets. Nonetheless, a Debenture is backed by all the assets which have not been pledged otherwise

Normally, Debentures are referred to as freely negotiable Debt Instruments. The Debenture holder functions as a lender to the issuer of the Debenture. In return, a specific rate of interest is paid to the Debenture holder by the Debenture issuer similar to the case of a loan. In practice, the differentiation between a Debenture and a Bond is not observed every time. In some cases, Bonds are also termed as Debentures and vice-versa. If a bankruptcy occurs, Debenture holders are treated as general creditors. The Debenture issuer has a substantial advantage from issuing a Debenture because the particular assets are kept without any encumbrances so that the option is open for issuing them in future for financing purposes. Usually, Debentures are categorized into the following types and their Definitions are also given below:

- **Convertible Debentures**: This is a debenture which can be converted into some other type of securities (for example stocks).
- **Corporate Debentures:** Corporate Debentures are Debentures issued by companies and they are insecure in nature.
- **Bank Debentures**: These types of Debentures are issued by banks.
- **Government Debentures**: These include Treasury bond (T-Bond) and Treasury bill (T-Bill) issued by the government. They are usually regarded as risk-free investments.
- **Subordinated Debentures:** This is a particular type of Debenture, which ranks below regular Debentures, senior debt, and in some instances below specific general creditors.
- **Corporation Debentures:** Corporation Debentures are issued by various corporations.
- **Exchangeable Debentures:** They are like Convertible Debentures, but this Debenture can only be converted to the common stock of a subsidiary company or affiliated company of the Debenture issuer.

Also, there are some other types of Debentures, such as Senior Debentures, Secured Debentures, Exchange Debentures, Secured Convertible Debentures, Convertible Senior Debentures, Unsecured Convertible Debentures, Subordinated Convertible Debentures, Senior Secured Convertible Debentures, Junior Subordinated Debentures, Senior Subordinated Debentures, and Senior Secured Debentures etc.

(4) Book Building:-

Book Building is essentially a process used by companies raising capital through Public Offerings-both Initial Public Offers (IPOs) or Follow-on Public Offers (FPOs) to aid price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

Process:

- The Issuer who is planning an offer nominates lead merchant banker(s) as 'book runners'.
- The Issuer specifies the number of securities to be issued and the price band for the bids.
- The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
- The syndicate members input the orders into an 'electronic book'. This process is called 'bidding' and is similar to open auction.
- The book normally remains open for a period of 5 days.
- Bids have to be entered within the specified price band.
- Bids can be revised by the bidders before the book closes.
- On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
- The book runners and the Issuer decide the final price at which the securities shall be issued.

- Generally, the numbers of shares are fixed; the issue size gets frozen based on the final price per share.
- Allocation of securities is made to the successful bidders. The rest get refund orders.

(5) Bonds:-

"A Bond is simply an 'IOU' in which an investor agrees to loan money to a company or government in exchange for a predetermined interest rate."

If a business wants to expand, one of its options is to borrow money from individual investors. The company issues bonds at various interest rates and sells them to the public. Investors purchase them with the understanding that the company will pay back their original principal plus any interest that is due by a set date [this is called the "maturity"].

A bondholder is mailed a check from the company at set intervals [for example, every month] until the "loan" is paid off.

The interest a bondholder earns depends on the strength of the corporation. For example, a blue chip is more stable and has a lower risk of defaulting on its debt. When companies such as Exxon Mobile, General Electric, etc., issue bonds, they may only pay 7% interest, while a much less stable start-up pays 10%. A general rule of thumb when investing in bonds is "the higher the interest rate, the riskier the bond."

Governments, municipalities, a variety of institutions, and corporations can issue bonds. "Commercial Paper" is simply referring to bonds issued by companies. There are many types of bonds, each having different features and characteristics. A few of the most notable are zero coupon and convertible.

(6) Government securities (G-Secs):-

Government securities (G-secs) are sovereign securities which are issued by the Reserve Bank of India on behalf of Government of India, in lieu of the Central Government's market borrowing programme.

The term Government Securities includes:

- Central Government Securities
- State Government Securities
- Treasury bills

The Central Government borrows funds to finance its 'fiscal deficit'. The market borrowing of the Central Government is raised through the issue of dated securities and 364 days treasury bills either by auction or by floatation of loans.

In addition to the above, treasury bills of 91 days are issued for managing the temporary cash mismatches of the Government. These do not form part of the borrowing programme of the Central Government.

Non-marketable Security

Non-marketable Security is a security that may not be sold by one investor to another. This type of security is generally redeemable by the issuer, although within certain limitations.

(1) Bank Deposit:-

Sum of money placed by a customer with a bank. The deposit may or may not attract interest and may be instantly accessible or accessible at a time agreed by the two parties. Banks may use a percentage of their customers' deposits to lend on to other customers; thus most deposits may only exist on paper in the bank's books.

On the basis of purpose they serve, bank deposit accounts may be classified as follows:
a. Savings Bank Account
b. Current Deposit Account
c. Fixed Deposit Account
d. Recurring Deposit Account.

a. Savings Bank Account: If a person has limited income and wants to save money for future needs, the Saving Bank Account is most suited for his purpose. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited any time in this account. Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

b. Current Deposit Account: Big businessmen, companies and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on number of withdrawals from savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times. Banks open current account for them. Like savings bank account, this account also requires certain minimum amount of deposit while opening the account. On this deposit bank does not pay any interest on the balances. Rather the accountholder pays certain amount each year as operational charge.

For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of deposit. This facility is known as overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous agreement with the bank concerned.

c. Fixed Deposit Account (also known as Term Deposit Account): Many a time people want to save money for long period. If money is deposited in savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn an interest at a higher rate.

This type of deposit account allows deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositors can encash the amount before its maturity. In that case banks give lower interest than what was agreed upon. The interest on fixed deposit account can be withdrawn at certain intervals of time. At the end of the period, the deposit may be withdrawn or renewed for a further period. Banks also grant loan on the security of fixed deposit receipt.

d. Recurring Deposit Account: This type of account is suitable for those who can save regularly and expect to earn a fair return on the deposits over a period of time. While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period. The account can be opened by a person individually or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

(2) Post Office Schemes:-

- These schemes are offered by the Government of India.
- Safe, secure and risk-free investment options.
- No Tax Deduction at Source (TDS).
- Nomination facility is available.
- Nomination can be changed at any time
- The instruments are transferable to any Post Office anywhere in India.
- Attractive rates of interest.

Post Office Schemes:

a) Post Office Monthly Income Scheme:-

- Interest rate of 8% per annum payable monthly.
- Maturity period is 6 years.
- Minimum investment amount is Rs.1000/- or in multiple thereof.
- Maximum amount is Rs. 3 lacs in single account and Rs. 6 lacs in a joint account.
- Account can be opened by an individual, two/three adults jointly and a minor through a guardian.

- A minor having attained 10 years of age can open an account in his/her own name directly.
- Non-Resident Indian / HUF cannot open the Account.
- Minor has a separate limit of investment of Rs. 3 lacs and the same is not clubbed with the limit of guardian.
- A separate account is opened for each deposit.
- Any number of accounts can be opened subject to the maximum prescribed limit.
- Facility of automatic credit of monthly interest to saving account if accounts are at the same post office.
- Facility of premature closure of account after one year @ 3.50% discount.
- No deduction of 3.5% if account is closed on completion of three years.
- Facility of reinvestment on maturity of an account.
- Interest not with-drawn does not carry any interest.
- Maturity proceeds not drawn are eligible to saving account interest rate for a maximum period of two years.
- Account is transferable from one post office to any Post office in India free of cost.
- Nomination facility available.
- Rebate under section 80 C not admissible.
- Interest income is taxable, but no TDS
- Only scheme in Post office where monthly interest is payable.
- Most suitable scheme for senior citizens and for those who need regular monthly income.

(b) Post Office Saving Bank Account

- Minimum amount Rs20/- in case of non- cheque account, Rs.500/- in case of cheque account.
- Minimum balance of Rs.500/- is to be maintained for a cheque account.
- Account is opened with cash only.
- Maximum balance permissible Rs. 1, 00,000/- in a single account and 2, 00,000/- in Joint account.
- Two/Three adults, individuals, minor through guardian.

- A Minor having 10 years of age can also open an account directly.
- One individual account and one joint account can only be opened at a post office.

(c) Public Provident fund:-

- The Public Provident Fund Scheme is a statutory scheme of the Central Government of India.
- The Scheme is for 15 years.
- The rate of interest is 8% compounded annually.
- The minimum deposit is 500/- and maximum is Rs. 70,000/- in a financial year.
- One deposit with a minimum amount of Rs.500/- is mandatory in each financial year.
- The deposit can be in lump sum or in convenient installments, not more than 12 Installments in a year or two installments in a month subject to total deposit of Rs.70,000/-.
- It is not necessary to make a deposit in every month of the year. The amount of deposit can be varied to suit the convenience of the account holders.
- The account in which deposits are not made for any reasons is treated as discontinued account and such account can not be closed before maturity.
- The discontinued account can be activated by payment of minimum deposit of Rs.500/- with default fee of Rs.50/- for each defaulted year.
- Account can be opened by an individual or a minor through the guardian.
- Joint account is not permissible.
- Those who are contributing to GPF Fund or EDF account can also open a PPF account.
- Interest is not contractual but rate is notified by Ministry of Finance, Govt. of India, at the end of each year.
- Pre-mature closure of a PPF Account is not permissible except in case of death.
- The account holder has an option to extend the PPF account for any period in a block of 5 years on each time.
- The account holder can retain the account after maturity for any period without making any further deposits. The balance in the account will continue to earn interest at normal rate as admissible on PPF account till the account is closed.

(d)Kisan Vikas Patra:-

- Minimum Investment Rs. 500/- No maximum limit.
- Rate of interest 8.40% compounded annually.
- Money doubles in 8 years and 7 months.
- Two adults, Individuals and minor through guardian can purchase.
- Companies, Trusts, Societies and any other Institution not eligible to purchase.
- Non-Resident Indian/HUF are not eligible to purchase.
- Facility of encashment from 2 ½ years.
- Maturity proceeds not drawn are eligible to Post office Savings account interest for a maximum period of two years.
- Facility of reinvestment on maturity.
- Patras can be pledged as security against a loan to Banks/Govt. Institutions.
- Patras is encashable at any Post office before maturity by way of transfer to desired Post office.
- Patras is transferable to any Post office in India.
- Patras are transferable from one person to another person before maturity
- Duplicate can be issued for lost, stolen, destroyed, mutilated and defaced patras.
- Nomination facility available.
- Facility of purchase/payment of Kisan vikas Patras to the holder of Power of attorney.
- Rebate under section 80 C not admissible.
- Interest income taxable but no TDS
- Deposits are exempt from Wealth tax.

(e) National Savings Certificate:-

- Minimum investment Rs. 500/- No maximum limit.
- Rate of interest 8% compounded half yearly.
- Rs. 1000/- grow to Rs. 1601/- in six years.
- Two adults, Individuals, and minor through guardian can purchase.
- Companies, Trusts, Societies and any other Institutions not eligible to purchase.
- Non-resident Indian/HUF can not purchase.

- No pre-mature encashment.
- Annual interest earned is deemed to be reinvested and qualifies for tax rebate for first 5 years under section 80 C of Income Tax Act.
- Maturity proceeds not drawn are eligible to Post Office Savings account interest for a maximum period of two years.
- Facility of reinvestment on maturity.
- Certificate can be pledged as security against a loan to banks/ Govt. Institutions.
- Facility of encashment of certificates through banks.
- Certificates are encashable any Post office in India before maturity by way of transfer to desired post office.
- Certificates are transferable from one Post office to any Post office.
- Certificates are transferable from one person to another person before maturity.
- Duplicate Certificate can be issued for lost, stolen, destroyed, mutilated or defaced certificate.
- Facility of purchase/payment to the holder of Power of attorney.
- Tax Saving instrument - Rebate admissible under section 80 C of Income Tax Act.
- Interest income is taxable but no TDS

(3) Mutual Fund:-

An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. mutual funds raise money by selling shares of the fund to the public, much like any other type of company can sell stock in itself to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund. Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity, and convenience, but charge fees and often require a minimum investment. A closed-end fund is often incorrectly referred to as a mutual fund, but is actually an investment trust. There are many types of mutual funds, including aggressive growth fund, asset allocation fund, balanced fund, blend fund, bond fund, capital appreciation fund, clone fund, closed fund, crossover fund, equity fund, fund of funds, global fund, growth fund, growth and income fund, hedge fund, income fund, index fund, international fund, money market fund, municipal bond fund, prime rate fund, regional fund, sector fund, specialty fund, stock fund, and tax-free bond fund.

(4) Insurance policy

In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for payment, known as the premium, the insurer pays for damages to the insured which are caused by covered perils under the policy language. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies.

The insurance policy is generally an integrated contract, meaning that it includes all forms associated with the agreement between the insured and insurer. In some cases, however, supplementary writings such as letters sent after the final agreement can make the insurance policy a non-integrated contract. One insurance textbook states that "courts consider all prior negotiations or agreements. Every contractual term in the policy at the time of delivery, as well as those written afterwards as policy riders and endorsements ... with both parties' consent, is part of written policy". The textbook also states that the policy must refer to all papers which are part of the policy. Oral agreements are subject to the parole, and may not be considered part of the policy. Advertising materials and circulars are typically not part of a policy. Oral contracts pending the issuance of a written policy can occur.

Types of Insurance

(1) Auto Insurance

Auto insurance protects you against financial loss if you have an accident. It is a contract between you and the insurance company. You agree to pay the premium and the insurance company agrees to pay your losses as defined in your policy. Auto insurance provides property, liability and medical coverage:

1. Property coverage pays for damage to or theft of your car.
2. Liability coverage pays for your legal responsibility to others for bodily injury or property damage.
3. Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

An auto insurance policy comprises six kinds of coverage. Most countries require you to buy some, but not all, of these coverage's. If you're financing a car, your lender may also have requirements. Most auto policies are for six months to a year.

(2) Home Insurance

Home insurance provides compensation for damage or destruction of a home from disasters. In some geographical areas, the standard insurances exclude certain types of disasters, such as flood and earthquakes that require additional coverage. Maintenance-related problems are the homeowners' responsibility. The policy may include inventory, or this can be bought as a separate policy, especially for people who rent housing. In some countries, insurers offer a package which may include liability and legal responsibility for injuries and property damage caused by members of the household, including pets.

(3) Accident, Sickness and Unemployment Insurance

Disability insurance policies provide financial support in the event the policyholder is unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgages and cards. Disability allows business owners to cover the overhead expenses of their business while they are unable to work. Total provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance. Workers insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related injury.

(4) Casualty

Casualty insurance insures against accidents, not necessarily tied to any specific property. Crime insurance is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement. Political is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions will result in a loss.

(5) Life Insurance

Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount called a premium at regular intervals or in lump sums. There may be designs in some countries where bills and death expenses plus catering for after funeral expenses should be included in Policy Premium. As with most insurance policies, life insurance is a contract between the insurer and the policy owner whereby a benefit is paid to the designated beneficiaries if an insured event occurs which is covered by the policy.

The value for the policyholder is derived, not from an actual claim event, rather it is the value derived from the 'peace of mind' experienced by the policyholder, due to the negating of adverse financial consequences caused by the death of the Life Assured.

(6) Property

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance.

(7) Liability

Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of willful or intentional acts by the insured.

(8) Credit

Credit insurance repays some or all of a loan when certain things happen to the borrower such as unemployment, disability, or death. Mortgage insurance insures the lender against default by the borrower. Mortgage insurance is a form of credit insurance, although the name credit insurance more often is used to refer to policies that cover other kinds of debt. Many credit cards offer payment protection plans which are a form of credit insurance.

(5) Real Estate:-

Real estate is a legal term that encompasses land along with anything permanently affixed to the land, such as buildings, specifically property that is fixed in location. Real estate law is the body of regulations and legal codes which pertain to such matters under a particular jurisdiction and include things such as commercial and residential real property transactions. Real estate is often considered synonymous with real property (also sometimes called realty), in contrast with personal property (also sometimes called chattel or personality under chattel law or personal property law).

However, in some situations the term "real estate" refers to the land and fixtures together, as distinguished from "real property," referring to ownership of land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof. Real property is typically considered to be Immovable property.

- Residential House
- Sources of Housing Finance
- Commercial Property
- Agricultural Land
- Suburban Land

Securities and Exchange Board of India

SEBI is the Regulator for the Securities Market in India. Originally set up by the Government of India in 1988, it acquired statutory form in 1992 with SEBI Act 1992 being passed by the Indian Parliament. Chaired by C B Bhave, SEBI is headquartered in the popular business district of Bandra-Kurla complex in Mumbai, and has Northern, Eastern, Southern and Western regional offices inNew Delhi, Kolkata, Chennai and Ahmedabad.

Organization Structure:-

Chandrasekhar Bhaskar Bhave is the sixth chairman of the Securities Market Regulator. Prior to taking charge as Chairman SEBI, he had been the chairman of NSDL (National Securities Depository Limited) ushering in paperless securities. Prior to his stint at NSDL, he had served SEBI as a Senior Executive Director. He is a former Indian Administrative Service officer of the 1975 batch.

How SEBI came into picture:-

The World Bank and the International Monetary Fund (IMF) have introduced a benchmark i.e., Financial Services Assessment Programme (FSAP) to strengthen the monitoring of financial systems in the context of the IMF’s bilateral surveillance and the World Bank’s financial sector development work. The FSAP is designed to help countries enhance their resilience to crisis and cross-border contagion, and to foster growth by promoting financial system soundness and financial sector diversity. The mission of SEBI is to make India as one of the best securities market of the world and SEBI as one of the most respected regulator in the world. SEBI endeavors to achieve the standards of IOSCO/FSAP. Amendments will be required to be made in the Securities Laws especially the SEBI Act, which will facilitate India and SEBI to achieve above objective.