CAPITAL MARKET INSTRUMENTS

The instruments used by the corporate sector to raise funds are selected on the basis of;

- ✓ Investor preference for a given instruments and;
- ✓ The regulatory framework, where under the company has to issue the security.

Investor preferences vary with their attitude towards risk, and their investment goals and investment horizons. The tax liability of the investor too affects the choice of investment media. The firm on the other hand, is affected by the debt-equity ratio permissible, SEBI guidelines on issue of capital, and the formalities to be complied with while raising an issue. The tax liability of the company, the purpose for which funds are required, debt servicing ability and willingness to broad base the shareholding of the company, all influence the choice of the instruments. The corporate sector and financial/ investment institutions have been issuing new instruments to attract investors.

These are the instruments used by the corporate sector to raise funds for long term i.e., more than one year maturity. It is the largest source of funds with long and indefinite maturity for companies and thereby enhances the capital formation in the country. It offers a number of investment avenues to investors. The capital market instruments are the vehicles between the companies and the investors. Apart from derivative instruments, the following are the major mediums of approaching markets.

- **a.** Equity shares
- **b.** Preference share
- **c.** Debentures/Bonds
- **d.** ADRs
- **e.** GDRs
- **f.** Derivatives

Classification of Instruments: There are three categories of instruments as follow:

I. **Pure-instruments:** When instruments are issued with their basic features, then these are called, pure-instruments. The features remain intact or there is no mixing of features of other securities. e.g. of pure—instruments include ,
   - Equity shares
   - Preference shares
   - Non-convertible debentures etc.

II. **Hybrid—instruments:** When instruments are issued, after combing the features of one or more pure-instruments, so that the new instruments offer combined benefits to the investor, then it is called, hybrid-instruments. e.g. Convertible Preference shares, Partly Convertible Debentures, Fully Convertible Debentures

III. **Derivatives:** Derivatives are contracts, which drive their values from one or more underlying assets. Here underlying assets means anything ranging from goods, bonds, gold as well as stock index itself.

   In derivatives participants are not interested in delivery of underlying assets but they settle their position, in cash. In derivatives market a person's profit is equivalent to loss suffered by another person.

BASIC INSTRUMENTS OF STOCK MARKET

1. **SHARES**

A **share** is the proportions of the capital to which each member is entitled. As per Sec. 2(46), share means "a share in the share capital of a company, and include stock except where a distinction between stock and shares is expressed or implied." Share represents the smallest unit into which the capital of the company is divided.

Capital means the contributions of persons to common stock of the company. In relation to a company limited by shares, the word "capital" means share capital.

Share capital means the capital raised by the issue of shares. The amounts invested by the shareholders towards the face value of shares are collectively known as share capital which is quite distinct from the capital put in by individual shareholders.

Kind of Share Capital

Sec. 86—share capital of the companies to be of two kinds only;

i. a. Equity share capital

   b. Equity share with differential rights

ii. Preference share capital

Equity shares: An equity share or stock is a document issued by a company. This entitles its holders to be one of the owners of the company. The equity shareholders are a member of the company and have voting rights.

Characteristics: Important characteristic of equity shares are as follows;

i. Equity share have voting right at all general meeting of the company.
ii. These shares have the right to share the profits of the company in the form of dividend and bonus shares.
iii. At the time of winding of the company payment of equity shares are made after paying the claims of all the creditors and preference share capital.
iv. Equity shareholders enjoy different rights as members such as
    - Pre-emption rights in the matter of fresh issue of capital
    - Right to receive a copy of the Statutory Report before the holding of Statutory Meeting of the company.
    - Right to apply to the Central Government to call for the Annual General Meeting, if the company fails to call such a meeting.
    - Right to apply to NCLT/ CLB for calling for an EGM of the company.
    - Right to receive annual accounts along with the Auditor's report, Director's report and other information.

Share with Differential Voting Rights (DVRs): Share with differential voting rights are equity shares with differential rights as to voting, payment of dividend etc. These can carry more or less votes in comparison to normal equity shares. Section 86 of the companies Act permits the issue of equity with DVRs, subject to conditions prescribed under the Companies (Issue of Shares Capital with Differential Voting Rights) Rules, 2001.

Conditions: A Company limited by shares may issue shares with differential rights as to dividend, voting or otherwise, subject to fulfilment of following conditions:

1. There must be authorization in Articles of Association, for the issue of shares with differential voting rights.
2. It has distributable profits for 3 financial years preceding the year in which it was decided to issue such shares.
3. It has not defaulted in filling annual account and annual returns for 3 financial years immediately preceeding the financial year in which it was decided to issue such shares.
4. It has not failed to repay its deposits or interest thereon on due date or redeem its debentures on due date or pay dividend.
5. It has not been convicted of any offence arising under Securities Exchange Board of India 1992, Securities Contracts (Regulations) Act, 1956, Foreign Exchange Management Act, 1999.
6. It has not defaulted in meeting investors' grievance.
7. It has obtained the approval of shareholders in general meeting by passing a resolution as required. In case of listed company such approval must be obtained through Postal Ballot only.
8. The notice of the meeting at which resolution is proposed to be passed is accompanied by an Explanatory Statement stating.
   - The rate of voting rights which the equity share capital with differential voting right shall carry;
   - The scale or in proportion to which the voting rights of such class or type of shares will vary;
   - The company shall not convert its equity capital with voting rights into equity share capital with differential voting rights and the share with differential voting rights into equity share capital with voting rights;
   - The shares with differential voting rights shall not exceed 25% of the total share capital issued;
   - That a member of the company holding any equity share with differential voting rights shall be entitled to bonus share, right shares of same class;
   - The holders of the equity share with differential voting rights shall enjoy all rights to which the holders is entitled to excepting right to vote as indicated above.

Preference shares: Preference shares means, that part of the share capital, having preferential rights to;

a) Fixed Dividends, and
b) Repayment of capital on winding up before the payment to equity shareholder.

Categories of Preference Shares:

Cumulative Preference share	In respect of these shares, the unpaid dividend of any financial year, gets accumulated for being paid subsequently in next year out of profits of subsequent years.
Non cumulative Preference share	In case of these shares, the unpaid dividend doesn't accumulate. If there are no profits or the profits are inadequate then the right to receive dividend of that year lapses.
Convertible Preference share	These are convertible into equity shares at a fixed conversion price at the end of a specified period.
Redeemable Preference share	Share which can be redeemed on a stated maturity date, by the issuing company. Presently the maximum redemption period is 20 year from the date of its issue.
Irredeemable Preference shares	As per Sec. 80 (5A), a company cant's issue irredeemable preference shares.
Participating Preference shares	These are entitled to participate in surplus profits, i.e. profits proposed to be distributed among the shareholders after dividend to preference and ordinary shareholders.
Non-participating Preference Shares	Generally, preference shares are regarded as non-participative in nature.

2. DEBENTURES

As per Section 2(12) Debenture includes debentures stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not. Debenture is a document evidencing a debt or acknowledging it and any document which fulfillls either of these conditions is a debenture. The important features of a debenture are:

- ✓ It is a certificate of indebtness of the company.
- ✓ The certificate indicates the rate of interest and date of redemption.
- ✓ It generally creates a charge on the assets of the company, making the debenture holder as secured creditors.

Types of debentures:

A. **Naked or unsecured debentures:** Debentures which do not carry any charge on the assets of the company.
B. **Secured debentures:** These debentures are secured by a mortgage on the whole or part of the assets of the company. These debentures are called mortgage debenture or secured debentures.
C. **Redeemable debentures:** Debentures that are redeemable on expiry of certain period are called redeemable debentures. Such debentures can be reissued after redemption as per the provisions of section 121.
D. **Perpetual Debentures:** If the debentures are issued subject to redemption on the happening of specified events which may not happen for an indefinite period, e.g. winding up, they are called perpetual debentures.
E. **Bearer debentures:** Such debentures are payable to bearer and are transferable by mere delivery. The name of the debenture holder is not registered in the books of the company, but the holder is entitled to claim interest and principal as and when due.
F. **Registered debentures:** Such debentures are payable to the registered holders whose name appears on the debentures certificate/letter of allotment and is registered on the company's register of debenture holders maintained as per section 152 of the act.

Types of debentures on the basis of convertibility

A. **Fully Convertible Debentures (FCDs):** These debentures entitle the holders a right to convert these into equity shares after expiry of specified—period. As for regulation' is concerned SEBI (Issue of Capital & Disclosure Requirement) Regulations, 2009, provides the tenure of FCD, shall not exceed 36 months from the date of issue of debentures.

B. **Partly Convertible Debentures (PCDs):** It is basically a Compromise between Convertible debentures and non-Convertible debenture. The convertible portion will be converted into equity shares as per the terms & conditions of issue and the non-convertible portion is redeemed at the expiry of the stipulated period.

C. **Non-Convertible Debentures (NCDs):** The holder of NCDs, have no option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods. So the holder gets interest till they are redeemed.

Basic features of convertible debentures

- ✓ Debentures are issued for cash at par.
- ✓ They are converted into specified or unspecified number of equity shares at the end of the specified period. The ratio at which the convertible debentures are exchanged for equity shares is known as conversion price or conversion ratio which is worked out by dividing the face value of a convertible debenture by its conversion price.
- ✓ The difference between the conversion price and the face value equity share is called conversion premium.
- ✓ Convertible debentures may be FCD or PCD.
- ✓ In case it is FCD the entire face value is converted into equity shares on expiry of the stipulated period.
- ✓ If it is PCD, the convertible portion is converted into equity shares on expiry of the specified period and the non convertible portion is redeemed at the expiry of certain period.
- ✓ Conversion into equity shares may take place in one or more stages at the end of specified period(s) in the case of fully or partly convertible debentures.
- ✓ If one or more parts of the debentures are convertible after 18 months, a company shall get a credit rating done by a credit rating agency approved by SEBI.
- ✓ From 1st August, 1991, companies are allowed to pay interest at rates which they consider as reasonable.

- ✓ Convertible debentures of public companies are listed on the stock exchanges. However, these instruments are not actively traded in Indian stock exchanges except those of well established companies.

ADVANTAGES OF CONVERTIBLE DEBENTURES

Advantages to the Company-

- ➢ Capitalisation of interest cost till the date of commencement of the project is allowed. If the conversion of the debentures is duly linked with the commencement of the project the entire interest cost can be capitalized, without charging the interest to profit & loss account and pulling down the profits of the company.
- ➢ Convertible debentures carry lower interest as compared to the rate charged by the banks and financial institutions on term loans and the interest rate on loan convertible debentures.
- ➢ From the point of view of the debt equity ratio the convertible part of the debentures is treated as equity by financial institutions. Thus company is enabled to have a high degree of flexibility in financing its future projects.
- ➢ Tax benefits are higher as interest on debentures is allowed as a deduction in computation of taxable income of the company. Additionally a company having a proven track record and future earning potential will be able to charge reasonable conversion premium at the time of conversion.
- ➢ In the case of conversion debentures there is a greater degree of independence for the companies. In the case of term loans from FIs and banks, they usually impose many conditions on management including placing their nominee director on the board.

Advantages to the Investors

- ➢ The investor is assured of a fixed return by way of interest on the debentures till conversion. On conversion the investor becomes entitled to receive dividend declared on equity shares. The advantage to the investor is that he receives a fixed return on his investment by way of interest even during the gestation period and project implementation period.

- As price of equity shares tends to rise on completion of the project of the company, the investor gets value appreciation on his investment, if converted into equity.
- In most cases, debentures carry security with a charge on all or a part of movable/immovable properties of the company. This assures prompt payment of principle and interest by invoking the assistance of a debenture trustee. However in terms of SEBI guidelines where the debentures have a maturity period of 18 month or less it is mandatory for the company to create security on the debentures.
- A fair amount of liquidity is enjoyed by convertible debentures listed on the stock exchanges depending on the track record of the companies. Even if debentures are not traded as actively as equity shares, convertible debentures of good companies command reasonable liquidity. Where a debenture has several parts, each part, and each part of the convertible debentures can be traded separately or in full on the stock exchanges.
- The following options are available to the investors who has bought convertible debentures issued in several parts:
  - To sale all the parts immediately on allotment;
  - To sell one or more parts and retain other or others till conversion and to obtain equity shares for retention or sale;

3. DETACHABLE WARRANTS

The warrants entitles the debentures holders to get equity shares specified in the warrants on expiry of a certain period at a price not exceeding the cap price mentioned in the warrant. Equity warrant is commonly issued with NCD to brighten their marketability.

The warrant is a negotiable instrument which is easily tradable if listed on the stock exchange. These warrants are separately registered with the stock exchange and traded separately. The practice of issuing NCD with detachable warrants also exists in the Indian market. Reliance Industries Limited (RIL) has used this method.

4. SECURED PREMIUM NOTES (SPN)

These instruments are issued with detachable warrants and are redeemable after a notified period say 4 to 7 years. The warrant enables the holder to get equity shares allotted provided the SPN are fully paid. During the lock-in-period no interest is paid. The holder has an option to sell back the SPN to the company at par value after the lock in period. If the holder exercises this option, no interest/ premium is paid on redemption. In case the holder keeps it further, he is repaid the principal amount along with the additional interest/premium on redemption in instalments as per the terms of issue.

5. SWEAT EQUITY SHARES

Sweat equity share is an instrument permitted to be issued by Indian companies, u/s 79A of Companies Act, 1956. A public company may issue sweat equity shares of a class of shares already issued if the following conditions are fulfilled.

- ✓ The issue of sweat equity share is authorized by a special resolution passed by the company in the general meeting.
- ✓ The resolution specified the number of shares, current market price, consideration if any and the class or classes of directors or employees to whom such equity shares are to be issued.
- ✓ Not less than one year has elapsed at the date of the issue, since the date on which the company was entitled to commence business.
- ✓ The sweat equity shares of a company whose equity shares are listed on a recognized stock exchange are issue in accordance with the regulations made by SEBI in this regard.

As per explanation II under the Section, sweat equity shares can be issued by the company to employees or directors at a discount or for consideration other than cash, for providing know how or making available rights in the nature of intellectual property rights or value additions, by whatever name called. The term 'sweat equity' indicates equity issued to directors and long time employees who have toiled from the inception of the company to build it with a brand image and thus contributed significantly by their efforts in this direction.

6. BONDS

Bonds are debt instruments that are issued by companies, municipalities and government to raise funds for financial their capital expenditure. Generally these are unsecured. An investor who purchase a bond, lends-money for a fixed period of time at a predetermined interest rate. The bondholders get interest at regular intervals, but the principal amount is repaid on the predetermined maturity date.

Type of bond:

- **Zero Coupon Bonds:** These bonds are issued at a discount and repaid at a face value. The rate of interest is 0(zero). The return to the investor is the difference between redemption price and issue price.
- **Deep Discount Bond:** These bonds are also a variant of Zero Coupon Bond. These bonds are issued at very high discount on its face value and redeemed at face value on maturity date. These instruments are issued by IDBI and SIDBI. The bond appreciates to its face value over the maturity period of 25 years. Alternatively, the investor can withdraw from the investment periodically after 5 years.
- **Disaster Bonds:** These bonds are issued by companies and institutions, desperate to expand their capital base, to share their risks with traditional investors and link an investor's returns to the size of an insurer's losses; the bigger the losses, the smaller the returns and vice-versa. The coupon rate and the principal of the bonds are decided by the occurrence of the casualty of disaster and by the possibility of borrower defaults.
- **Clip and Strip Bonds:** In clip and strip bonds, the principal and coupon portions of a bond issue are splitted and two separate coupon instruments are sold to the investors. In structuring a clip and strip bond, a conventional current coupon bond is sold to the investors. The streams of coupon payment are stripped away and the principal amount of bond is sold as a deep discount bond. The gain to the investor is difference between the purchase price and the par value. The coupon streams are sold like zero coupon bonds where the investor pays discount for it and receives the payment at a lower rate.
- **Carrot and Stick Bonds:** Carrot and stick bond is the **variation of Convertible Debentures** redeemable at premium. The carrot is the lower than the normal conversion premium i.e., the premium over the present market price of the equity shares is fixed at a reasonable level so that the price of the equity shares need not increase significantly to make conversion practical. The stick is the issuer's right to call the

issue at a specified premium if the price of the equity shares is traded above a specified percentage of the conversion price.

❖ **Capital Indexed Bonds:** These bonds—

- Provided a new instrument to investor that offers hedging against inflation risk. Investors buy bonds by postponing their current consumption. There is, therefore, a trade-off between investment and consumption. To make an intelligent decision between these two states of nature, investors need an indicator to measure inflation expectations.
- Enhance credibility of anti-inflationary policies
- Provide an estimate of inflation expectations which will help investors to take a more intelligent decision on their current consumption; and
- Create an additional avenue for fund deployment and thereby facilitating widening of government securities market.

7. TRACKING STOCK

A tracking stock is a type of common stock that tracks or depends on the financial performance of a specific business unit (SBU) or operating division of a company rather than the operations of the company as a whole. As a result, if the unit or division performs well, the value of the tracking stock may increase, even if the company's performance as a whole is not up to the mark or satisfactory.

A tracking stock is a special type of stock issued by a publicly held company to track the value of one segment of that company. By issuing a tracking stock, the different segments of the company can be valued differently by investors. Tracking stocks are generally issued by a parent company in order to create a financial vehicle that tracks the performance of a particular division or subsidiary. When a parent company issues a tracking stock, all revenue and expenses of the applicable division are separated from the parent company's financial statements and bound to the tracking stock. Often this is done to separate a high growth division from large losses shown by the financial statements of the parent company. The parent company and its shareholders, however, still control operations of the subsidiary.

Tracking stock carries dividend rights tied to the performance of a targeted division without transferring ownership or control over divisional assets. Shareholders of tracking stock have a financial interest only in that unit or division of the company. Unlike the common stock of the company itself, a tracking stock usually has limited or no voting rights.

A company has many good reasons to issue a tracking stock for one of its subsidiaries, namely-

- The company keeps control over the subsidiary (although they don't get all the profit), but all revenues and expenses of the division are separated from the parent company's financial statements and attributed to tracking stock.
- They might be able to lower their cost of obtaining capital by getting a better credit rating.
- The businesses can share marketing, administrative support functions
- If the tracking stock shoots up, the parent company can make acquisitions and pay in stock of subsidiary instead of cash.

When a tracking stock is issued, the company can choose to sell it to the markets (via initial public offering) or to distribute new shares to existing shareholders. Either way, the newly tracked business segment gets a longer lease, but can still run back to the parent company in tough times.

8. GLOBAL DEPOSITORY RECEIPTS

It is a form of depository receipt or certificate created by the Overseas Depository Bank outside India denominated in dollar (foreign currency) and issued to non-resident investors against the issue of ordinary shares of issuing company. In simple words, it is basically a negotiable instrument denominated in US dollars. After getting approval from the Ministry of Finance and completing other formalities, a company issues rupee denominated shares in the name of depository which delivers these shares to its local custodian bank. The depository then issues dollar denominated depository receipts (or GDR) against the shares registered with it. Generally one GDR is equivalent to one or more (rupee denominated) shares. It is traded like any other dollar denominated security in the foreign markets. Besides issuing companies, foreign investors especially FIIs also get advantage of investing in the Indian companies without registration with SEBI, relief from cumbersome settlement and adequate liquidity and generally higher returns.

9. FOREIGN CURRENCY CONVERTIBLE BONDS (FCCBs)

A Foreign Currency Convertible Bond (FCCB) is a quasi debt instrument which is issued by any corporate entity, international agency or sovereign state to the investors all over the world. It means an unsecured bond issued by an Indian company and subscribed by a non-resident in foreign currency, which can be converted (wholly or partly) into equity shares of Issuer Company on later date. In other words, FCCB is a method of raising funds from abroad by an Indian company against its own ordinary shares.

They are denominated in any freely convertible foreign currency. Euro convertible bonds are usually issued as unsecured obligation of the borrowers. FCCBs represent equity linked debt security which can be converted into shares or into depository receipts. The Finance Ministry vide Notification dated 20.6.1994 stated that w.e.f. this date FCCBs will be considered an approved instrument of accessing external commercial borrowing.

10. INDIAN DEPOSITORY RECEIPTS

Indian Depository Receipts means any instrument in the form of a depository receipts created by Domestic Depository in India against the underlying equity shares of issuing company. “Domestic Depository” means custodian of securities registered with SEBI and authorised by the issuing company to issue Indian Depository Receipts.

Overseas Custodian Banks means a banking company which is established in a country outside India and has a place of business in India and acts as custodian for the equity shares of issuing company against which IDRs are proposed to be issued after having obtained permission from Ministry of Finance for doing such business in India.

11. DERIVATIVES

Derivatives are contracts which derive their values from the value of one or more of other assets (known as underlying assets). Some of the most commonly traded derivatives are future, forward, options and swaps.

- **Futures-** A future is contact to buy or sell an underlying financial instrument at a specified future date at a price when the contract is entered. Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities. The idea behind financial futures contract is to transfer future changes in security prices from one party in the contract to the other. Every futures contract entered into has two sides- willing buyer and a willing seller. If one side of contract makes a profit, the other side must make a loss.

- **Options-** An option contract conveys the right to buy or sell a specific security or commodity at specified price within a specified period of time. The right to buy is referred to as a call option whereas the right to sell is known as a put option. Options are generally described by the nature of underlying commodity. An option on common stock is said to be stock option; and option on a bond, a bond option, an option on future contract, a future option; and so on. The specified price at which the underlying commodity may be bought (in the case of call) or sold (in the case of put) is called exercise price or striking price of the option. To buy or sell the underlying commodity pursuant to option contract is to exercise the option.

12. HEDGE FUNDS

Hedge funds, including fund of funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. The term hedge funds first came into use in the 1950s to describe any investment fund that used incentive fees, short selling and leverage. Hedge funds are sometimes called as 'rich man's mutual fund.'

The term can also be defined by considering the characteristics most commonly associated with hedge funds. Usually, hedge funds:

- Are organised as private investment partnerships or offshore investment corporations
- Use a wide variety of trading strategies involving position-taking in a range of markets
- Employ as assortment of trading techniques and instruments, often including short-selling, derivatives and leverage

- Pay performance fees to their managers: and
- Have an investor base comprising wealthy individuals and institutions and relatively high minimum investment limit (set as US $100,000 or higher for most funds).

MISCELLANEOUS INSTRUMENTS

a) **Participating debentures:** These debentures are profit sharing debentures which are unsecured with a right to participate in the profits of companies. These debentures can be issued up to a maximum of 50% of the voting equity shares. They shall have a maturity period of 3-10 years, and shall be listed separately on the stock exchanges. These instruments are suited for high growth oriented existing dividend paying companies and may be issued by companies with a track record of dividend payment in the last two years and in 4 out of 5 or in 5 out of 7 previous years. These debentures may be offered to all classes of investors including NRIs and foreigners. The investors in these instruments may also be given entitlement in right and bonus issues.

b) **Mortgage backed Securities:** These securities assure a fixed return which is derived from the performance of the specific assets. These are issued with maturity periods ranging from 3 to 10 years and backed by pooled assets like mortgages, credit card receivables etc. There is a commitment from the loan originator and/or intermediary institution to ensure a minimum yield on maturity.

   Features of assets to be securitised:

   - The cash flows generated from the assets should be received periodically in accordance with a pre-determined schedule.
   - The actual cash flows generated from the assets should be predictable.
   - The assets should be large in numbers and total value to be issued in securitized form.
   - The assets should be sufficiently similar in nature to enable pooling of their cash flows.
   - The assets (mortgage rights) should be marketable (assignable).

c) **Zero Coupon Convertible Notes:** These are debt convertible into equity shares of the issuers. If investors choose to convert, they forgo all the accrued and unpaid interest. These convertibles are generally issued with put option to the investors. The advantages to the issuers are the raising of convertible debt without heavy dilution of equity. Since the investors give up acquired interest by exercise of conversion option, the conversion option may not be exercised by many investors.

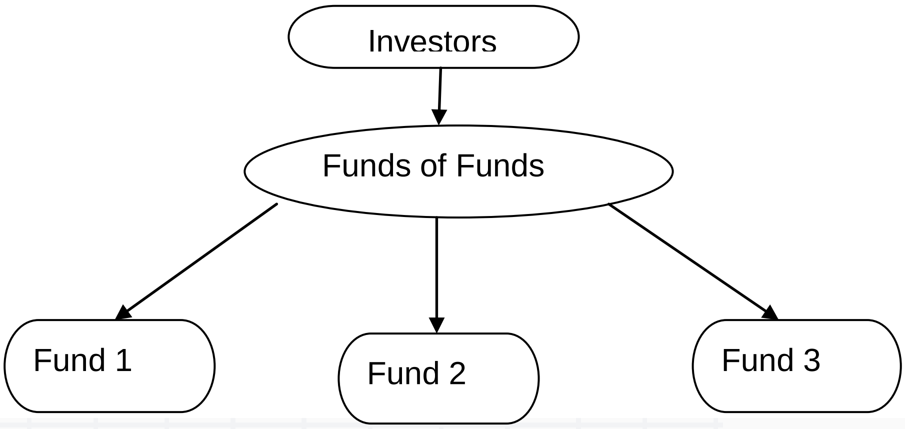
The investor gains in the event of appreciation in the value of the equity shares even if the appreciation does not materialize; the investor has the benefits of a steady stream of implied income. If the instrument is issued with put option the investor can resell the securities to the investor.

d) **Participatory Notes:** Participatory notes are derivative instruments, which are issued by Foreign Institutional Investor (FIIs) to foreign investors. Underlying securities in participatory notes are Indian stocks. Foreign investors who want to trade in Indian securities anonymously use PN route without obtaining registration from SEBI. It is an understanding between FIIs who is registered here and the other one who is not registered. The registered Investor (broker) places an order for an un-registered investor in anonymous name and these types of trade are carried through the internal account of the FIIs. PNs can be misused for money laundering and there is an added risk in allowing those offshore investors to invest in India as the Indian regulations may not be able to catch hold of them. Though SEBI has made certain regulations on FIIs and made certain "Know Your Client" norms applicable to them, there has not been much compliance in this regards. Maximum level of transparency and comfort regarding the kind of players and origin of money is what is imperative to remove such lapses.

e) **FUND OF FUNDS (FOFs):** Fund of funds is a mutual fund scheme, which invests in the scheme of same mutual funds or other mutual funds, instead of investing in securities. These funds can invest in equity oriented, debt oriented and liquid schemes or sector specific schemes. Depending on the investment style of the fund managers, fund of funds scheme can be broadly classified into 2 parts:

- ❖ **Sector specific funds:** Such type of funds invest in different sectors of the economy and thus hedge themselves against the under performance of any sector by taking the advantage from the rise in another sector.

- **Asset allocation funds:** These funds diversify investment by holding several different asset classes at the same time. By varying the stocks to bonds proportion, the fund endeavours to endow the investors, with an appropriate asset allocation in different stages of their lives. They are also known as life cycle funds.



Advantages of Fund of Fund: FOF offers following benefits:

- ✓ **Diversification:** As a fund of funds invests in the schemes of other funds. It provides a greater degree of diversification.
- ✓ **Uncomplicated:** Instead of investing in different stock/units of mutual funds and keeping a track record of all of them, it will be much easier to invest in and track only one fund, which in turn invests in other mutual funds.
- ✓ **Economical:** While entering into the capital markets it is difficult to diversify because of limited funds. Fund of funds provides an opportunity to go for diversification with comparatively limited amounts.
- ✓ **Risk:** Investor can reduce down the risk by choosing this route because of diversification, even if one stock/scheme is not performing well risk level comes down.

Regards,

CA Jatin Bansal
Professional Careers Academy
1639, First Floor, Sector 40 B,
Chandigarh – 160036
pcaclasses@gmail.com
Mobile: 9814622848, 9814098480

About PCA

Professional Careers Academy PCA (popularly known as CA Jatin Bansal Classes) is best among the various CA/ CS Coaching institutes in the Country. We are the only coaching institute in the Tricity (Chandigarh-Panchkula-Mohali) to have classes for all the subjects of CA/ CS ***all levels*** *under one roof by a team of highly professionally qualified and experienced faculties. Our aim is to provide quality education and guidance to the students.*

We have established a distinctive Teaching Framework and Evaluative Technique. That inter-alia includes evaluation of students by regular tests. This makes our classroom products very efficient as we know forward of time the level of input required for unique scholars. We are privileged to inform that our students are among the highest scorer of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. We proudly say that we have taught more than 10,000 students at various levels (CA, CS, CMA, M.B.A).

Our motto " ***Results speak louder than words*** *".*

Visit PCA at: http://www.facebook.com/pages/Professional-Careers-Academy/455495514488643

Courses offered by Professional Careers Academy

CA	CPT	All subjects
	IPCC Group I	1. Accounts 2. Cost & Financial Management 3. Taxation 4. Law, Ethics & Communication
	IPCC Group II	1. Advanced Accounts 2. Auditing & Assurance 3. Information Technology & Strategic Management
	CA Final	1. Advanced Auditing & Professional Ethics 2. Corporate & Allied Laws 3. Information System Control & Audit (ISCA)
CS	Foundation	All subjects
	Executive Group – I	1. Company Law 2. Cost & Management Accounting 3. Economic & Commercial Laws 4. Tax Laws & Practice
	Executive Group – II	1. Company Accounts & Auditing Practices 2. Capital markets & Securities Laws 3. Industrial, Labour & General Laws.
	Professional Module – I	1. Advanced Company Law & Practice 2. Secretarial Audit, Compliance, Management & Due Diligence. 3. Corporate Restructuring, Valuation & Insolvency.
	Professional Module – II	1. Information Technology & Systems Audit 2. Financial, Treasury & Forex Management 3. Ethics, Governance & Sustainability.
	Professional Module – III	1. Advanced Tax Laws & Practice 2. Drafting, Appearances & Pleadings
B.Com	B.Com. – I, II, III	1. Financial Accounting 2. Business Math & Statistics 3. Indirect Tax Laws 4. Direct Tax Laws 5. Operations Research