SAINTGITS COLLEGE OF APPLIED SCIENCES

First Internal Assessment Examination, February 2019

B. Com Forth Semester (Computer Applications& Taxation)

FINANCIAL SERVICES

Answer scheme

**Section A**

*Answer any 5 questions. Each question carries 2 marks.*

1. What do you mean by fee based financial services?

**Fee Based Services Fee based financial services** are those **services** wherein **financial** institutions operate in specialized fields to earn a substantial income in the form of **fees** or dividends

1. What is portfolio management?

**Portfolio management** is the art and science of making decisions about investment mix and policy, matching investments to objectives, **asset** allocation for individuals and institutions, and balancing risk against performance.

1. Define merchant banking.

A **merchant bank** is a company that conducts underwriting, loan services, financial advising, and fundraising services for large corporations and high net worth individuals

1. What are buyouts?

 A **buyout** is an investment transaction by which the ownership equity of a company, or a majority share of the stock of the company is acquired.A **buyout** will often include the purchasing of the target company's outstanding debt, which is referred to as "assumed debt" by the purchaser.

1. What is hands-on nurturing?

**Hands-on-Nurturing**” is basically continuous and constant involvement in the operation of the investee company by way of representation on the board of director. Venture capital company provides guidance on long term business planning, technology development, **financial** planning, marketing strategy etc.

1. What is pass through certificate?

A **pass through certificate** (PTC) is a **certificate** that is given to an investor against certain mortgaged-backed securities that lie with the issuer. The **certificate** can be compared to securities (like bonds and debentures) that may be issued by banks and other companies to investors.

                                                                                                                                                                                                                                                            **(5 X 2 = 10 marks)**

**Section B**

*Answer any 5 questions. Each question carries 5 marks.*

1. Explain the difference between commercial banking and merchant banking

|  |  |  |
| --- | --- | --- |
| **BASIS FOR COMPARISON** | **COMMERCIAL BANK** | **MERCHANT BANK** |
| Meaning | Commercial bank is a banking company established by a number of people for providing the basic banking functions i.e. accepting deposits and lending money to general public. | Merchant bank refers to the financial institution, that specializes in international trade and provide and array of services to its clients. |
| Governing Act/body | Regulated by Banking Regulation Act, 1949. | Rules and regulations designed by SEBI. |
| Engaged in | General banking business | Consultancy type business |
| Nature of loan extended | Debt-related | Equity-related |
| Exposure to risk | Less | Comparatively more |
| Role | Financier | Financial Advisor |
| Caters | Needs of general public. | Needs of corporate firms. |

1. State the features of Venture Capital Financing.

●       Basically an equity finance

●       based on new ideas

●       co promoter

●       long term investment in growth oriented industries

●       high risk investment

●       provision of business expertise

●       financing small and medium firms

●       sale of share in open market

1. Explain the features of merchant banking.

●       corporate counselling

●       project counselling

●       credit syndication

●       issue management

●       underwriting

●       bankers to the issue

●       portfolio management

●       advisory services

1. Write a note on later stage financing.

this stage of VCF is needed by established business for additional financial support but cannot resort o public issues of capital

different forms include:

development financing

expansion financing

replacement finance

acquisition/ buyout financing

turnaround financing

1. What are the pre issue management activities of a merchant banker?

Lead Manager

Appointment of agencies

underwriting

appointment of brokers

assessing capabilities of other intermediaries

appointment of bankers

appointment of registrars

selecting printers

prosectus formalities

completing stock exchange formalities

1. What is securitization and explain the securitization process?

**Securitization** is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations (or other non-debt assets which generate receivables) and selling their related cash flows to third party investors as [securities](https://en.wikipedia.org/wiki/Security_(finance)), which may be described as [bonds](https://en.wikipedia.org/wiki/Bond_(finance)), pass-through securities, or [collateralized debt obligations](https://en.wikipedia.org/wiki/Collateralized_debt_obligation) (CDOs). Investors are repaid from the principal and interest cash flows collected from the underlying debt and redistributed through the capital structure of the new financing.

(a) A company that wants to mobilize finance through securitization begins by identifying assets that can be used to raise funds.

(b) These assets typically represent rights to payment at future dates and are usually referred to as ‘receivables’.

(c) The company that owns the receivables is usually called the ‘originator’.

(d) The originator identifies the assets out of its portfolio for Securitization.

(e) The identification of assets will have to be done in a manner so that an optimum mix of homogeneous assets having almost same maturity forms the portfolio.

(f) Assets originated through trade receivables, lease rentals, housing loans, automobile loans, etc. according to their maturity pattern and interest rate risk are formed into a pool.

ADVERTISEMENTS:

(g) The aforementioned identified and pooled assets are then transferred to a newly formed another institution called a ‘special purpose vehicle’ usually by way of a trust.

(h) Such trust usually, an investment banker, issues the securities to an investor.

(i) Once the assets are transferred, they are no longer held in the originator’s portfolio.

(j) After acquisition of the assets from originator, the SPV splits the pool into individual shares or securities and reimburse itself by selling these to investors.

(k) The securities, so issued, are known as ‘pay or pass through certificates’.

(l) The securities are normally without recourse to the originator, thus investor can hold only SPV for the principal repayment and interest recovery.

(m) In order to make the issue attractive, the SPV enters into credit enhancement procedures either by obtaining an insurance policy to cover the credit losses or by arranging a credit facility from a third party lender to cover the delayed payments.

(n) To increase marketability of the securitized assets in the form of securities, these may be rated by some reputed credit rating agencies.

(o) Credit rating increases the trading potentials of the certificate, thus its liquidity is enhanced.

(p) A merchant banker or syndicate of merchant bankers will be appointed for underwriting the whole issue.

(q) The securities have to be sold to the investors either by a public issue or by private placement.

(r) The pass through certificates before maturity are tradable in a secondary market to ensure liquidity for the investors.

(s) Once the end investor gets hold of these instruments created out of Securitization, he is to hold it for a specific maturity period which is well defined with all other related terms and conditions.

(t) On maturity, at the end, investors get redemption amount from the issuer along with interest due on the amount.

**(5 X 5 = 25 marks)**

**Section C**

*Answer any 1 question. It carries 15marks.*

1. Explain the nature and functions of financial services

Nature of financial services  :

 intangible

direct sale,

tailor made

customer orientation

wide range of products,

geographical dispersion

skilled employees

Functions of financial services are as follows

Instrumental for growth and development

financial intermediation

management of risk

issue management

Asset financing

Asset management

stock broking

Advisory services

1. Explain the various fee based and fund based financial services

fund based services include the following

Leasing

hire purchase

discounting of bills

venture capital financing

factoring

Fee based services include

Merchant banking

Stock broking

credit rating

loan syndication

**(1 X 15 = 15 marks)**