(viii) Public.

Though many participants are there, in actual practice, this market is in the hands of the banking sector. It accounts for nearly 90 per cent of the annual sale of TBs.

IMPORTANCE OR MERITS of Treasury Bill

(i) Safety

Investments in TBs are highly safe since the payment of interest and repayment of principal are assured by the Government. They carry zero default risk since they are issued by the RBI for and on behalf of the Central Government.

(ii) Liquidity

Investments in TBs are also highly liquid because they can be converted into cash at any time at the option of the investors. The DFHI announces daily buying and selling rates for TBs. They can be discounted with the RBI and further refinance facility is available from the RBI against TBs. Hence, there is a ready market for TBs.

(iii) Ideal short-term investment

Idle cash can be profitably invested for a very short period in TBs. TBs are available on tap throughout the week at specified rates. Financial institutions can employ their surplus funds on any day. The yield on TBs is also assured.

(iv) Ideal fund management

TBs are available on tap as well as through periodical auctions. They are also available in the secondary market. Fund managers of financial institutions build-up a portfolio of TBs in such a way that the dates of maturities of TBs may be matched with the dates of payment of their liabilities like deposits of short-term maturities. Thus, TBs help financial managers to manage the funds effectively and profitably.

(v) Statutory liquidity requirement

As per the RBI directives, commercial banks have to maintain SLR (Statutory Liquidity Ratio) and for measuring this ratio investments in TBs are taken into account. TBs are eligible securities for SLR purposes. Moreover, to maintain CRR (Cash Reserve Ratio). TBs are very helpful. They can be readily converted into cash and thereby CRR can be maintained.

(vi) Source of short-term funds

The Government can raise short-term funds for meeting its temporary budget deficits through the issue of TBs. It is a source of cheap finance to the Government since the discount rates are very low.

it involved lower information and transaction cost. This also suits the interest of many investors as it provides them with a wide spectrum of financial instruments to choose from and in placing their funds at reasonably high rates of return. Commercial paper is a new instrument used for financing working capital requirements of corporate enterprises.

What is a commercial paper?

A commercial paper is an unsecured promissory note issued with a fixed maturity by a company approved by RBI, negotiable by endorsement and delivery, issued in bearer form and issued at such discount on the face value as may be determined by the issuing company.

Participants

Issuers

All private sector company, public sector units, non-banking company, etc.

Investors

Individuals, banks, corporates and also NRIs. Usually banks, large corporate bodies and public sector units with investible funds participate in CP market.

Features of commercial paper

1. Commercial paper is a short-term money market instrument comprising usance promissory note with a fixed maturity.
2. It is a certificate evidencing an unsecured corporate debt of short-term maturity.
3. Commercial paper is issued at a discount to face value basis but it can also be issued in interest-bearing form.
4. The issuer promises to pay the buyer some fixed amount on some future period but pledges no assets, only his liquidity and established earning power, to guarantee that promise.
5. Commercial paper can be issued directly by a company to investors or through banks/merchant bankers.

ADVANTAGES OF COMMERCIAL PAPER

(i) Simplicity

The advantage of commercial paper lies in its simplicity. It involves hardly any documentation between the issuer and investor.

(ii) Flexibility

The issuer can issue commercial paper with the maturities tailored to match the cash flow of the company.

(iii) Diversification

A well rated company can diversify its source of finance from banks to short-term money markets at somewhat cheaper cost.

(iv) Easy to raise long-term capital

The companies which are able to raise funds through commercial paper become better known in the financial world and are thereby placed in a more favourable position for raising such long-term capital as they may, from time-to-time, require. Thus, there is an inbuilt incentive for companies to remain financially strong.

(v) High returns

The commercial paper provides investors with higher returns than they could get from the banking system.

(vi) Movement of funds

Commercial paper facilitates securitisation of loans resulting in creation of a secondary market for the paper and efficient movement of funds providing cash surplus to cash deficit entities.

Commercial paper market in other countries

The roots of commercial paper can be traced way back to the early of low cost, flexible and desired maturity. Introduced common paper in 1990.

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Commercial Paper (CP) is an unsecured usance money market instrument issued in the form of a promissory note issued at a discount, and is transferable by endorsement and delivery and is of fixed maturity. It is a short-term money instrument issued to corporate, who have a high credit rating and have a strong financial background. It is an unsecured obligation issued by a bank or a corporation to finance its short-term credit requirements like accounts receivable and inventory. In other words, the Commercial Paper is an unsecured, short-term loan issued by a corporation typically to finance accounts receivable and inventories and it is usually issued at a discount reflecting the prevailing market interest rates.

Source: Icfai Research Center.

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Certificates of Deposit (CDs) are the instruments issued by banks in the form of usance promissory notes. These bank deposits are negotiable, and are in marketable form bearing specific face value and maturity. They are transferable from one party to the other unlike term deposits. Due to their negotiable nature, these are also known as Negotiable Certificates of Deposit (NCDs). A Certificate of Deposit can also be referred to as a money market instrument, a receipt for funds deposited in a financial institution for a specific time for a specific interest rate.

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will attract stamp duty ... delivery while dematted CDs are transferred as other demat securities. There is no lock-in period for the CDs.

FEATURES AND PURPOSE OF CDs

The distinct features of CDs are

- CD is a document of title to a time deposit and is distinct from conventional time deposit with respect to negotiability and marketability
- CDs are considered as virtually riskless instruments as the default risk is almost nil, and investors are sure of receiving the invested amount with interest
- The liquidity and marketability features are considered as the hallmarks of CDs
- CDs are issued at a discount to face value
- CDs are maturity-dated obligations of banks forming a part of time liabilities, and are subjected to usual reserve requirements
- CDs may be either registered or in a bearer form. The latter form, however, is considered better for secondary market operations.
- CDs attract stamp duty and there is no grace period, as in the case of bill financing.
- CDs are freely transferable by endorsement and delivery.
- The CDs issued are within the limit as specified by Reserve Bank of India.
- CDs are also issued in demat forms only. Only the request of Investors they can be issued in physical form.
- CDs held in the demat form can be transferred as per the procedure applicable to other demat securities.
- The trade settlement will take place on T + 1 day basis; however, the settlement period will be subject to the ceiling of T + 5 days or such period of settlement as specified by the exchanges, whenever the trade is done on a recognized stock exchange.

Purpose of Issue

CDs benefit both issuers and investors. From the issuers (banks) point of view, CDs are issued foreseeing the advantages over conventional deposits. The motives behind issuing CDs are control over cost of funds and assured availability of funds for specific period. The banks are constrained to define an interest rate structure for their customers across the board. It is operationally difficult to offer different