

# **CBSE – DEPARTMENT OF SKILL EDUCATION**

## **FINANCIAL MARKET MANAGEMENT (SUBJECT CODE -805)**

### **Marking Scheme**

#### **Class XII (Session 2019–2020)**

Time: 3 Hours

Max. Marks: 60

#### **General Instructions:**

1. *This Question Paper consists of two parts viz. Part A: Employability Skills and Part B: Subject Skills.*
2. **Part A: Employability Skills (10 Marks)**
  - i. *Answer any 4 questions out of the given 6 questions of 1 mark each.*
  - ii. *Answer any 3 questions out of the given 5 questions of 2 marks each.*
3. **Part B: Subject Skills (40 Marks):**
  - i. *Answer any 10 questions out of the given 12 questions of 1 mark each.*
  - ii. *Answer any 5 questions from the given 7 questions of 2 marks each.*
  - iii. *Answer any 5 questions from the given 7 questions of 3 marks each.*
  - iv. *Answer any 3 questions from the given 5 questions of 5 marks each.*
4. **This question paper contains 42 questions out of which 30 questions are to be answered.**
5. *All questions of a particular part/section must be attempted in the correct order.*
6. *The maximum time allowed is 3 hrs.*

#### **PART A: EMPLOYABILITY SKILLS (10 MARKS)**

**Answer any 4 questions out of the given 6 questions of 1 mark each:**

<b>Sr. No.</b>	<b>Questions</b>	<b>Marks</b>
1.	Hearing is _____process. a. <b>Passive</b> b. Active c. Both of the Above	(1)
2.	Which of the following are the sources of motivation and inspiration _____. a. Music b. Books c. <b>Both of the Above</b>	(1)
3.	Dreaming big is a journey not a destination. a. <b>True</b> b. False	(1)
4.	Which of the following is not advantages of the spreadsheet? a. Built-in functions make calculations easier, faster, and more accurate. b. <b>Large volumes of data cannot be manipulated.</b> c. Data can be exported to or imported from other software	(1)

5.	Entrepreneurship is a process of_____ <ul style="list-style-type: none"> <li>a. developing a business plan</li> <li>b. Launching and running a business using innovation.</li> <li>c. <b>Both of the Above</b></li> </ul>	(1)
6.	Green jobs are required to Plan_____ <ul style="list-style-type: none"> <li>a. Destination management</li> <li>b. Destination managers, Trainer</li> <li>c. <b>Both of the above</b></li> </ul>	(1)

**Answer any 3 questions out of the given 5 questions of 2 marks each:**

7.	<b>Describe Active listening?</b> Ans: Active listening refers to the act of making <b>conscious efforts</b> to <b>perceive the sound.</b> (1+1)	(2)
8.	<b>Why Self-Motivation is important?</b> Ans: 1. It increases individual's energy and activity. 2. It directs an individual towards specific goals. (1+1)	(2)
9.	<b>Write the few components of Open Office Impress Window?</b> Ans: <ul style="list-style-type: none"> <li>• Title Bar</li> <li>• Menu Bar</li> <li>• Standard Bar</li> <li>• Formatting Bar ( ½ *4=2)</li> </ul>	(2)
10.	<b>What are the key problems an Entrepreneur may face while running a business?</b> Ans: 1. <b>Idea:</b> What should my business idea be? How do I know that this idea will work? 2. <b>Money:</b> How much money should be raised to start a business?(1+1)	(2)
11.	<b>What is the role of Green Job in toxin free House?</b> Ans: In our daily lives we do household work, that releases harmful gases into the atmosphere and contribute to the warming of our planet.(1)  Green jobs will promote the usage of ecofriendly raw materials and conserve energy through Reuse, Reduce, and Recycle, Use less heat and reconditioning etc. (1)	(2)

## **PART B: SUBJECT SKILLS (50 MARKS)**

**Answer any 10 questions out of the given 12 questions:**

12.	<b>Define Index?</b> Ans: An Index is used to give information about the price movements of products in the financial, commodities or any other markets. ( ½ *2= 1)	(1)
13.	<b>Extend the term IEPF?</b> Ans: <p style="text-align: right;">Investor Education and Protection Fund (IEPF).(1)</p>	(1)
14.	<b>Define Open Book?</b> Ans: the order book is visible to all market participants; it is termed as an Open Book. (1)	(1)

15.	<b>What 'XB' indicate?</b> Ans: Ex-Bonus (if not entitle to receive Dividend)	(1)
16.	<b>How much maximum amount allow trading in Basket Trading?</b> Ans: The amount entered is in lakh and must be less than or equal to Rs. 3000 lakh.	(1)
17.	<b>Name the Clearing Corporation of National Stock Exchange?</b> Ans: NSCCL (National Securities Clearing Corporations Ltd.)	(1)
18.	<b>What is Rolling settlement?</b> Ans: Rolling settlement refers to the settling of trades at a standard fixed period of days after the execution occurred (i.e. T+2).	(1)
19.	<b>What is Valuation Debit?</b> Ans: an amount equivalent to the securities not delivered by member valued at the valuation price (the closing price on the day previous to the day of valuation).	(1)
20.	<b>Define European Option.</b> Ans: An option can be exercised at the expiry of the contract period known as European option contract.	(1)
21.	<b>What Far Month indicates in Derivatives Contract?</b> Ans: It's Three Months Contract.	(1)
22.	<b>What is Short position in future and Option Contract?</b> Ans: short position (sell position)	(1)
23.	<b>Define Basis?</b> Ans: Basis is defined as the futures price minus the spot price.	(1)

**Answer any 5 questions out of the given 7 questions of 2 marks each:**

24.	<b>Describe Internet Trading?</b> Ans: It provides <b>web-based access</b> to investors to <b>trade directly on the Exchange</b> . The orders originating from the PCs of the investors are routed <b>through the Internet to the trading terminals</b> of the designated brokers with whom they are <b>connected and further to the Exchange for trade execution</b> . ( $\frac{1}{2} * 4 = 2$ )	(2)
25.	<b>What Securities Pay-in and pay-out Mean?</b> Ans: <b>Securities Pay-in:</b> The process of delivering securities to the clearing corporation to effect settlement of a sale transaction. <b>Securities Pay-out:</b> The process of receiving securities from the clearing corporation to complete the securities settlement of a purchase transaction. ( $1+1=2$ )	(2)
26.	<b>What is Extreme loss margin and how it collects?</b> Ans: 1. Extreme loss margin is additional upfront margin on VaR. 2. The Extreme Loss Margin is collected/ adjusted against the total liquid assets of the member on a real time basis. ( $1+1=2$ )	(2)
27.	<b>Classify derivative trades on the basis of Place of Trade?</b> Ans: Derivatives can either be traded <b>over the counter (OTC)</b> or on an <b>organized exchange</b> . 1. Usually forwards, some types of options, swaps exotic products are OTC derivatives. 2. Futures, exchange-traded options are exchange traded derivatives. ( $1+1$ )	(2)

28.	<b>Whose are called Arbitrageur?</b> Ans: 1. They take positions in financial markets to earn riskless profits. 2. The arbitrageurs take short and long positions in the same or different contracts at the same time to create a position. <b>(1+1)</b>	(2)
29.	<b>Define Intrinsic Value of Option?</b> Ans: 1. Intrinsic value of an option at a given time is the amount the holder of the option will get if he exercises the option at that time. 2. The intrinsic value of a call is $\text{Max} [0, (S_t - K)]$ which means that the intrinsic value of a call is the greater of 0.  <b>(1+1=2)</b>	(2)
30.	<b>Define Out of the Money?</b> Ans: 1. An out-of-the-money (OTM) option would lead to a negative cash flow if it were exercised immediately. 2. A call option on the index is out-of-the-money when the current index stands at a level which is less than the strike price (i.e. spot price < strike price).  <b>(1+1=2)</b>	(2)

**Answer any 5 questions out of the given 7 questions of 3 marks each:**

31.	<b>Under What condition the relevant authority suspend the business of trading member?</b> Ans: <b>(a)Prejudicial business:</b> When the relevant authority finds that the trading member conducts business in a manner prejudicial to the Exchange by making purchases or sales of securities or offers to purchase or sell securities for the purpose of upsetting equilibrium of the market or bringing about a condition of demoralization in which prices will not fairly reflect market values, or <b>(b) Unwarrantable business:</b> When in the opinion of the relevant authority the trading member engages in unwarrantable business or effects purchases or sales for its constituent's account or for any account  <b>(c) Unsatisfactory financial condition:</b> When the relevant authority finds that the trading member is in a bad financial condition and it cannot be permitted to do business with safety to its creditors or the Exchange. <b>(1+1+1=3)</b>	(3)
32.	<b>What is Contract Note? Write the information detail mentioned on the contract Note?</b> Ans: 1. Contract note is a confirmation of trade(s) done on a particular day for and on behalf of a client. 2. The contract note should contain name and address (registered office address as well as dealing office address) of the TM, the SEBI registration number of the TM, 3. Details of trade viz. order number, trade number, order time, trade time, security name, quantity, trade price, brokerage, settlement number and details of other levies. <b>(1+1+1=3)</b>	(3)
33.	<b>Describe order cancellation functionality?</b> Ans: 1. Order cancellation functionality can be performed only for orders which have not been	(3)

fully or partially traded (for the untraded part of partially traded orders only) and only during market hours and in pre-open period.

2. **Single Order Cancellation**  
Single order cancellation can be done during trading hours either by selecting the order from the outstanding order screen or from the function key provided.
3. **Quick Order Cancellation** (Cancel All) is an extension of Single Order Cancellation enabling a user to cancel multiple outstanding orders in various trading books subject to the corporate hierarchy. **(1+1+1=3)**

**34. Explain MTM Margin?** (3)

Ans: The mark to market margin (MTM) is collected from the member before the start of the trading of the next day. The MTM margin is collected/adjusted from/against the cash/cash equivalent component of the liquid net worth deposited with the Exchange. **(1)**  
Mark to market loss is calculated by marking each transaction in security to the closing price of the security at the end of trading. **(1/2)**

Client	Security	T-1 day	T day	Total profit/loss of Client	MTM for broker
Client A		700	200		
	Securities Y	-400	-1000		
	Total	300	-800	-800	
Client B	Securities X	-200	600		
	Securities Y	-400	-1000		
	Total	-600	-400	-1000	
Member					-1800

Here the Member MTM position is -1800. **(1 1/2)**

**35. Write the Computational methodology for Construction of Stock indices? How CNX Nifty Calculate?** (3)

**Ans:**

The computational methodology followed for construction of stock market indices are

1. Free Float Market Capitalization Weighted Index,
2. Market Capitalization Weighted index and the
3. Price Weighted Index **(1)**

The Free float market capitalization is calculated in the following manner:

Free Float Market Capitalisation = Issue Size \* Price \* Investible Weight Factor

The Index in this case is calculated as per the formulae given below:

Index =  $\frac{\text{Free float current market capitalization}}{\text{Free Float Base Market Capitalization}}$  \* Base Value **(1 1/2)**

The India Index Services Limited (IISL), a subsidiary of NSE Strategic Investment Corporation Limited, introduced the free float market capitalization methodology. **(1)**

**36. If you bought 100 Fortis @ 3000 on 18Dec. 2015 and worry about the market fall, which strategy you will use to minimize the risk of downfall of the market and what would be your P/L position if Fortis future on 18 Dec. was 3100 and at the expiry settlement price of Fortis is 2800?** (3)

Ans:

Bought 100 Fortis @ 3000 = Rs. 3,00,000

Fortis future contract value = Rs. 3,10,000

	<p>Fortis spot price at the maturity= Rs. 2800</p> <p>If you were start the Fortis future by Hedging Position your P/L position will be Profit in future (3100-2800)= 300 each Fortis(1)</p> <p>Loss position in spot (3000-2800) = 200 each in Fortis(1)</p> <p>Overall profit position (300-200) × lot</p> <p>100 × 100= Rs. 10,000(1)</p>	
37.	<p><b>Describe the Application “Overpriced Future, Buy Spot, and Sell Future’.</b></p> <p>Ans: If you notice that futures on a security that you have been observing seem overpriced, how can you cash in on this opportunity to earn riskless profits?</p> <p>Say for instance, ABC Ltd. trades at Rs.1000. One-month ABC futures trade at Rs.1025 and seem overpriced. As an arbitrageur, you can make riskless profit by entering into the following set of transactions.</p> <ol style="list-style-type: none"> <li>1. On day one, borrow funds; buy the security on the cash/spot market at 1000.</li> <li>2. Simultaneously, sell the futures on the security at 1025.</li> <li>3. Take delivery of the security purchased and hold the security for a month.</li> <li>4. On the futures expiration date, the spot and the futures price converge. Now unwind the position. (1 ½ )</li> <li>5. Say the security closes at Rs.1015. Sell the security.</li> <li>6. Futures position expires with profit of Rs. 10.</li> <li>7. The result is a riskless profit of Rs.15 on the spot position and Rs.10 on the futures position.</li> <li>8. Return the borrowed funds. (1 ½ )</li> </ol>	(3)

**Answer any 3 questions out of the given 5 questions of 5 marks each:**

38.	<p><b>Explain Surrender of Trading Membership?</b></p> <p>Ans:Surrender of trading membership can be permitted by the Exchange after fulfilling certain conditions by the member such as, clearing off all the dues to the Exchange and NSCCL, notifying all other TMs of the approval of surrender, issuance of a public notification in leading dailies, etc.</p> <p>(a) A trading member desirous of surrendering its membership of the Exchange is required to send its request in writing in the prescribed format. (1)</p> <p>(b) Before submission of an application for surrender of membership, the trading member is required to comply with all the pre-requisites for application of surrender in the prescribed format. The following aspects should be covered in the application for surrender of membership from a trading member,</p> <p>(i) who has been suspended/ disciplinary action taken by the Exchange /SEBI</p> <p>(ii) in respect of whom any investigation/ action consequent to a default has been initiated by the Exchange /SEBI. (1)</p> <p>(c) No trading member, who has surrendered its trading membership, their partners (in case of partnership firm) and/ or dominant shareholders (in case of corporates) is eligible to be re-admitted to the trading membership of the Exchange in any form for a period of one year from the date of cessation of trading membership.(1)</p> <p>(d)The application of surrender of trading membership is subject to fulfillment of certain conditions, such as submission of original SEBI registration certificate(s) on all segments on which the trading member is registered; submission of sub-broker registration certificate(s) of all</p>	(5)
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	<p>the sub-brokers associated with the trading member for onward transmission to the SEBI for cancellation etc. (1)</p> <p>(e)A notice to public by way of a public notification in newspapers should be made by the Exchange and certain time (from the date of public notification) is given to investors, public, etc. to lodge claims against the surrendering trading member. (1)</p> <p style="text-align: center;"><b>(1+1+1+1+1=5)</b></p>	
<p><b>39.</b></p>	<p><b>Explain daily Market Trading Phases?</b></p> <p><b>Ans:</b>A trading day typically consists of a number of discrete stages as below:</p> <p>(i) <b>Opening:</b> The trading member can carry out the following activities after login to the NEAT system and before the market opens for trading:  (a) Set up Market Watch (the securities which the user would like to view on the screen) .(1)</p> <p>(ii) <b>Pre-open:</b> The pre-open session is for a duration of 15 minutes i.e. from 9:00 am to 9:15 am. The pre-open session is comprised of Order collection period and order matching period. The order collection period of 8* minutes shall be provided for order entry, modification and cancellation. (* - System driven random closure between 7th and 8th minute). During this period orders can be entered, modified and cancelled.(1)</p> <p>(iii) <b>Normal Market Open Phase:</b> The open period indicates the commencement of trading activity. To signify the start of trading, a message is sent to all the trader workstations. The market open time for different markets is notified by the Exchange to all the trading members. Order entry is allowed when all the securities have been opened. During this phase, orders are matched on a continuous basis. Trading in all the instruments is allowed unless they are specifically prohibited by the Exchange. The activities that are allowed at this stage are Inquiry, Order Entry, Order Modification, Order Cancellation (including quick order cancellation), Order Matching and Trade Cancellation. (1)</p> <p>(iv)  (a)<b>Market Close:</b> When the market closes, trading in all instruments for that market comes to an end. A message to this effect is sent to all trading members. No further orders are accepted, but the user is permitted to perform activities like inquiries and trade cancellation.  (b)<b>Post-Close Market:</b> This closing session is available only in Normal Market Segment. Its timings are from 3.40 PM to 4.00 PM. Only market price orders are allowed. Special Terms, Stop Loss and Disclosed Quantity Orders, Index Orders are not allowed. The trades are considered as Normal Market trades. Securities not traded in the normal market session are not allowed to participate in the Closing Session. (1)</p> <p>(v) <b>Surcon:</b> Surveillance and Control (SURCON) is that period after market close during which, the users have inquiry access only. After the end of SURCON period, the system processes the data for making the system available for the next trading day. When the system starts processing data, the interactive connection with the NEAT system is lost and the message to that effect is displayed at the trader workstation. (1)</p> <p style="text-align: right;"><b>(1+1+1+1+1=5)</b></p>	<p>(5)</p>
<p><b>40.</b></p>	<p><b>Write the Purpose of Following Windows of NEAT Trading System:</b></p> <p>a. <b>Market byPrice (F6):</b> The purpose of Market by Price (MBP) is to enable the user to view outstanding orders in the market aggregated at each price and are displayed in order of best prices.</p> <p>b. <b>Previous Trade (F8):</b> The purpose of the Previous Trades window is to provide security-wise information to users for own trades. Trade cancellation can be requested from the Previous Trade screen.</p>	<p>(5)</p>

	<p>c. <b>Activity Log (F7):</b>The Activity Log (AL) shows all the activities that have been performed on any order belonging to that user. These activities include order modification/cancellation, partial/full trade, and trade modification/cancellation.</p> <p>d. <b>Snap Quote (F9):</b>Snap Quote: The snap quote feature allows a trading member to get instantaneous market information on any desired security. This is normally used for securities that are not already set in the Market Watch window. The information presented is the same as that of the Marker Watch window.</p> <p>e. <b>OutstandingOrder (F3):</b>The purpose of Outstanding Orders is to enable the user to view the outstanding orders for a security. An outstanding order is an order that has been entered by the user, but which has not yet been completely traded or cancelled. The user is permitted to see his orders.</p> <p style="text-align: right;"><b>(1+1+1+1+1=5)</b></p>	
<p><b>41.</b></p>	<p><b>Explain VaR Margin in Detail?</b>  Ans:  <b>Value at Risk Margin</b>  VaR is a single number, which encapsulates whole information about the risk in a portfolio. It measures potential loss from an unlikely adverse event in a normal market environment.<b>(1)</b>  <b>Computation of VaR Margin:</b> VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid securities, the margin covers one-day losses while for illiquid securities; it covers three-day losses so as to allow the clearing corporation to liquidate the position over three days.<b>(1)</b>  <b>Some Definitions: Computation of the VaR margin requires the following definitions:</b>  <b>(a) Security sigma:</b> It means the volatility of the security computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.  <b>(b) Security VaR:</b> It means the highest of 7.5% or 3.5 security Sigmas.  <b>(c) Index sigma:</b> It means the daily volatility of the market index (CNX Nifty or BSE Sensex) computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.  <b>(d) Index VaR:</b> It means the higher of 5% or 3 index Sigmas. The higher of the Sensex VaR or Nifty VaR would be used for this purpose. <b>(2)</b>  The VaR margin rate computed, as mentioned above, will be charged on the net outstanding position (buy value-sell) of the respective clients on the respective securities across all open settlements. There would be no netting off of positions across different settlements.<b>( ½ )</b>  <b>Collection of VaR Margin:</b> The VaR margin is collected on an upfront basis by adjusting against the total liquid assets of the member at the time of trade. The VaR margin is collected on the gross open position of the member.<b>( ½ )</b></p>	<p><b>(5)</b></p>
<p><b>42.</b></p>	<p><b>Explain The Depository Act.1996 in Detail?</b>  Ans:  The paper based ownership and transfer of securities was a major drawback of the Indian securities markets since it often resulted in delay in settlement and transfer of securities, leading to ‘_bad delivery’, theft, forgery etc. The rapid growth in number and volume of transactions in the securities markets further highlighted the limitations of handling securities in the physical/paper mode. As a result, in line with the developments in the securities industry worldwide the paper based settlement and clearing system was replaced with depository system or scrip less trading system. This transition was facilitated by the Depositories Act, 1996.<b>(1 ½ )</b></p>	<p><b>(5)</b></p>



**Objectives**

(a) Making securities of public limited companies freely transferable subject to certain exceptions;

(b) Dematerializing the securities in the depository mode.

(c) Providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person. (1 ½)

The terms used in the Act are defined as under:

(a) **Beneficial owner** means a person whose name is recorded as such with a depository.

(b) **Depository** means a company, formed and registered under the Companies Act, 2013 and which has been granted a certificate of registration under sub-section (1A) of section 12 of the SEBI Act, 1992.

(c) **Issuer** means any person making an issue of securities.

(d) **Participant** means a person registered as such under sub-section (1A) of section 12 of the SEBI Act, 1992. (2)