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ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27

BCOM-BPS - V SEMESTER

END SEMESTER EXAMINATION: NOVEMBER 2020

BPS 5618 – CAPITAL MARKETS FOR BPS

Time- 2 1/2 hrs

Max Marks-70

This paper contains 3 printed pages and four parts

SECTION A

Answer any FIVE of the following questions. Each question carries two marks each (5x2 = 10)

1. List any two significance of capital market.
2. What do you mean by share splits?
3. What is Zero Coupon Bonds?
4. State the meaning of Derivatives.
5. What is a Hedge Fund?
6. State any two purpose of corporate action.

SECTION B

Answer any THREE of the following questions. Each question carries five marks each (3x5 = 15)

7. Give a brief note on Futures and options contract.
8. Explain the difference between a Commercial Bank and an Investment Bank.
9. Explain the functions of Stock Exchanges in India.
10. What is meant by Private Equity Fund and explain its forms.

SECTION C

Answer any TWO of the following questions. Each question carries fifteen marks each (2x15 = 30)

11. a) Elaborate on the different phase's of trade life cycle of investment banks
b) Describe the various functions of Investment Banking.
12. What is Mutual Fund? State the different types of mutual fund schemes.
13. Briefly explain the concept of Risk and elucidate on the types of risk faced by a company.

SECTION D

Answer the following compulsory question. The question carries fifteen marks (1x15 = 15)

14. Corporate action events are an integral feature of today's capital markets. They take place whenever changes are made to the capital structure or financial position of an issuer of a security that affect any of the securities it has issued. Rights issues, tender offers, conversions, takeovers, mergers, early redemptions and dividend payments are just a few examples. Close to 1 million corporate actions take place every year worldwide. A single event may involve hundreds of different market participants (including custodians, fund managers, broker/dealers and depositories), ultimately cascading down to thousands of investors. Each of these participants faces high risk because corporate action processing is complicated, deadline-driven, not standardised, and to a large extent still manual.

In the past few years, concerns about corporate actions have been raised by, among others, the Group of Thirty, the Giovannini Group, the Committee for European Securities Regulators and the European Central Bank. These organisations have advocated bringing greater efficiency and standardisation to corporate action processes, and some industry initiatives have been launched to work towards these aims. This reflects an increasing awareness in the securities industry that corporate action processing involves significant risks, and that corporate actions are not just a 'back-office' issue but also have an impact on trading strategies in the front office, and the efficiency of capital markets more broadly. To date, however, there has never been a systematic and quantitative analysis of the risks related to corporate action processing in the global securities marketplace.

There are several forms of corporate action. It can be classified as mandatory, voluntary and mandatory with choice corporate actions. In November 2009, Amazon, Inc. completed a previously announced acquisition of Zappos.com. Amazon.com is a customer-centric company for three kinds of customers: consumers, sellers and enterprises. The Company serves consumers through its retail websites, and focus on selection, price, and convenience. It also provides easy-to-use functionality, fulfillment and customer service. Amazon is the largest online retailer in the nation, with revenues exceeding \$45 billion annually.

Zappos.com was the #1 online seller of shoes at the time of the deal, stressing customer service. It stocks 3 million pairs of shoes, handbags, apparel and accessories, specializing in some 1,000 brands that are difficult to find in mainstream shopping malls. Through its website (and 7,000 affiliate partners), Zappos.com distributes stylish and moderately priced footwear to frustrated and shop-worn customers nationwide. In 2008, one year prior to the deal, Zappos reported annual revenues exceeding \$630 million.

Under the terms of the deal, Amazon paid Zappos.com's shareholders approximately 10 million shares of Amazon stock (valued at \$807 million at time the deal was announced) and \$40 million in cash. The M&A deal was advised by investment banking teams at Morgan Stanley (Zappos) and Lazard (Amazon).

But Amazon's already the master of online product distribution - they take online orders faster, ship goods cheaper, and trounce their competition. What could Zappos bring to the table that Amazon hasn't already figured out? Amazon Founder Jeff Bezos was quoted saying ---

"Zappos has a customer obsession which is so easy for me to admire. It is the starting point for Zappos. It is the place where Zappos begins and ends. And that is a very key factor for me. I get all weak-kneed when I see a customer-obsessed company, and Zappos certainly is that. Zappos also has a totally unique culture. I've seen a lot of companies, and I have never seen a company with a culture like Zappos'. And I think that kind of unique culture is a very significant asset."

Questions

- A. What is meant by corporate action and which are the four organisations who raised their concerns about it? (2 marks)
- B. What type of corporate action is referred in this case? State the investment banking companies who advised on this deal. (2 marks)
- C. Give a short note on the types of corporate actions seen in any organisation. (5 marks)
- D. Why did Amazon acquire Zappos? Briefly explain the reasons for the same. (6 marks)
