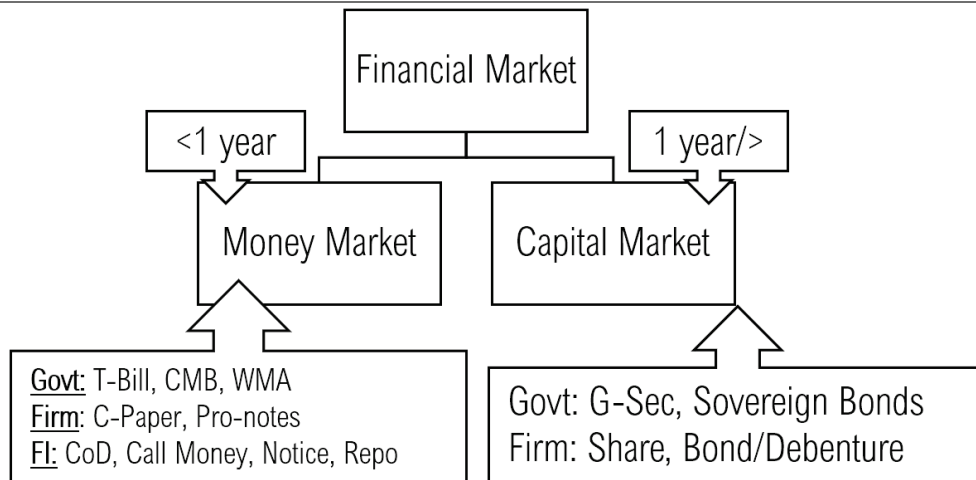




14 PILLAR#1C: SEBI-SHARE MARKET



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14.1 FINANCIAL INSTRUMENTS: DEBT

14.1.1 Debt → Interest Rate Benchmarks: LIBOR, MIBOR, MIFOR, SOFR

LIBOR	<p>London Inter-bank Offered Rate (LIBOR) is the average interest rate at which banks in London give short term loans to each other.</p> <p> Objectives/usage/application of LIBOR?</p> <ul style="list-style-type: none"> - (some) global banks decide their call money /notice money rates based on it. - (some) external commercial borrowing (Indian Bizman taking loans from abroad), - (some) FCNR deposit interest rates (Non resident Indians depositing foreign currency savings in Indian banks to earn interest) - (some) Interest Rate Swaps/Derivatives (IRS: one party exchanging its bond/loan-paper to another party's bond/loan-paper. what/why/how-NOTIMP.) <p> Controversy? LIBOR methodology had become unreliable & fraud-ridden in recent years. So, UK regulator ordered stopping LIBOR by the end of 2021.</p> <p>⇒ So accordingly, Financial intermediaries across the world are changing their LIBOR based contracts/agreements to other benchmarks. e.g. TONAR (Tokyo/Japan), SARON (Switzerland), SOFR (USA), SONIA (UK-Sterling-Pound), ESTR (Euro) etc. What are their full forms? how they work is not important.# थोड़ा-पढ़ो-आगे-बढ़ो</p>
MIBOR	In LIBOR definition, replace the word “London” → “Mumbai” and “Global” → “Indian”, and you’ll know what MIBOR is!
MIFOR	<p>⇒ Mumbai Interbank Forward Outright Rate (MIFOR) is a benchmark that derives values from LIBOR and a few other indicators etc.</p> <p>⇒ objectives/usage/application? Similar to LIBOR.</p> <p>⇒ Since LIBOR is expiring by the end of 2021 → MIFOR will also stop working, Because it derives value from LIBOR value. 2020-Nov: RBI announced working on a new Indian benchmark to address this issue.</p>



👉 Some Inexperienced Pvt Quizmasters setting technical MCQs from “SOFR” & how it’ll affect Indian Economy in 500 ways, & their Babu-Sona-bhakts are going crazy abt it but sensible candidates need not loose sleep. Just look at previous Years MCQs# 📖 थोड़ा-पढ़ो-आगे-बढ़ो

14.1.2 📖📦🕒: 🏠🔪👤 Short term debt instruments → by Govt → WMA


- ⇒ When Govt faces short term mismatch in receipt (income) and payment (Expenditure)
- ⇒ RBI Lends money on short term (3 months). Not counted in fiscal deficit figure. (More abt Fiscal Deficit in 📖 Pillar2D: FRBM)
- ⇒ Corona-crisis: 📈 mismatch in cashflow because
 - 📉 Govt Income: Sales 📉 GST, Govt gave extension in tax payment deadlines
 - 📈 Expenses: free LPG, food, mask etc.
- ⇒ So, ATMANIRBHAR Bharat → RBI 📈 WMA limits by 60% than before to help the Union (1.20lcr) and State Governments (₹51,560cr collectively).
- ⇒ If upto above amount of ₹₹ borrowed = its WMA: loan interest = repo%
- ⇒ If beyond above amount borrowed then called ‘Overdraft’: loan interest repo+2%

👉 ^ above % or quantity or figures not imp for scope of exam


14.1.3 🏠🔪👤 Consolidated Sinking Fund (CSF) for State Govts’ repayment

- ⇒ Started in 1999. It has >₹1.25 lakh crore by 2019. (समेकित घाटा निपटान निधि)
- ⇒ Annually, State Govt has to contribute money equal to 1-3% of its outstanding market loans to this fund. This fund is kept with RBI. (राज्य ने जितना कर्जा उठाया है उसके सामने इसमें थोड़ा पैसा जमा करना है)
- ⇒ CSF is a fund outside consolidated fund of the State and public account of the State. (More in 📖 Pillar2: budget.)
- ⇒ CSF meant to be used for only 1 purpose= repayment/redemption of loans taken by the State Government. (बकाया ऋण चुकाने के लिए ही इस निधि का उपयोग होगा)
- ⇒ 2020-May: RBI relaxed technical norms related to withdrawal of ₹₹ from CSF till 31/3/2021 to help the State Governments. (तकनीकी नियमों में कुछ छूट दी गयी)






14.1.4 📖📦📅 Long Term Debt Instruments: Other Special purpose Bonds

<div data-bbox="218 1576 392 1783">  (proposed) Consol Bonds for Corona-revival </div>	<ul style="list-style-type: none"> ⇒ US Govt (1870s) and British Govt (1917) had issued Consol bond. ⇒ Consol is short form for ‘consolidated annuities’. ⇒ Consol bonds have no maturity date. They are perpetual bonds that paid 4-5% interest rate, for an infinite time period. In theory they don’t repay the principal amount back to investor. Thus, they’re Irredeemable Bonds (अमोच्च). ⇒ However, in reality, the Government may redeem(/buyback) the bonds after certain years, by paying principal to the investor. ⇒ Some economists suggesting Indian govt should issue Consol Bonds for Post-corona economic revival. (अर्थव्यवस्था को पुर्नजीवित करने के लिए)
--	---



 (Proposed) Surety Bond for road construction	<p>⇒ Party#1 Road contractor pays fees/premium to party#2 insurance company. Insurance company gives him a surety bond.</p> <p>⇒ Road contractor gives this surety bond to party#3 Highway Ministry.</p> <p>⇒ if the road contractor is not finishing project within prescribed time-limit/quality-limit → Insurance company will pay ₹ to Highway Ministry.</p> <p>⇒ Presently, Insurance companies are not allowed to issue surety bonds in India. So, 2020-Jul: IRDAI (insurance regulator) has set up a committee, whose chairman's name is not greatly imp for exam.</p>
--	--

14.2 FINANCIAL INSTRUMENTS: EQUITIES / SHARE MARKET

⇒  ES20 &  ES21 : No of IPO-issuing Companies have  : 134 (2017) → 103 (2018) → 49 (2019) → 33 (2020). Which indicates problems like protectionism (trade war/nations imposing heavy tax on imported items to protect local industries ( Ref: Pillar3), NPA (bad loans  Ref Pillar1B2), slowdown in consumer demand by Corona= preventing some of the companies from expanding further.

⇒ Amount of ₹ mobilized through IPO  [₹31,000 cr in 2020 while ₹11,000 in 2019]

14.2.1 IPO → Special Purpose Acquisition Company (SPAC)

- ⇒ SPAC is a type of company which does not do production of goods and services by itself so it's also labelled as shell company/blank cheque company.
- ⇒ It is created only to acquire share (equity) capital from the public through initial public offering (IPO) & use that money to buy / acquire another company.
- ⇒ If the acquisition is not made within two years of the IPO, the SPAC is delisted and the money is returned to the investors.
- ⇒ Why in the news? USA's RMG-II is a Nasdaq stock exchange-listed Special Purpose Acquisition Company (SPAC). RMG-II acquired an Indian company "ReNew Power" through this process.

14.2.2 ADR/GDR: Shares in *Videshi* locker



Figure 1: बिना अमरीकी SEBI में पंजीकरण किए, उनके शेयर बाजार से पैसा उठाऊँ, तो कैसे?






- A non-American company wants to mobilize money from American share market but does not want to go through the lengthy & complex process of registration with the American sharemarket regulator.
- Then such non-American company gives its shares to an American bank.
- Based on those (non-American) shares, the American bank will issue American Depositary Receipts (ADR: अमरीकी निपेक्षागार रसीद) & sell them to American investors. **Denomination:** USD.





- **Global Depositary Receipt (GDR):** Same as above, but when single bank issues receipts for investors in multiple countries. **Denomination:** usually USD or Euro.

Share issuing company →	Deposits his company's shares in a bank of →	That bank issues -- in local market in – currency
Non-American company →	American Bank →	Issues ADR (in \$) in American Sharemarket
Non-Indian company →	Indian Bank →	Issues Bharat / Indian depositary receipt (IDR) (in ₹) in Indian Sharemarket

14.2.3 ATMANIRBHAR reforms in ADR/GDR/BharatDR

Company	Wants to	BEFORE	AFTER  ATMANI
 Indian company	wants to acquire capital from abroad, via ADR/GDR	✓ Allowed	✓ Allowed
 Indian company	wants to acquire capital from abroad by directly listing its shares in a foreign stock exchange	✗ Not allowed by Indian authorities	✓ now it's allowed
 Foreign company	wants to acquire capital from India, via BharatDR/iDR	✓ Allowed	✓ Allowed
 Foreign company	wants to acquire capital from India by directly listing its shares in Indian stock exchange	✗ Not allowed by Indian authorities	✗ Not allowed by Indian authorities

- ⇒ **Before:** Direct listing by the Indian companies on foreign/overseas stock exchanges was not permitted. (due to danger of money laundering, China/ISI mischief etc.)
- ⇒ So Indian companies had to use ADR/GDR type mechanisms, But, relatively difficult to attract investors in through ADR/GDR routes, nowadays. (compared to directly listing shares.)
- ⇒ After  **ATMANIRBHAR:** Indian companies allowed to directly list their shares in foreign nations stock exchanges. → Foreign capital/dollars can be attracted towards India → factory expansion, jobs  → economic revival. (अर्थतंत्र को पूर्णजीवित करना)



14.3 SENSEX & CORONA(उल्लेखनीय संकेतक/ सूचकांक)








- ⇒ **SENSEX?:** Sensitive Index/ संवेदी सूचकांक. It's the weighted average of Free Float Market Capitalization (FFMC) of 30 companies, selected by BSE's "Index Cell".







⇒ **NIFTY?** NSE index of 50 companies. **Nikkei?** Tokyo Stock Exchange index of 225 companies.



14.3.1 **SENSEX: Impact of Corona**

  ES21 Vol2Ch4: observed When comparing Year 2020 (Jan to Dec) to 2019:




- ⇒ Nifty50 [Highest ~15k points] & BSE SENSEX [Highest ~50k points] 
- ⇒ Stock Exchange Volatility declined , esp after March-202, as measured by "India VIX index" of NSE. (अस्थिरता कम हुई है)
- ⇒ Share Prices of Pharma, IT companies , But Airline/Luxury goods/fashion 
- ⇒ Biz of Mutual Funds  (धंधे में बरकत)
- ⇒ Incoming Foreign Portfolio Investment (FPI) has  [270 billion\$] (More in  Pillar#3A)

2020- Initial months of lockdown,   due panic among investors, Force Majure but then

  because (शुरु-शुरु के महीनों में गिरावट किंतु बाद में बहुत तेजी आई क्योंकि...)

1. Cheap Loans / Expansionary Monetary Policy → Some of that money may have entered the share market through to large investors. (विस्तार वादी मौद्रिक नीति)
2. 'work from home' + RBI loan Moratorium- may have encouraged many service sector employees to invest ₹ in the sharemarket. (तालाबंदी के दौरान लोन की किस्त नहीं चुकानी थी तो कुछ ने वह रकम शेयर बाजार में निवेश की होगी)
3. Unprecedented demand and profit for IT and Pharma sector- Encouraged the investors to park their money in such shares at very high price. (तालाबंदी के दौरान सूचना प्रौद्योगिकी और औषधीय कंपनियों में अप्रत्याशित तेजी)
4. Youtubers/Reddit/Social media influencers giving online share trading Tips. Many Apps available.
5. American video game store company GAMESTOP's shares  1625% in 1 year. Such gimmickry will attract more small investors to invest although in future they will lose when 'overpriced' shares see 'correction' in the share market. Associated keyword "short squeeze trading" [ What it means? how it works? Ans. not important]

14.3.2 **Share Market: Impact of Bond Yield**

- ⇒ Bond yield is the profit you make on Bond investment.
- ⇒ If Mr.Bhide buys ₹100 principal bond with 10% interest = his yield = $(₹110-100) / ₹100$ investment = 10% but if he sells it to Mr.Jetha at ₹90 then Jetha's yield = $(₹110-90) / ₹90$ investment = 22% Profit. Thus bond yield (profit) , If you manage to buy bond at a cheaper than the original (face value) price.
- ⇒ 2021-Feb-March: When bond yield , some investors sold their shares of the low performing companies → to invest into bonds → sharemarket  fell for some days/weeks.

14.3.3 **Bond Vigilantism**

- Bond Vigilantes: large bond market investors who aggressively sell G-Sec in open market to protest against Policies of Govt/Central Bank.



- Supply of G-Sec in secondary market → prices → G-sec Yield → share investors sell underperforming companies' shares to invest in G-Sec → sharemarket → Difficult for companies to raise equity(share) capital through IPO. [similarly, difficult to govt to borrow for next round because existing G-sec's yields get high, so investors will demand higher interest on future G-secs as well.]
- RBI report warns about Bond vigilantism in USA / World.

14.4 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

- ⇒ SEBI has “SCORES” online portal for complaint. (निवेशक इधर ऑनलाइन फ़रियाद करे)
- ⇒ SEBI has Securities Market Trainers (SMARTs) Program for investor education

14.4.1 Securities Market Code & Investor charter

- ⇒ Budget-2021: we'll create a single new law named "Securities Markets Code" by merging older acts 1) SEBI Act, 1992, 2) Depositories Act, 1996, 3) Securities Contracts (Regulation) Act, 1956 4) Government Securities Act, 2007. (पुराने विभिन्न कानूनों का एकीकरण विलीनीकरण करके "प्रतिभूति बाजार संहिता" नामक नया कानून बनेगा)
- ⇒ Budget-2021: we'll create an "investor charter" (निवेशक अधिकार पत्र) for financial investors across all financial products (Share, Bond, derivatives, Commodities market etc). Note: A citizens' charter (नागरिक अधिकारपत्र) is a document of commitments made by a government agency to the citizens in respect of the services being provided to them. e.g. if "X" problem is not solved in "Y" days then complain to "Z" officer on ABC Phone number / email address etc.

Benefits of Securities Market Code & Investor charter?

- ✓ Ease of doing business & Ease of doing investment
- ✓ More clarity over rights and responsibilities financial market participants [Individual Investor, Share Broker, Stock Exchange, Depository, Underwriter, Companies etc]
- ✓ Deepening of the financial market, Mobilisation of savings to the productive channels of economy

14.4.2 () Algo Trading & Co-Location

- ⇒ Algo-Trading = Some large brokers / companies use algorithmic trading computer programmes to automatically buy / sell securities at a speed and frequency that is impossible for a human trader. This can be misused for manipulating the share prices. While SEBI has **not banned** it, but issued technical measures e.g. a single broker / investor can't place more than 100 online orders per second.
- ⇒ Co-location = stock exchange allowing the share broker to install their office/computer systems very close to Stock Exchange. Then broker's computers can monitor/buy/sell shares quicker than a computer sitting 500 kilometres away: So, co-location gives added advantage, esp. for the Algo-Traders.
- ⇒ 2021: SEBI fines National Stock Exchange (NSE) For violation of some norms related to co-location.



14.5 🛒 (📝📦) BOND MARKET REFORMS



Figure 2: पूंजी बाजार की जड़ों को गहरा करना है तो सिर्फ अमीरों का नहीं, गरीबों की बचत का पैसा भी जाना चाहिए!

14.5.1 🛒 (📝📦: 🧑🧑) Unified Bond Market (एकीकृत बॉन्ड बाजार)

- ⇒ At present (1) Government bonds' (G-Sec) market (2) private sector / Corporate Bonds market are functioning separately. Because
 - (A) RBI depository for G-Sec/ T-Bill is separate. Where govts, banks, NBFCs and primary dealers can participate, and minimum investment guidelines are high (e.g. investor's g-sec buying order must be minimum "X" lakh rupees, else RBI rejects application)
 - (B) SEBI regulated depositories (For non-Government = private sectors' share/bonds) is separate- where retail investors/common men register & participate.
- ⇒ 📦 Budget-2019 promised reform to connecting these two platforms, to facilitate retail investors' participation in G-sec. (आम जनता भी सरकारी प्रतिभूतियां सीधे ही खरीद सकें)
- ⇒ 2020: SEBI proposed "**unified bond market**" where both G-sec & Corporate Bonds will be available for buying/selling. This will (1) help govt mobilize public's savings more easily for its welfare schemes (2) Give small/retail investors easier opportunity to invest directly in G-sec. लेकिन ये असल में अभी बनना बाकी है।

14.5.2 🛒 (📝📦: 🧑🧑) Deepening of G-Sec market- Direct Retail participation @RBI

- ⇒ **Before:** Retail investors invested in G-Sec indirectly via Mutual Fund Companies /Stock exchange through NDS-OM (Negotiated Dealing system-order matching).
- ⇒ **AFTER:** RBI allows retail investors to open "Gilt account" in RBI Direct facility in E-Kuber Core banking solution (CBS) platform= they can directly purchase fresh G-Sec from RBI (=Primary market) & resell it to other investors (=secondary market) later on.

14.5.3 🛒 (📝📦: 🧑🧑) Bond Buying Institution in 📦 Budget-2021

- ⇒ Secondary market-Provides liquidity to the investor -Since he can sell existing shares/bonds and hand to others → motivation to buy new shares/bonds in primary market → capital to healthy new company.
- ⇒ But in India, the secondary market for bonds is not fully developed. Inadequate number of large players → Difficult to resell the bonds at the right prices → 🧑 discourages the investors from bonds → Difficult for companies to mobilize ₹
- ⇒ So, 📦 Budget-2021: Proposed to setup a body/organization to purchase investment grade debt securities. This body will buy bonds both in stressed and normal times. Benefit? development/Deepening of the Bond market. 🖐️ Exact name of the organisation? headquarter? Ans. details yet to be announced.



14.5.4 🏠🏦🏡🏠 Commodity Market: Gold exchanges & 📅 Budget-2021

- ⇒ Gold exchange is a special type of commodity market devoted only to Gold trading.
- ⇒ 📅 Budget-2021: We will undertake reforms in the regulation of gold exchange markets in India.
 - 1) SEBI will be the regulator
 - 2) Warehousing Development and Regulatory Authority (WDRA- Statutory body under Dept of Food and Public Distribution) Will be responsible for Warehousing/Vaulting, Assaying, Logistics of gold exchanges. (भंडारण, गुणवत्ता परीक्षण, रसद के मामलों की जिम्मेदारी)

14.5.5 🏠🏦🏡🏠 Mutual fund → 📊 Mutual fund risk-o-meter

SEBI requires the mutual fund company to disclose how much risk is present in their scheme, on a monthly basis, thru a digital dashboard called 'risk-o-meter'.

It shows 6 categories of risk: low, low to moderate, moderate, moderately high, high, (#)very high risk. (#) SEBI added this new category 'very high risk' in 2020-Oct.

14.5.6 🏠🏦🏡🏠 Bilateral Netting of Qualified Financial Contracts Act 2020

अर्हताप्राप्त वित्तीय संविदा/अनुबंध की द्विपक्षीय नेटिंग के लिए कानून/अधिनियम 2020

- ⇒ A **derivative** is a contract whose value is derived from the value of another underlying asset which could be a share, bond, commodity or currency.
- ⇒ Suppose, some derivative trades / financial contracts have been made between two parties wherein Mr. Jetha owes ₹10 lakh to Mr.Bhide, while Mr. Bhide owes ₹8 lakhs to Mr.Jetha.
- ⇒ "bilateral netting" is a process to offset claims against each other to determine a single net payment obligation due from one party to another. Accordingly, in our example- Mr. Jetha should pay ₹2 lakh "NET" to Mr.Bhide. (शुद्ध रूप से एक पक्ष ने अन्य पक्ष को कितनी रकम देनी है उसका आखिरी हिसाब लगा दिया जाए)
- ⇒ Previously India did not have a clear legal framework for this process. So lot of capital was tied up unnecessarily into the contracts (e.g. Bhide's ₹8 lakh, अनावश्यक रूप से बहुत सारी पूंजी ऐसे अनुबंधों में अटकी रहती थी)
- ⇒ 2020: Bilateral Netting of Qualified Financial Contracts Act/Bill 2020 Implemented from 1/10/2020.
- ⇒ 😊 Benefits of new law? 1) Stability, clarity in financial contracts 2) Freeing up the capital tied up in such contracts.

14.6 🏠🏦🏡🏠 CORPORATE GOVERNANCE: BUDGET-2021



Figure 3: तुम मेरे पापा के दोस्त हो? - Cyrus Mistry

14.6.1 🏠🏦🏡🏠: Corporate Governance → LLP settlement Scheme 2020

- ⇒ Limited Liability Partnership (LLP) companies are required to submit accounts and ownership related documents to the Ministry of Corporate Affairs.



- ⇒ But many of them did not submit the documents on the deadline → Govt ordered them to pay late fees/penalties, threatened them with prosecuting cases under the LLP Act and cancelling their registration.
- ⇒ LLP settlement Scheme, 2020: “If you submit the required documents between x to y date → Then you will have to pay less penalty and we will give you immunity from prosecution.”, said the Government.

14.6.2 Corporate Governance → OPC easier to setup & upgrade

- ⇒ One Person Company: special type of private ltd company having only one member.
- ⇒ Budget-2021: One Person Companies (OPCs)- Legal reforms in Companies Act to [1] allow NRIs to easily register OPC in India [2] OPC can be converted to other types of companies any time

14.6.3 Corporate Governance → Small Companies given compliance relief

- ⇒ Budget-2021: Companies with paid up capital not more than ₹2cr & annual turnover not more than ₹20cr = treated as ‘Small Companies’. [Previously, definition of Small Company was more stricter]
- ⇒ They’ll be given relief in Companies Act related compliance e.g. how frequently they’ve to submit accounts and ownership related documents to the Ministry of Corporate Affairs etc.

Stay Tuned for the Remaining [Win21CSP] Pillar#1/2/3/4/5/6’s update packs at

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Next Handout Pillar1D: Insurance, Pension, Financial Inclusion

14.7 MRUNAL’S FULL LENGTH ECONOMY COURSE FOR UPSC PRELIMS & MAINS

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21.5 MINIMUM ALTERNATE TAX (MAT): न्यूनतम वैकल्पिक कर

Figure 4: मेरा मुनाफा शुद्ध है! मुझे बचत हो सकती है! Dept: मुझको तो किन्तु ही नहीं बचोयेगा

- Some industrialists use tax-deduction-exemptions-deprecations and accounting tricks to become “Zero Profit Companies” & escape paying Corporation Tax. So,
- Budget-1996 (Chidambaram) introduced 18.5% MAT on book profit using a different type of formula. (What was the formula, not important).

Zero profit Company's location	%MAT on its book-profit
Outside GIFT city International Financial Services Centre (IFSC) (More in Pill#3)	15%
Inside GIFT city	9%

- AMT (Alternative Minimum Tax): Concept similar to MAT but for Non-Corporate assesses e.g. Individual or Hindu Undivided Family (HUF) or Cooperative Society who are earning more than ₹“xx” lakh but not paying direct tax. How much/why/NOTIMP
- Both MAT and AMT subjected to + surcharge + cess.

21.6 DIVIDEND DISTRIBUTION TAX (DDT): लाभांश वितरण कर

Figure 5: Reliance Industries Limited

1997: FM Chidambaram started to levy DDT on a shareholder's dividend income. In reality, company (=source) will cut that much ₹₹ portion from shareholders' dividend, & directly deposit that ₹₹ to the govt, as DDT.