



Pillar#1C1: Sharemarket → Debt/Bonds

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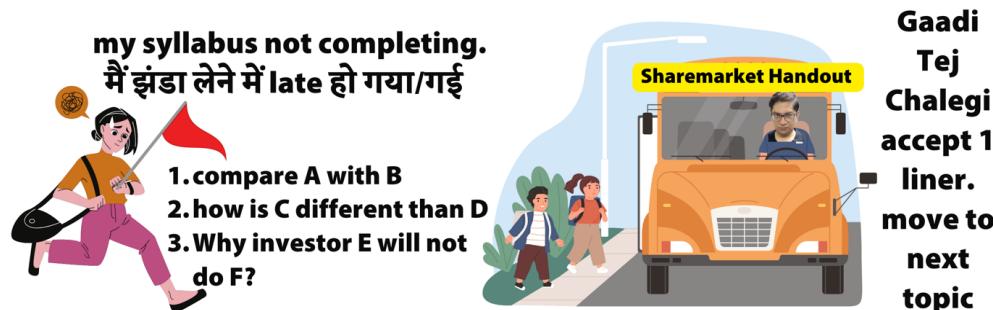
15 🐄📈🐻 PILLAR#1C1: SHAREMARKET IN UPSC

MCQs from SEBI/ Share market /Financial Market / Companies Act Topic in UPSC Prelims

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
MCQs	1	0	2	0	1	1	3	1	2	3	5

15.11.1 🏴👤 Boycott Notice for PHD in Sharemarket handout

Since UPSC has recently started asking special types of MCQs from Sharemarket related so I've increased the topic coverage in this handout = number of pages increased without any SHAME.



- We will only grab low hanging fruits / 1-liner-GK and move. If I have not covered something = that means I do not find it important for exam or I find it to have poor cost:benefit.
- I boycott unnecessary translation into Hindi for every term: because sharemarket-topic does not have much utility in the mains examinations.

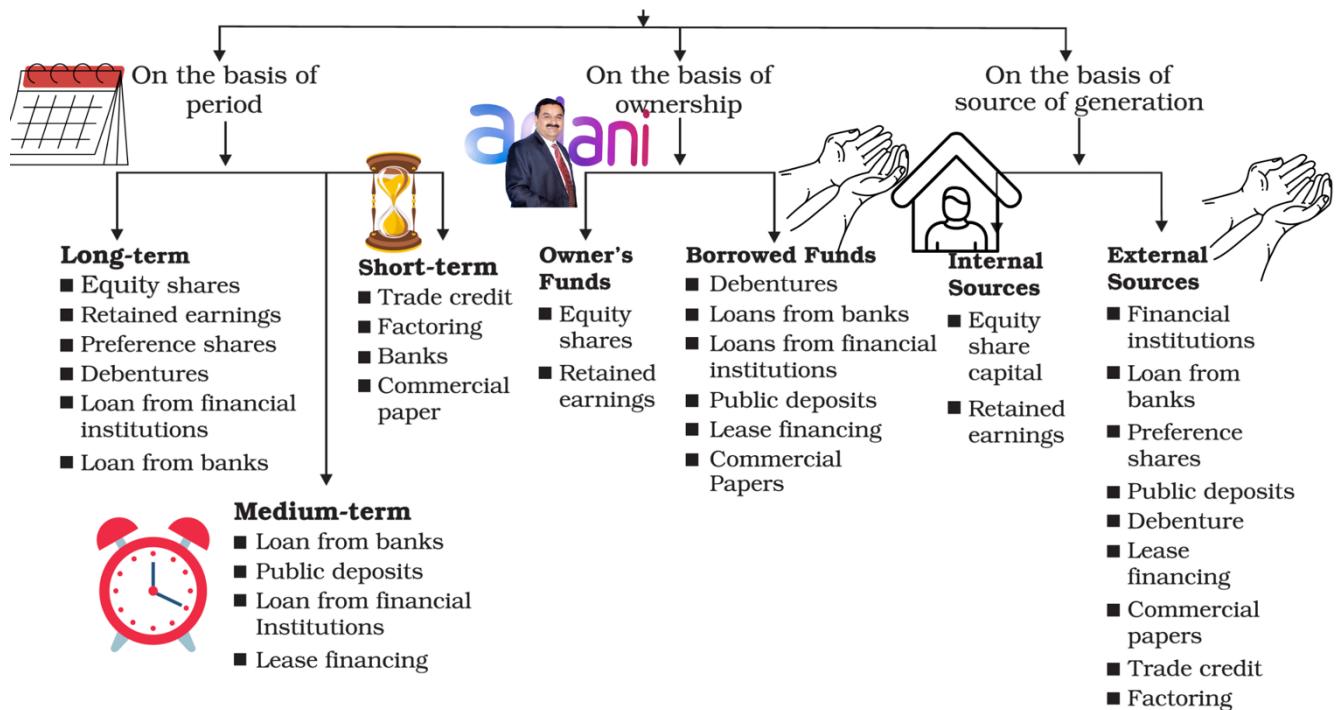
15.12 💰 CAPITAL (पूँजी)- TYPES FIXED VS WORKING

Capital required to meet financial needs of a company.

Fixed Capital (स्थायी)	Working Capital (कार्यकारी)
Money needed for purchase of land, plant and machinery, furniture, and other fixed assets.	Money needed for purchase raw materials, salaries to employees, rent of the office, advertising / marketing, other day-to-day operations, etc.



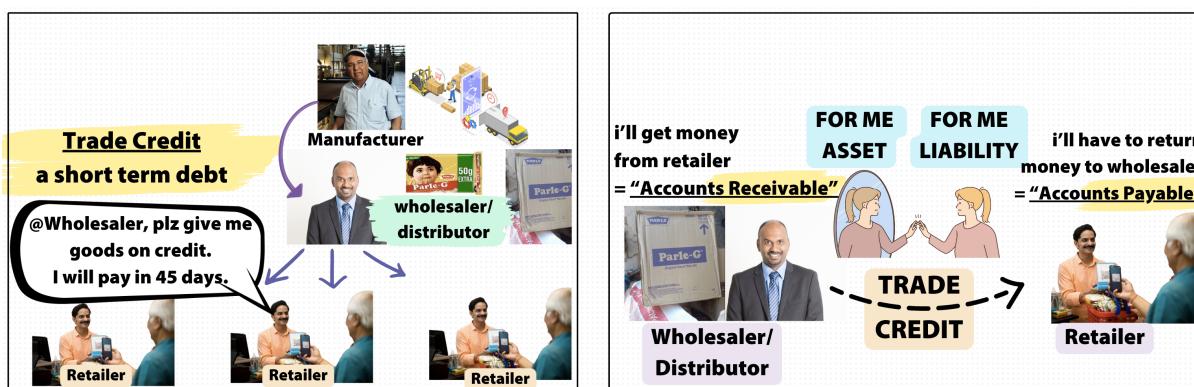
15.12.1 💰 Capital / Funding Arrangement: Types



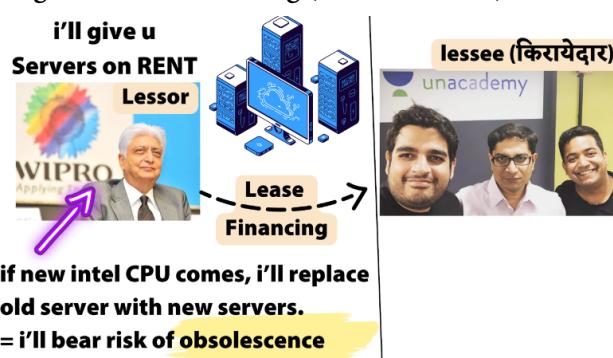
Source: NCERT Class12 Business Studies Ch.8

Wait till we finish entire handout, then these terms will make sense to you.

15.12.2 💰 Capital Arrange → Trade Credit, Account Receivable & Payable



15.12.3 💰 Capital Arrange → Lease Financing (Medium Term)



15.12.4 📈 Capital Arrange → Retained Earnings (Long Term)

- Company makes profit → ₹₹ goes into two channels.
- Some of the money given to shareholders as dividend.
- Remaining money is re-invested in the business = this is called “Retained Earnings”
- FAQ: who will decide how much money will be given as dividend/retained earning? Ans. Company's board of directors.

15.13 📈 SECURITIES (प्रतिभूति)

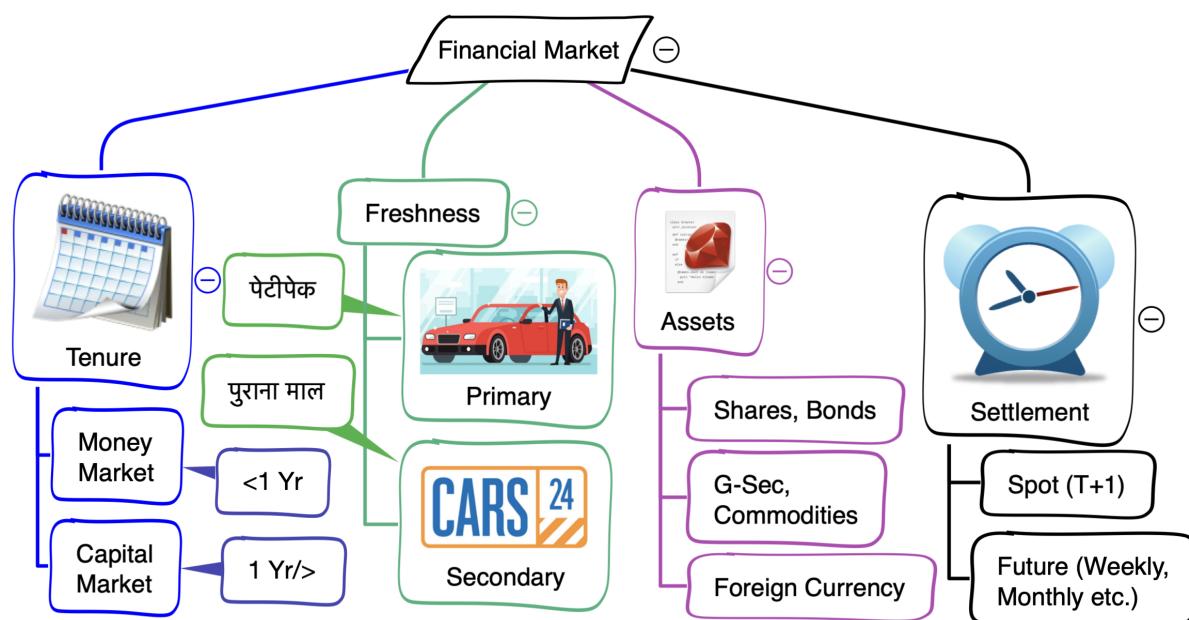
A ‘Security’ means a certificate/document indicating that its holder is eligible to receive a certain amount of money at a particular time. This could be a...

👉 Equity: Share certificate	👈 Debt (ऋण): Bond / Debenture
Holder gets dividend from the profits of the company. If no profit, then no dividend.	Holder gets interest & principal irrespective of whether company makes profit or not.
Company's owners, proprietors (मालिक)	creditors of the company (लेनदार).
Have last claim during liquidation. So, Shareholders are ‘Residual Claimants’.	first claim. नीलामी से मिलने वाली रकम पर पहला हक इनका
Attractive in boom period, since companies more likely to make profit so more chances of good dividend. Although during corona, many investors tried to buy shares cheap from secondary market, with hopes of getting profit after corona-recovery.	Attractive in slowdown period, since bonds provides fixed interest to the investor irrespective of profit of the company. निवेशकों को मंदी के दौरान ज्यादा अच्छे लगते हैं, क्योंकि जोखिम कम

👉FAQ: Bond and Debenture are not same. They're having internal technical differences.

Ans. UPSC not asking b.Com/M.Com pedantry here. Then why burden brain's memory card?

15.14 💳🛒 FINANCIAL / SECURITIES MARKET: MEANING AND TYPES



Financial Market is the place where buying and selling of securities takes place. Market doesn't require physical location. Can be done online / telephone as well.

Classifi.	Market Subtypes
Tenure: (अवधि)	<ol style="list-style-type: none"> ⌚ Money Market (<1 year maturity) मुद्रा बाजार 📝 Capital Market (1 year/> maturity) पूँजी बाजार
Freshness प्राथमिक एवं द्वितीयक बाजार	<ol style="list-style-type: none"> Primary Market (where new securities are issued for the first time). Helps a company /govt to connect with the investor. It has no separate physical existence but classified like this, for economic analysis. (इस बाजार का अलग से भौतिक स्थान नहीं होता किंतु आर्थिक आकलन के लिए आंकड़ों में अलग से दिखाया जाता है) Secondary Market (where the old securities are resold). It may have physical existence e.g. Bombay Stock Exchange (BSE) at Dalal Street, Mumbai. Secondary Market provides liquidity & confidence to investors to buy new securities in Primary Market. (<i>compared to a scenario if there was no market to resale used cars- तो कम लोग नई कार खरीदने जाएंगे.</i>)
Settlement (निपटान)	<ol style="list-style-type: none"> Future Market: Where parties write contract today to buy/sell something at specific price on a future date. (भविष्य की किसी तारीख को खरीद/बिक्री के लिए वर्तमान में सौदा/समझौता किया जाए) Spot Market: if bought & sold for immediate delivery.
Asset (परिसंपत्ति)	<ul style="list-style-type: none"> - Depending on what asset is traded, market can be divided into Bond (Debt) market, Share (Equity) market, G-Sec Market, Foreign Currency Market, Commodity Market etc. - if there was a supermall where all these products were available in one place it will be called “Universal Exchange”. SEBI permitted BSE & NSE to launch such thing (2018).

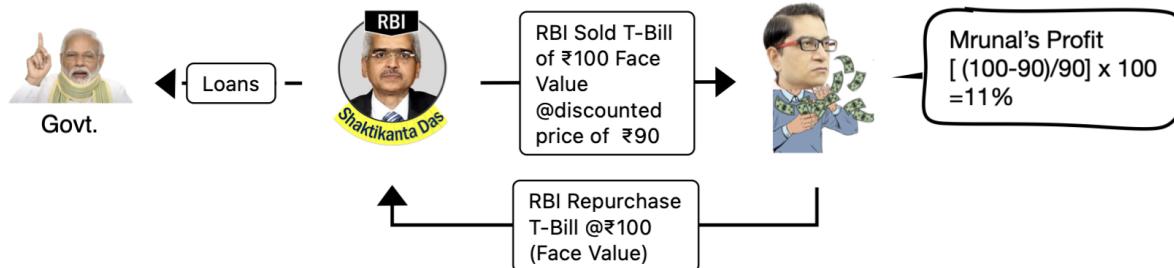




15.15 DEBT INSTRUMENTS (ऋण उपकरण)

Bond holders are creditors to company. First claim during liquidation. Assured interest irrespective of profit of company. These debt instruments can be classified into short-term vs long term.

15.15.1 Short term debt instruments (लघु अवधि ऋण उपकरण)



- Tenure = less than 1 year. Usually ‘unsecured’ because not backed by any asset.
- Usually sold at discount and re-purchased at Face Value or Par Value. The difference between these two prices is the interest earned by investor. सस्ते में बेचकर मूल भाव पर खरीदा जाता है
- Another synonym for this process: “**rediscount the bills.**”
- They’re traded at **Money Market** and are (usually) ‘negotiable & transferable’ in nature i.e. lender can sell to 3rd party → 3rd party can demand money from borrower. (परक्राम्य और हस्तांतरणीय)
- They’re also called **Near Money** = Asset that is highly liquid = can be readily converted into cash.

15.15.2 Short term debt instruments → by Govt

Tenure	Union	State
Short (<1 yr)	T-Bills (14,91,182,364)	N/A. Stopped since 2001
Short	Cash Mgmt Bill (CMB) 91 days	N/A
Short	WMA & Overdraft by RBI	Yes, available
Short	N/A	Sp.Drawing Facility (SDF) by RBI
Long (1yr/>)	G-Sec	State Development Loans (SDL-Bonds)

FAQ: in other books, different info given. Ans. my table based on IYB-24 & Bizstd news-article.

? Find Correct statements Asked in UPSC-Pre-2018)

1. The RBI manages and services Govt of India Securities, but not any State Govt Securities.
2. Treasury bills are issued by Govt of India and there are no treasury bills issued by State Govts.
3. Treasury bills offer are issued at a discount from the par value.

Ans Codes: (a) 1 and 2 only (b) 3 only (c) 2 and 3 only (d) 1, 2 and 3

15.15.3 Short-term Loans for Govts → WMA, Overdraft, SDF

RBI loan rate	Loan quota for State	Loan quota for Union
Overdraft= Repo + (2-5)%	State takes it when its SDF & WMA quota is over.	Union takes it when WMA quota is over
WMA = Repo%	₹60,118 cr (total combined quota for all States)	₹1.20 lakh cr



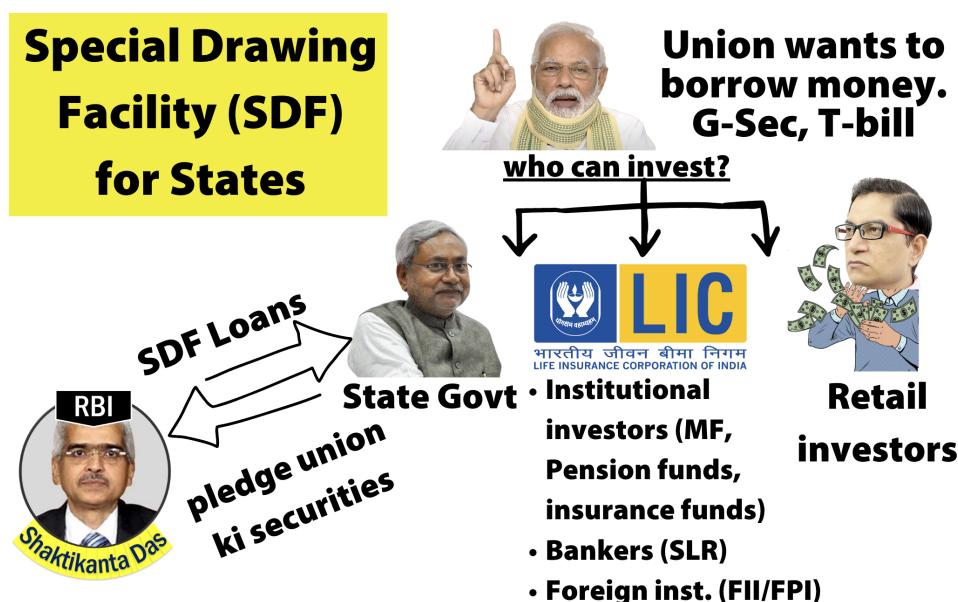
RBI loan rate	Loan quota for State	Loan quota for Union
SDF = Repo-1%	depends on how much securities the State can pledge to RBI	N/A

15.15.4 Short term debt instruments → by Govt → WMA

- ⇒ When Govt faces short term mismatch in receipt (income) and payment (Expenditure)
- ⇒ RBI lends money for short term (3 months).
- ⇒ WMA numbers are not counted in fiscal deficit figure. (More in Pillar2D: FRBM)
- ⇒ Corona-crisis: ↑ mismatch in cashflow. So, 2020- ATMANIRBHAR Bharat initiative → RBI ↑ WMA limits to help the Union and State Govts. 2024- again RBI increased limits. But actual numbers not imp for exam. Watch video for more.

15.15.5 Short term debt instruments → by State Govt → SDF

- RBI's Special Drawing Facility (SDF) gives short term loans to State Govts/ UTs, against the Union's G-sec/T-bill securities as collateral



15.15.6 SDF/SDR - don't confuse or make khichdi

Boss	Name of the Window	To Help Whom?
RBI	SDF: Special Drawing Facility for States	Indian States to get short-term loans from RBI
RBI	SDF: Standing Deposit Facility	Bankers Deposit surplus ₹ in RBI, no G-Sec collateral. (Ref: Pillar#1A2)
IMF	SDR: Special Drawing Rights	Loans to Nations facing BoP-crisis (Ref: Pillar#3)

MCQ. In India, who can trade in Corporate Bonds and Govt Securities?(Pre'24-Set-C-Q53)

1. Insurance Companies
2. Pension Funds
3. Retail Investors

Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3



15.15.7 Short term debt: Certificate of Deposit (CD-instrument by Bankers)

- ⇒ Certificates of deposit (CDs) are unsecured, short-term, negotiable debt instruments issued by commercial banks in the money market.
- ⇒ 2023 sudden jump in the CD issued by bank.
- ⇒ Reason: Bankers received many loan applications, but don't have enough money to loan because
 - A) enough quantity of deposit is not coming and
 - B) repo loans becoming very expensive.
- ⇒ So bankers borrowing money by issuing CDs in money market.

Word	Meaning
NEGOTIABLE INSTRUMENTS	a signed document that promises money to a specified person at a specified time (एक दस्तखत/हस्ताक्षर किया हुआ दस्तावेज जिसमें किसी व्यक्ति को किसी दिन पैसा देने की कसम/प्रतिज्ञा की गई है)
UNSECURED	no collaterals/assets are pledged. (कुछ गिरवी नहीं रखा गया)
SHORT-TERM	less than 1 year

15.15.8 Short term debt instruments → more types

Table 1: how does this work in real life? Ans. not important just remember 1-Word Association

Borrower	 Short term debt instrument (लघु अवधि केऋण पत्र)
Company	- Bill of Exchange, Hundi, Commercial Papers, Promissory Notes.
Merchant	Commercial Bill.
Call Money	It's the interest rate when Financial Intermediaries (Banks/NonBanks) borrow for ONE DAY among themselves.
Notice Money	Same as above but for 2 to 14 days.
CBLO	Collateralized Borrowing and Lending Obligation. Clearing Corporation of India Ltd (CCIL) helps Financial Intermediaries (FI) to get short term loans through this instrument.
ICD	Inter Corporate Deposits are unsecured short-term loan made by a company with another company.
Repo	Repo and Reverse Repo= Ref: Pillar#1A2: Monetary Policy handout.

MCQ. Consider the following markets : [Pre'23-SET-A-Q025]

1. Government Bond Market 2. Call Money Market 3. Treasury Bill Market 4. Stock Market

How many of the above are included in capital markets?

(a) Only one (b) Only two (c) Only three (d) All four

MCQ. "Collateral Borrowing and Lending Obligations (CBLO)" are the instruments of _____.

(Pre'24-Set-C-Q70) (a)Bond market (b) Forex market (c) Money market (d) Stock market

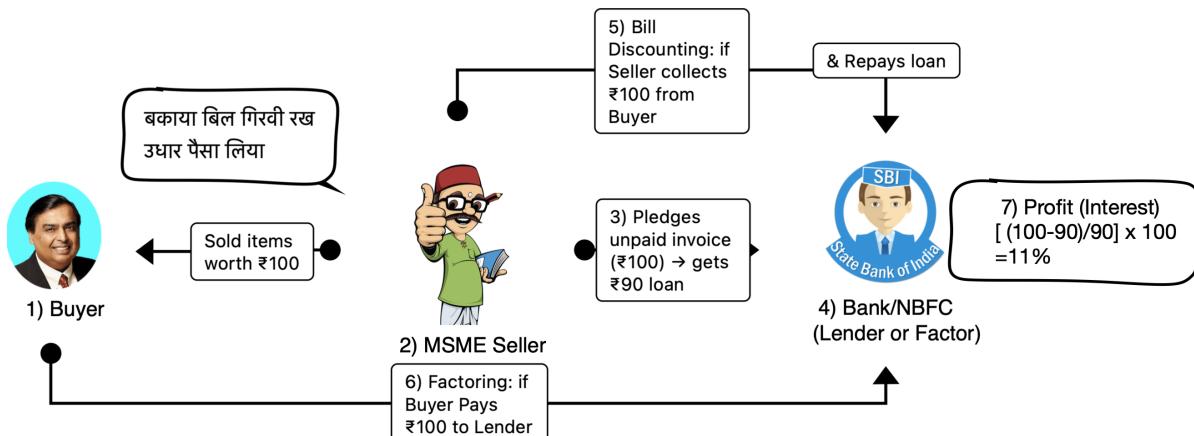
15.15.9 Debt → Short Term → Tri-party Repo

- ^ The Tri-Party Agent (e.g. NSE or BSE) acts as an intermediary between the two parties to facilitate collateral custody, & repayment. Agent will earn commission from this deal.

- Tri-party Repo is **not** a tool of RBI monetary policy.

Type	(Normal) Bi-Party Repo	Tri-Party Repo
No. of Parties	(1) borrower (bank) (2) lender (RBI).	1) borrowers 2) lenders 3) Tri-Party Agent (e.g. NSE or BSE)^^

15.16 DEBT → SHORT TERM → FACTORING & TREDs



- ⇒ Suppose an MSME seller has sold cardboard boxes for jiophones to Mukesh Ambani but Mukesh Ambani says he will pay the bill next month. Presently this is an unpaid invoices.
- ⇒ MSME seller can pledge this invoice to a factor (bank/NBFC) to avail loans. (छोटी कंपनियां बड़ी कंपनियों को सामान और सेवा बेचती है उसका जो बकाया पैसा है उसके बिल को गिरवी रख के लघु अवधि का कर्ज ले आये)

Bill Discounting	Factoring
MSME seller collects ₹₹ from Buyer (Ambani) & delivers ₹₹ to the Factor (bank/NBFC).	Factor (lender: bank/NBFC) directly collects ₹₹ from unpaid invoices from Buyer (Ambani).

15.16.1 Factoring Regulation (Amendment) Act, 2021

to amend the Factoring Regulation Act, 2011

Before	After
Banks and only “Factoring Companies (NBFC)” allowed to give loans under this system. There were only seven NBFCs registered as Factoring Companies.	Banks and all types of NBFCs allowed (After registering with RBI). → So now more than 9000 NBFCs in India can give loans → this will increase the availability of loans for the MSME.
-- earlier it was less.	RBI given more powers to regulate this business.
-- earlier it was less.	More legal clarity about TReDS system.
Earlier this was not clear and so MSME could commit fraud of “dual financing” i.e. Pledging the same invoice as collateral in multiple Bank/NBFCs.	Need to register the invoice-pledge-factoring-loan transaction on A central registry set up under the SARFAESI Act. This will prevent the dual financing frauds.

15.16.2 TReDS platform to connect factoring-players.

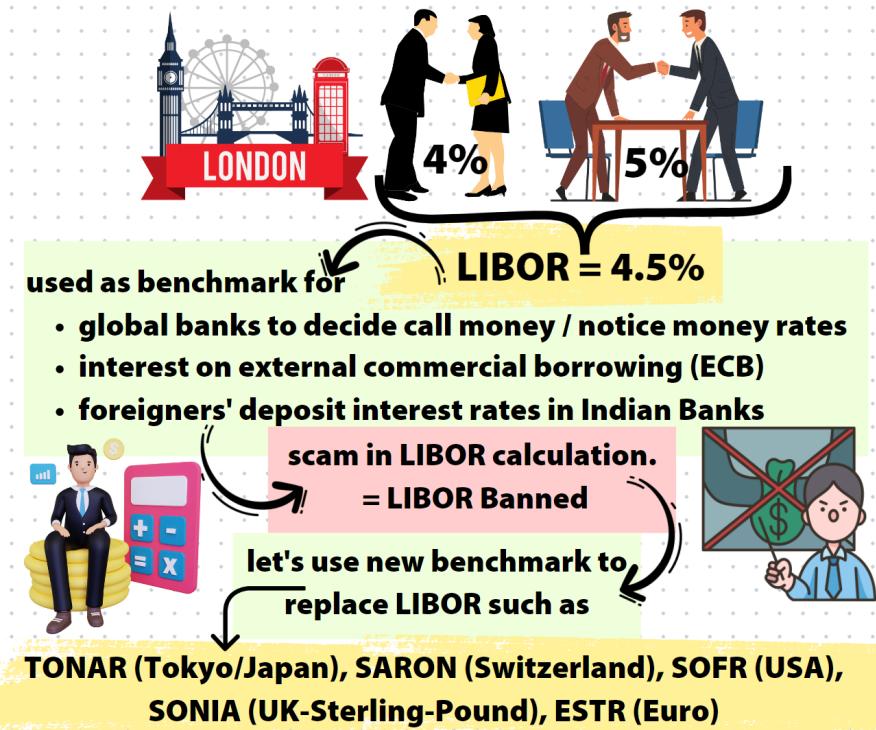
- ⇒ Just like quickr/olx connect buyers with sellers, the Trade Receivables Electronic Discounting

- System (TrEDS) online-platform Connect the factors (bank/NBFC) with the borrowers (MSME).
- ⇒ Examples of 3 TReDs platforms: M1xchange, RXIL, and A.TReDS. Have to register with RBI.
- ⇒ Most famous is RXIL - Owned by the Small Industries Development Bank of India (SIDBI) and the National Stock Exchange of India Limited (NSE), State Bank, ICICI and Yes Bank .

15.17 DEBT → INTEREST RATE BENCHMARKS: LIBOR, MIBOR,

London Inter-bank Offered Rate (LIBOR) is the average interest rate at which banks in **London** give short term loans to each other.

MIBOR	In LIBOR definition, replace the word “London” → “Mumbai” and “Global” → “Indian”, and you’ll know what MIBOR is!
MIFOR	⇒ Mumbai Interbank Forward Outright Rate (MIFOR) ⇒ Faded topic so deleting from handout.



15.17.1 India's SORR → Secured Overnight Rupee Rate (SORR)

- Post-LIBOR controversy, RBI formed the Ramanathan Subramanian Committee to develop Rupee interest rate benchmarks.
- The committee proposed Secured Overnight Rupee Rate (SORR) as a benchmark (2024)
- SORR may replace Mumbai's MIBOR, though not confirmed yet.
- Financial Benchmarks India Limited (FBIL) will calculate SORR. It is a company formed by bankers and forex dealers.

AB CD ? Which of the following is /are example (s) of ‘Near Money’? [UPSC-CDS-2016-I]

1. Treasury Bill 2. Credit Card 3. Saving accounts 4. Money Market Instruments

Answer codes: (a) 1 only (b) 2 only (c) 1, 2 and 3 (d) 1, 3 and 4

AB CD ? Which defines ‘Hundi’ of the post-Harsha period? (UPSC-Prelims-2020)



- [a] An advisory issued by the king to his subordinates
- [b] A diary to be maintained for daily accounts
- [c] A bill of exchange
- [d] An order from the feudal lord to his subordinates

**AB
CD ? Find correct statement(s) (UPSC-Prelims-2020)**

- 1) 'Commercial Paper' is a short-term unsecured promissory note.
- 2) 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
- 3) 'Call Money' is a short-term finance used for interbank transactions.
- 4) 'Zero-Coupon Bonds' are the interest bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Codes: [a] 1 and 2 only [b] 4 only [c] 1 and 3 only [d] 2, 3 and 4 only

15.18 LONG TERM DEBT INSTRUMENTS (दीर्घ-अवधि क्रण- उपकरण)

Tenure = 1 year/>. Further sub-division based on who is the Borrower?

15.18.1 Colonial era Govt. to borrow money

1. **Coupon Bonds:** Contain detachable coupons. Coupons are presented to the issuer to claim the interest. Therefore, bond interest rate is also called 'coupon rate'.
2. **Zero Coupon Bonds/ Zero Interest Debentures (ZID):** Are sold on discount and repurchased at face value, do not have any coupons. (separate topic: **Zero-Coupon, Zero-Principal Bonds**- check 'social stock exchange' in this handout)
3. **Bearer Bonds:** Not linked to a PAN card, Aadhar card or passport, voter card or social security number. Anyone who presents it to the issuer, will get interest and principal. Usually issued during the war time.

15.18.2 Modern day Government to borrow money

⇒ **Government securities, Dated securities, Sovereign bonds (संप्रभु बांड), Kisan Vikas Patra etc.**

(more in Pillar 1D: Financial inclusion lecture)

⇒ Also called **Gilt Edged securities** (उच्च / अग्रिम दर्जे की प्रतिभूतिया) because repayment is assured by Government. (But then, they give lower interest rate because of low risk to the investor).

⇒ Global Credit Rating Agencies gives 'rating' to sovereign bonds. "AAA" is the best 😊 and highest given to US Treasury Bonds. India's rating is ~"BAA" = moderate risk of default 😰.

⇒ World's top three credit rating agencies- Fitch, Moody's and Standard & Poor have pro-US/EU allegiance. Critics allege these 3 agencies do not give adequate upgradation to the Govt bonds of India, China, Russia despite the economic growth. भारत में अच्छी-खासी आर्थिक वृद्धि के बावजूद भी यह पक्षपाती विदेशी संस्थान भारत को खराब रेटिंग देते हैं

**AB
CD MCQ. Consider the following statements:(Pre'24-Set-C-Q41)**

St1: If the USA were to default on its debt, holders of US Treasury Bonds will not be able to exercise their claims to receive payment.

st2: USA Government debt is not backed by any hard assets, but only by the faith of the Govt.

Codes: (a) Both I & II are correct & II is the correct explanation for I

(b) Both I & II are correct & II is not the correct explanation for I



(c) I is correct but II is wrong (d) I is wrong but II is correct

15.18.3 📈🔍 Global Bond Indices & inclusion of Indian G-Sec

bond market index is a measurement/reporting tool to show the performance of the bond market.

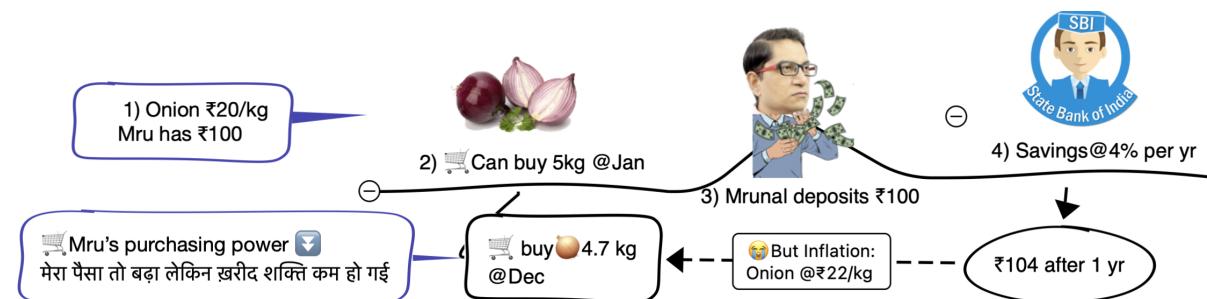
Name	Description	Indian G-Sec included?
JPMorgan GBI-EM	JPMorgan Govt Bond Index-Emerging Markets (GBI-EM) tracks prices of more than 15 emerging countries' G-Secs.	yes, from 2024
Bloomberg EM Index	Bloomberg Emerging Market (EM) Local Currency Government Index.	yes, from 2025

💡 What are the benefits when Indian G-Sec included in global Indices?

- 💡 It improves the confidence of foreign investors in park their money into Indian government security.
- 💡 Increased number investors = Easier liquidity to the existing investors in the secondary market.

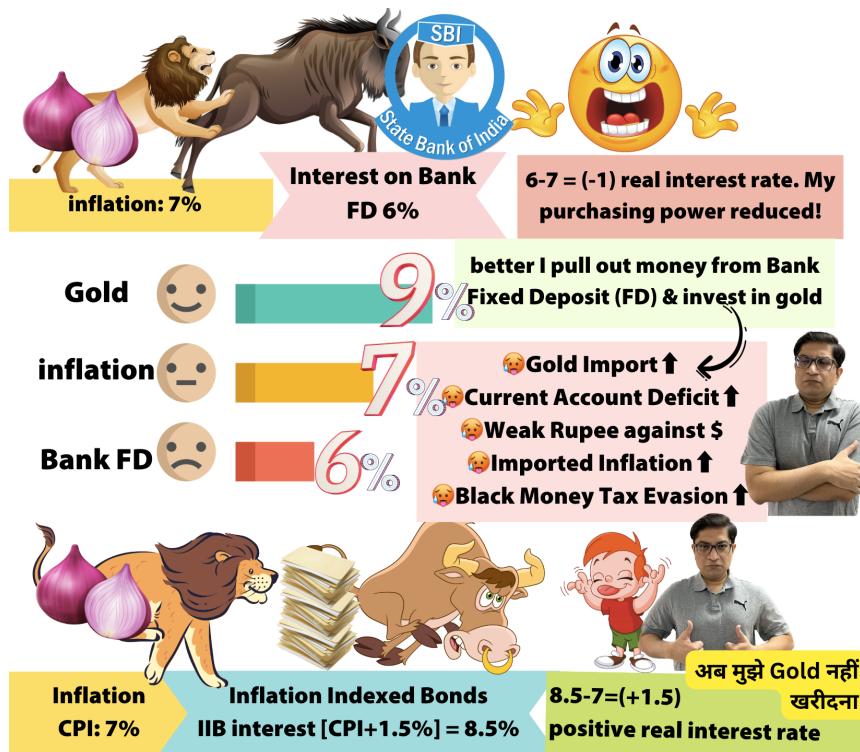
15.19 💰📅 BONDS ISSUED BY GOVT/RBI FOR SPECIAL PURPOSE?

15.19.1 💰📅 Bonds by Modern day Govt. to curb Gold Consumption



⇒ When Real Interest is negative, purchasing power ↓ despite ↑ in money quantity in bank account. Then people prefer to park money in gold/real estate- which is not very beneficial to economy. So..RBI launched inflation indexed bonds <see the NEXT section>

15.19.2 🍅📝 RBI's Inflation Indexed Bonds (IIB-मुद्रास्फीति सूचकांकित बांड)



- RBI launched such bonds in 1997, 2004, 2013, 2018 to provide positive Real interest rate.

15.19.3 🍎✍️📝 RBI's Capital Indexed Bonds (CIB) vs IIB

Sometimes the newspapers use the word Capital Indexed Bonds (CIB) to describe the IIBs. CIB is a very old and updated topic. But unnecessary **vampire BabuShone** sucking my blood after looking at faaltu-MCQs by in-experienced quiz masters, so, I am forced to write this:

Bond-Year	CIB-1997	CIB-2004 & IIB-2013	**IINSS-C - 2013
Principal protected against inflation	Yes	Yes	Yes
Interest protected against inflation	No	Yes	Yes
Inflation-benchmark	WPI-Wholesale Price Index	WPI	Consumer Price Index (CPI)

- ** IINSS-C = Inflation Indexed National Saving Securities - Cumulative. (Full form not imp.)
- 🧑FAQ: CPI vs WPI? (Ref: Pillar#4E)
- 🧑FAQ: what if there is a deflation (= inflation falling below 0%), will investor loose money?
ans. No. Then RBI promised to pay minimum x% interest even if the inflation fell below 0%.

15.19.4 🏅✍️📝 RBI's Sovereign Gold Bond (SGB) (started from 2015: संप्रभु स्वर्ण बांड)

RBI issues them on behalf of govt. Denomination: gold grams. But, RBI/Govt doesn't 'promise' to give you gold. They only promise to give you ₹ equivalent of latest gold price on maturity. इस बांड का मूल्य सोने के वजन के चिह्नित होगा. किन्तु परिपक्वता समय पर आपको सोना नहीं, उस सोने के वजन के हिसाब से मूल्य जितना रुपया देगे।

- Annual interest 2.5-2.75% (depending on which year's 'batch' you bought.)
- Tenure: after 8 years you get the amount equivalent to prevailing gold prices at that time. हर साल नियत व्याज, परिपक्वता समय पर बाजार में यदि सोने का दाम बढ़ा होगा तो आपको मूलधन से भी ज्यादा ₹ वापस दिए जाएंगे.



- **Eligible investor categories:** Indian resident individuals, Hindu Undivided Families (HUFs), trusts, universities and charitable institutions. सिर्फ यह लोग या संस्थान हीं खरीद सकते हैं
- **How much can you buy?** Minimum 1 gm to max upto 20kg depending on investor's category.

💡 **Benefit ?** reduces the import-demand for physical gold and shift a part of the domestic savings -- used for the purchase of gold -- into financial savings. (More in Pillar#3A)



15.19.5 💰 📊 Govt to stop borrowing via SGB due to high gold price (2025)?

matter	2019	2024	Percentage Increase
Gold Price (per 10 grams)	~₹35,000	~₹75,000	~114%

Increase in gold prices → increases Government liability to repay loans taken via SGB.

Therefore newspapers hinting that Govt may stop borrowing via SGB in the future (2025 report).

15.20 🔪 📁 💼 LONG TERM DEBT INSTRUMENTS BY COMPANIES

- 1) **Bonds** (British Term), **Debentures** (American Term): Internal difference not important.
- 2) If the company has high risk of default on repayment, the Credit Rating Agencies will mark it as Junk Bonds ("BB to D" Grade) e.g. IL&FS. Such company will have to offer a very high interest rate when issuing bonds next time. ज्यादा जोखिम पूर्ण कंपनी ने निवेशक को लुभाने के लिए ज्यादा ब्याज देना होगा
- 3) **Redeemable Bonds** (मोच्च): will repay regular interest and will return principal on maturity.
- 4) **Irredeemable Bonds** (अमोच्च): will pay only interest but no principal returned. Sometimes issued by PSB to meet BASEL-capital requirements. Although in reality they offer 'redemption' after 5-10 years when holder has 'option' to redeem principal & exit. (Ref: Pillar1B2= AT1 Bonds)
- 5) **Secured vs Unsecured.** Secured = asset is pledged. Unsecured = not pledged.
- 6) **Non-convertible Bond/Debenture** = can't be converted into shares.
- 7) **Hybrid instruments:** Issued as "Bond" but can be converted into Share. E.g. Optionally Fully Convertible Debentures (OFCD).

15.20.1 🐸 Hybrid financing / Mezzanine Financing

- It has elements of both debt (loan) and equity (partnership).
- Lender gets a right to convert the debt (bond) to an equity (share).
- it is done via instruments such as Optionally fully convertible debentures (OFCD).
- Venture Capitalists usually do it in the start-up companies.

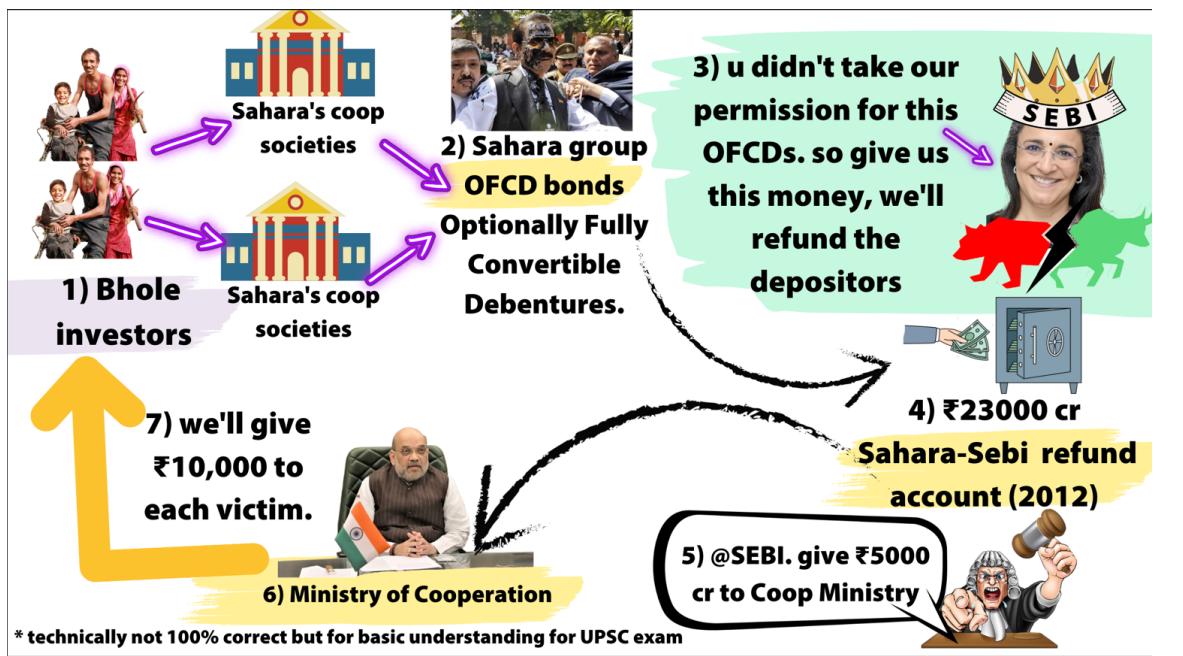
Instrument	Normal / Traditional Bonds / Non-convertible debenture (NCD)	OFCD	Share (Equity)
Interest/ Return on Investment	12%	8%	uncertain
Rights/ Claim during liquidation of company	first right	middle	last/residual claim

^^ Numbers only for e.g. that OFCD normally pay less interest than traditional bonds(NCD).

**AB
CD ? MCQ. Find correct statements about Convertible Bonds (Prelims-2022)**

1. As there is an option to exchange bond for equity, Convertible Bonds pay a lower rate of interest.
2. The option to convert to equity affords the bondholder a degree of indexation to rising consumer prices. Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

15.20.2 🐸 Hybrid: OFCD: Sahara Refund portal (2023)



Basic story explained in above chart: then

- Ministry of Coop. → Central Registrar of Cooperative Societies (CRCS, a statutory body under Multi-State Co-operative Societies Act 2002) → CRCS - SAHARA REFUND PORTAL setup.
- 2023: Each investors given ₹10,000 refund from this portal.

15.20.3 🐸 Hybrid: Foreign Currency Convertible Bonds (FCCBs):

- FCCB investor has option to convert his bond Into shares at pre-determined exchange rate.
- The FCCB's are issued in a foreign currency and carry a fixed interest rate
- e.g. 2010: Tata issued FCCB worth \$1 billion. (Investors gave dollar currency)

Terms	Example
Face Value	\$1000 for one bond
Tenure	5 years
Interest	5% on face value in dollars = 50 dollars.
Conversion option	if INVESTOR wanted he could convert 1 Bond (of \$1000 value) -into 1 share of ₹45,000 face value each. (2010's exchange rate \$1=₹45)

Usually, FCCB's interest rate lower than non-convertible debentures (NCD). (because company is giving you the lollipop of conversion. So you cannot eat Laddu both ways ke I want high interest rate and also I want conversion option.)



15.20.4 🐸 Hybrid: Contingent convertible bond (CoCo)/ enhanced capital note (ECN)

Its features are hybrid Mix of i) AT1 Bonds (Ref 1B2) and iii) OFCD.

we'll pay u "A%" interest rate But

- if Condition "B" happens, we'll convert it into Shares
- If Condition "C" → we'll write-off principal + Interest and will not even convert it into share.

15.21 📊📅 BONDS TYPES : BASED ON ISSUER

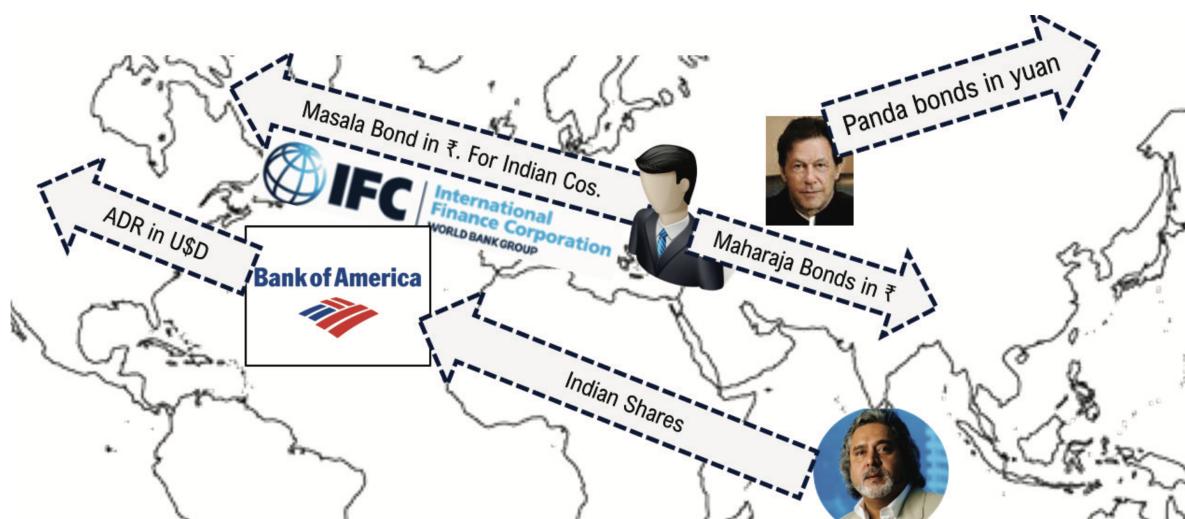
15.21.1 📊📅 Bonds Types : Based on Issuer → ULB (Urban Local Bodies)

Year	Event
1996 [#]	Ahmedabad Municipal Corporation was the first urban local body to raise funds through municipal bonds (₹100 cr); without state govt guarantee.
1997 [#]	Bangaluru Mahanagar Pallike (BMP) was to issue municipal bonds for ₹ 125 crore. (= Matlab ki this much large size ₹ 125 cr krne walla first ULB was Bangaluru.)
2020	Lucknow Municipal Corporation (LMC) issued bonds worth ₹ 100 cr. it is the first municipal bond from North India.
2021	<ul style="list-style-type: none"> - Ghaziabad Municipal Corporation (Uttar Pradesh), issued first-ever Green Municipal bond in India. (भारत का सर्वप्रथम हरित नगर निगम बॉन्ड) - however, it was 'private placement' i.e. only selected big players allowed to invest. normal retail investors couldn't apply for it.
2023	Indore becomes first civic body to launch municipal green bonds in India for retail investors (aam aadmi). This money was used for solar plant
2024	Ahmedabad becomes 2nd to issue municipal green bonds after Indore.

#👉 Note: Various books/websites are giving different facts about "who was the first to issue Muni.Bonds?" Ans. I've copy pasted from Prof. Bharati Pathak's book on financial market & PIB.

15.21.2 📊📅 Bonds Types : Based on Issuer → Global

Issuer	Objective? उद्देश्य?
BRICS Bond	<ul style="list-style-type: none"> - 2014- BRICS Nations had setup the New Development Bank (NDB, HQ: Shanghai, China). Later it launched BRICS Bonds to mobilize money for its infrastructure loans. Denomination: US Dollars
World Bank	<ul style="list-style-type: none"> - 2018: launched world's first Blockchain Offered New Debt Instrument called Bond-i. Sold in Australia using Ethereum blockchain technology. Tenure: 2 years @~2% interest. Denomination: Australian Dollars, hence also called "Kangaroo Bond".
Evergrande Crisis	<ul style="list-style-type: none"> - Evergrande is a Chinese real estate developer company. Facing trouble repaying its bonds. Foreign investors panicked, resulting in crisis in Chinese and global financial markets. HOW?NOTIMP.



15.21.3 📊 Long Term Debt Instruments: Masala, Maharaja, Panda Bond

🌶️ **Masala Bonds:** These rupee denominated bonds issued outside India, to borrow money for Indian companies. World Bank's sister agency International Financial Corporation (IFC) launched 'Masala Bonds' to help Indian public sector and pvt sector companies.

- ⇒ 2015: RBI allowed Indian entities to launch such Masala Bonds.
 - ⇒ 2017: National Highways Authority of India (NHA) also issued Masala Bonds in London Stock Exchange to mobilize money for Indian Highway projects.
 - ⇒ 2019: Kerala became the first State of India to issue Masala Bonds. Its Kerala Infrastructure Investment Fund Board (KIIFB) issued Masala Bond at the London Stock Exchange.
- Denomination: ₹ ₹ Total Size: ₹ 21.5 billion. Tenure: 5 years. Masala Bonds are usually issued by institutions with AAA rating. Since KIIFB has BB rating, hence offered higher interest rate: ~9.7% (वरना कोई खरीदता नहीं)

Table 2: rapid revision table for Bond types based on currency

👉 Issuer →	🌐 Borrowing from →	🏦 In currency →	💸 Is called
Non-Chinese →	China →	Renminbi (=yuan)	🐼 Panda Bonds
Non-Chinese →	Hong-Kong	Renminbi (=yuan)	Dim sum Bonds. Dimsum=type of food
Non-Australian	Australia	Australian dollar	🦢 Kangaroo Bonds
Non-Indian	India	Rupee	👑 Maharaja Bonds
(Indian or a non-Indian on behalf of Indians)	Outside India	Rupee	🌶️ Masala Bonds
Non-Taiwanese entity	Taiwan	OTHER than Taiwan dollar	Formosa Bond

AB CD ? Find correct statement about 'IFC Masala Bonds' (UPSC-Pre-2016)

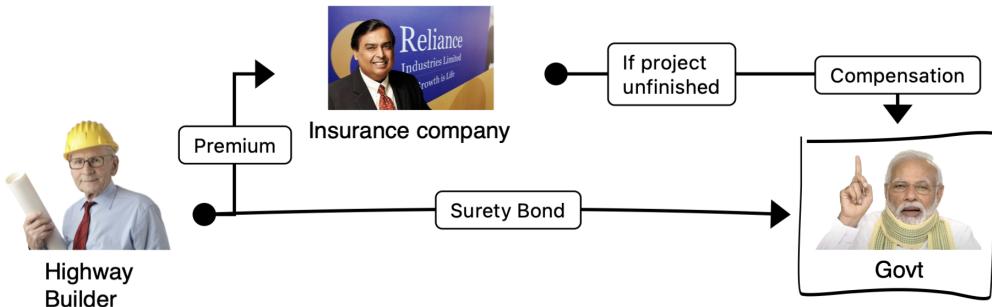
1. The International Finance Corporation, which issues them, is an arm of the World Bank.
2. They are rupee-denominated bonds & a source of debt financing for public & private sector.

Answer Code: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

AB CD ? Which one of the following is a viable alternative to term-loans for raising debt finance by large publicly traded firms? (UPSC-IEnGG-2018)

- (a) Shares (b) Debentures (c) Asset loans (d) Gold loans

15.21.4 Long Term Debt Instruments: Special purpose: Surety Bonds



⇒ What does above chart mean? Ans. Refer to Video lecture.

⇒ Budget-2022 said we'll allow Surety Bonds. IRDAI will regulate this.

15.21.5 Long Term Debt : Special purpose Bonds- Sovereign green bonds



⇒ RBI sells them via E-Kuber platform to investors.

⇒ Money will go to Government's Consolidated Fund of India-CFI (what is it? Ans. Ref Pillar2A)

⇒ From CFI → borrowed money will be used in following purposes

Money will be used	Will not be used (यहां इस्तेमाल नहीं होगा)
Subsidies, Grants, Tax-Cuts For: ⇒ Renewable energy- solar, wind etc ⇒ Energy efficiency e.g. LED bulbs ⇒ Clean transportation e.g. Electric Vehicles ⇒ Water and waste management ⇒ Pollution control ⇒ Green buildings	⇒ Nuclear power generation, landfill projects, alcohol/weapons/tobacco/gaming/palm oil industries ⇒ hydropower plants larger than 25 MW
Equity (share) investment in metro projects	N/A

Above investment projects will be reviewed by Finance Ministry → Green Finance Working Committee (GFWC) headed by the Chief Economic Advisor (CEA) (इनके द्वारा समीक्षा होगी).

15.21.6 Green Bonds Greenium

Greenium refers to investors willing to accept lower interest for sustainable impact. (किसी हरित प्रॉजेक्ट की सकारात्मक असर के चलते लिए एक निवेशक कितना नुकसान सहने को तैयार है, उसे ग्रीनियम कहते हैं।)



Parameter	Normal Bond	Green Bond-A	Green Bond-B
Face Value	\$1,000	\$1,000	\$1,000
Coupon Rate	3%	2.7%	2.5%
Investor's Return Difference	Baseline	-0.3% (Greenium)	-0.5% (Higher Greenium)
Environmental Impact	None	Positive	Greater Positive Impact

- When investor is willing to pay higher greenium (e.g. Green Bond-B) that means investor has more trust/faith in the positive outcomes of the project.
- 📖 ES24 noted that Indian sovereign green bonds not received much ‘greenium’ from private investors, despite having a good rating. Probably due to the issues of trust / transparency in India’s green projects. (भारत के सार्वभौम हरित बॉण्ड की अच्छी रेटिंग के बावजूद उसे ज़्यादा ग्रीनियम नहीं मिल रहा, क्योंकि निवेशकों को इसमें विश्वास कम है।)

15.21.7 Sovereign green bonds are flop, investors not attracted (2025)

In Jan 2025, RBI's ₹10,000 crore Sovereign Green Bond issue saw ~70% bonds unsold due to:

- Nearly 50% funds allocated to **electric trains**; investors skeptical due to Indian Railways' **profitability issues**.
- **Transparency/accountability** concerns by investors. Bcoz, Indian government is yet to release 2023 impact-data (as of Feb 2025.)
- Low secondary market **liquidity** discouraging primary market buyers.
- **Low credit rating** as bonds weren't backed by major international organizations.

15.22 LONG TERM DEBT INSTRUMENTS: SPECIAL PURPOSE BONDS- MISC.

Green bonds (हरित बांड) पर्यावरण संरक्षण और स्वच्छ ऊर्जा संबंधी	For renewable energy, pollution control, environment friendly projects. <ul style="list-style-type: none"> - World's first Green Bond launched by World Bank (2007) - India's first Green Bond launched by Yes Bank (2015) - BRICS-New Development Bank issued Yuan- green Bonds (2016) - Indian Renewable Energy Development Agency (IREDA) launched India's first Masala Green Bond at London Stock Exchange (2018). - 2021: India's first ever euro currency- denominated green bonds by Power Finance Corporation (PFC, an NBFC company under Power Ministry) - 2022: Sovereign green bonds. Explained in previous section
Blue Bond (नील बांड)	A sub-type of green bond, where money borrowed for climate resilient water / marine / fisheries projects. E.g. 2018- Seychelles issued world's first 'Blue Bond,' to expand its marine protected areas and fisheries sector. (समुद्री संरक्षित क्षेत्र और मरुस्य क्षेत्र)
ESG Bonds	Money is invested in bonds of companies having good track record of Environment, Social and Governance (ESG) बॉण्ड निवेश उन कंपनियों में जो पर्यावरण, समाज और शासन की मैं अच्छा काम कर रहे हैं



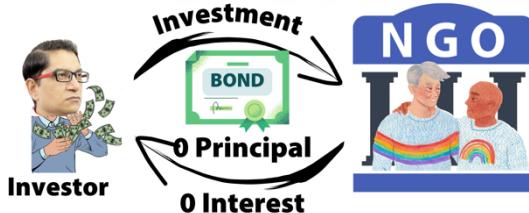
◆ Catastrophe Bond (आपदा)	<p>⇒ Govt / Insurance company issues such bond. Investor is promised with high annual interest rate.</p> <p>⇒ But, if a natural disaster happens, his principal will not be returned.</p> <p>⇒ If disaster doesn't happen then principal will be returned. (अच्छा ब्याज देंगे किन्तु आपदा हुई तो मूलधन वापस नहीं करेंगे क्योंकि वह सारा मूलधन आपदा प्रबंधन में इस्तेमाल करेंगे)</p>
Oil Bonds	Explained in Pillar#2- along with taxes on petrol and diesel.
💡 (proposed) Consol Bonds for Corona-revival	<p>⇒ US Govt (1870s) and British Govt (1917) had issued Consol bond.</p> <p>⇒ Consol is short form for 'consolidated annuities'.</p> <p>⇒ 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).</p> <p>⇒ However, in reality, the Govt may redeem(/buyback) the bonds after certain years, by paying principal to the investor. कुछ वर्षों बाद सरकार पुनः खरीद लेगी</p> <p>⇒ Some economists suggesting Indian govt should issue Consol Bonds for Post-corona economic revival. (अर्थव्यवस्था को पुर्नजीवित करने के लिए)</p>
🐘 (Proposed) Elephant Bonds for black money	<p>⇒ 2019-May: Commerce ministry's Dr. Surjit S. Bhalla Committee 'to improve India's share in global trade' suggested 'Elephant Bonds'. Tenure: 25-years.</p> <p>⇒ People declaring Black Money will be required to invest x%. → ₹ ₹ to be used only for infrastructure projects. जिनके पास काला धन किन्तु सजा से बचना है तो वे इसमें निवेश करें और पैसा बुनियादी अवसंरचना निर्माण में उपयोग होगा</p>
💡 Social Impact Bonds (सामाजिक प्रभाव बांड)	<p>2019: SIDBI issued ₹ 300 cr. worth Women's Livelihood Bonds (महिला आजीविका बॉन्ड) with the help of World Bank, UN Women org etc.</p> <ul style="list-style-type: none"> - These bonds will be offered to High Net worth Individuals (HNI), Impact Investors (rich people interested in 'indirect' social service) etc. They'll earn 3% annual interest rate for tenure of 5 years. - Money collected → SIDBI → Micro Finance Institutes (MFI) → loaned to individual women entrepreneurs in food processing, agriculture, services etc. <p>2021: Skill Impact Bond: By National Skill Development Corporation (NSDC) with help of global partners from UK, Dubai etc.</p> <p>\$14.4 million for skilling 50,000 Indian youth job.</p>
💡 NABARD Social Bonds (2023)	<ul style="list-style-type: none"> • NABARD listed 'Social Bonds' on the Bombay Stock Exchange (BSE). - Interest 7.##%, Tenure: 5 Years. • India's first AAA-rated Rupee currency social bond in the country. • Money will be used for Jeevan Mission (= Union govt's drinking water project)
⌚ Sukuk Bond/Islamic Bond	<p>It is a sharia-compliant bond instruments used in Islamic nations. Was in News because Pakistan Govt issued such bonds. How it works? In which currency is it issued? How it's different than ordinary bonds?</p> <p> NOTIMP4Exam after looking at old papers.</p>



15.22.1 🏗️🧘 Bonds → Bhutan Mindfulness City ke liye “Nation Building Bond” (2024–25)

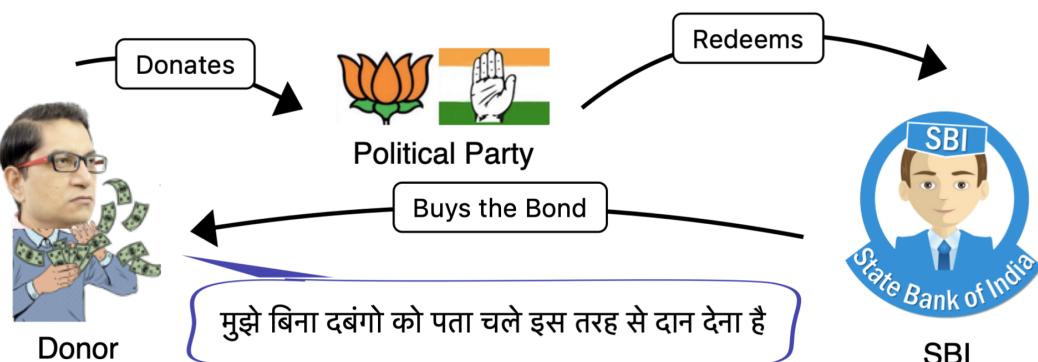
Issuer & Amount	By Bhutan Govt. \$100 million & 10 years tenure.
Objective	To build a new city ‘Gelephu Mindfulness City’ (GMC)

15.22.2 Bonds → Zero coupon zero principal instrument



- issued by Not for Profit Organization (NPO), Non-governmental organization (NGO) for social service.
- They repay NEITHER principal NOR interest.
- Zero Coupon Zero Principal (ZCZP) Bonds do not repay any interest or principal.
- They can't be re-sold in the secondary market.
- They can be transferred to legal heirs. (E.g. Amitabh Bachchan to his son Abhishek)
- ZCZP is akin to a donation made to a charity. But it gives greater transparency/accountability because the issuer will have to disclose all the financial details to SEBI & investors.
- The minimum issue size for the issue of ZCZP instruments is set at ₹50 lakh, and the minimum subscription/application size is ₹10,000.
- 2023-Nov: Unnati is a not-for-profit organization formed in issued bonds at NSE-social stock exchange for the skill development of youth.

15.23 📀Knife反腐沙漏 ELECTORAL BONDS (चुनावी बांड, 2017)



- ⇒ Announce in Budget 2017 → Notified by Dept. of Economic Affairs, Finance Ministry (आर्थिक मामलों का विभाग). Only SBI can issue at present, and in multiples of Rs.1,000, Rs.10,000, Rs.1,00,000, Rs.10,00,000 and Rs.1,00,00,000.
- ⇒ Controversy about the SBI's commission, printing cost and GST on sale of electoral bonds. But not much imp for exam. Enough to know Government pays [Commission + GST] to SBI for selling these bonds.



- ⇒ **When to buy?** For ten days at the start of each quarter. (January, April, July and October). However, during Lok Sabha election year, can sell for another 30 days.
- ⇒ **Who can buy?** Only an Indian Citizen or Company registered in India → deposit money in their bank account → use that ₹₹ to buy Electoral Bond, after giving certain KYC-documents. So, Electoral Bond can't be bought **anonymously** or directly with **cash**.
- ⇒ Electoral Bonds can be donated only to a political party registered under **Representation of the People Act 1951** (RPA: लोक-प्रतिनिधित्व अधिनियम) and which has secured 1% /> votes polled in last Lok Sabha or Vidhan Sabha elections.
- ⇒ **Validity** (वैधता अवधि)? Only 15 days from date of purchase. Within that time, buyer must donate, and political party must deposit in its SBI (current) bank account. No interest payable.
- ⇒ **Characteristics of electoral bonds?** (विशेषताएँ)
 - Paper / Physical format (not DEMAT / electronic format).
 - **Bearer instrument** (Donor or Recipient's name not mentioned),
 - **Promissory Note** (promises to transfer money in bank account)
 - **Interest Free** banking instrument (zero interest payable to anyone).
 - Can't sell it to third party, can't pledge it for loans. (गिरवी नहीं रख सकते)
- ⇒ **Benefits of electoral bonds?**
 - Transparency in political funding. (राजनीतिक चंदे में पारदर्शिता)
 - Reducing influence of cash and black money in election, (काले धन का प्रभाव)
 - Confidentiality to donor- from his wife, staff, CA, Lawyers, journalists, local goons etc. they can't know the name of recipient political party. (दाता को गोपनीयता)

15.23.1 📚 SC bans electoral bonds (2024-Feb)

Note: I am not going into polity/mains analysis. Just basic facts for MCQ. Supreme Court ruled that:

- Electoral bonds can promote corruption & quid pro quo (e.g. businessman giving the fund and minister passing his contract for highway/mining etc) (चुनावी बांड भ्रष्टाचार को मदद करते हैं)
- Electoral bond violates the provisions of (1) Representation of the People Act, (2) Companies Act, and (3) Income Tax Act, (4) Voters' right to information about political funding under Article 19(1)(a) of the Constitution. (जन प्रतिनिधित्व कानून, आयकर कानून, मतदाता का चुनावी पक्षकी फंडिंग के बारे में जानने का बुनियादी अधिकार, आदि का उल्लंघन होता है)
- Donors' right to privacy is not bigger than voters' right to know. (फंड-दाता का अपने दान को गुप्त रखने का अधिकार, मतदाता के जानकारी पाने के अधिकार से बड़ा नहीं है)
- SBI must disclose the list of all donors & recipient political parties from 2019–24 to election commission → election commission must disclose this database to public, by 2024-March. (किस दाता ने किस पक्ष को कितना चंदा दिया? उसकी सारी जानकारी एसबीआई ने चुनाव आयोग को देनी होगी. और चुनाव आयोग ने वह जानकारी सार्वजनिक रूप से प्रकाशित करनी होगी.)



15.23.2 📈 Electoral Bond & Companies Act - SC bans amendments

Matter	Companies Act 2013	Amendment in 2017
How much money can a company donate to a political party?	not more than 7.5% of 3-years' average net profits	Unlimited. कंपनी मन चाहे उतनी मात्रा में चंदा दे सकती है
Does the company need to disclose the name of the recipient political party in its financial statements?	yes Company to disclose name of the political party to whom company gave the donation.	no need to mention exact name. (किस पक्ष को चंदा दिया? कंपनी ने वित्तीय दस्तावेजों में उसे स्पष्ट रूप से बताना ज़रूरी नहीं।)

2024: SC declared above amendments in the company act as unconstitutional because they (1) can promote corruption (2) Violate the voters right to know about the political party's funding sources.
(सर्वोच्च न्यायालय ने कंपनी कानून में किए गए इन सुधारों को गैर-संवैधानिक घोषित किया है)

15.23.3 📈👤 Electoral Trusts (ET) Scheme (2013)

- 2013: UPA/Congress govt launched it. It allows a company to create an electoral trust.
- Such Electoral Trusts (ET) can receive donations from other (persons/companies) → ET donates it to various political parties. e.g.

Donors →	Electoral Trust →	Recipient Parties
DLF, GMR, Bharti Airtel, etc. companies	Prudent Electoral Trust	Congress, BJP, regional parties

- Here, it is difficult to trace how much of Bharti Airtel's donation went to BJP. Thus, it provides anonymity to the donors. This scheme is not yet banned by courts (2024).

15.24 🍧 BONDS: MISC. TYPES

15.24.1 🍧 Bonds: Misc. Types → Market Linked Debentures/Bonds

Their interest is not fixed. It is linked to an underlying market index e.g. SENSEX, G-Sec-Yield, gold price index, etc. [What is SENSEX? Ref Pillar#1C2: Share/Equities]

15.24.2 🍧 Bonds: Misc. Types → Strip bond / Stripped bond (Deleting from HDT)

Technical. Deleting. Not much in news nowadays.

15.24.3 🍧: 💰 Bond Yield, Yield Inversion, Negative Yield

Bond Yield	(Finished in 📈 Pillar#1A2: Operation Twist)
Yield Inversion	Not important but u can do PHD from this video: youtube.com/watch?v=BDACRJAo-48
Negative Yield	Not Important/outdated.

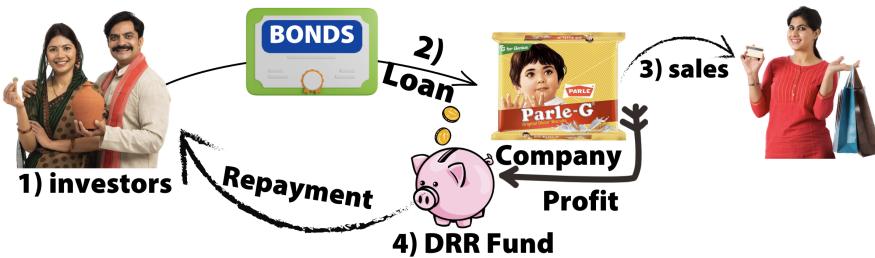
15.25 💧 BUFFER FUNDS FOR BOND REPAYMENT

15.25.1 💧👤 Debenture Redemption Reserve (DRR) Fund of Companies issuing Bonds

- Whenever a company issues bonds/debentures (=long term instruments) → company needs to create a buffer fund from its profits.
- This DRR fund is used later on for paying the principal and interest to the investors.
- This is legally required under the Companies act.



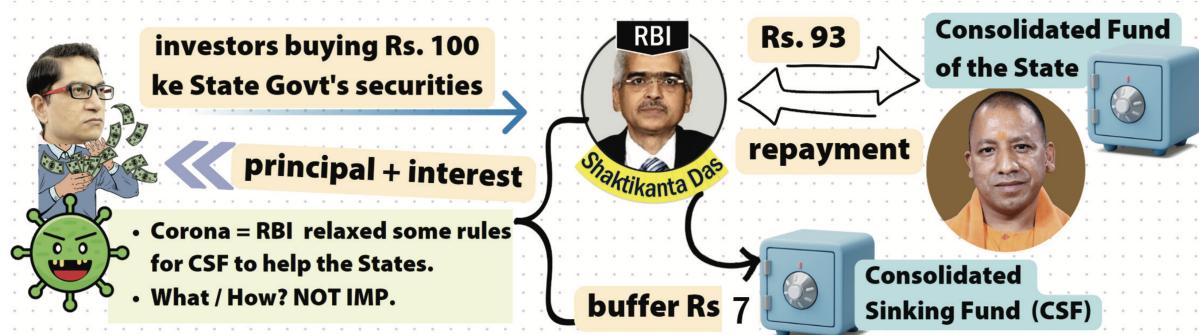
- 2019: Govt relaxed the rules to help companies in ease of doing business.



DRR Fund requirement	Before	After 2019 Reform
Bank	N/A	N/A
NBFCs	25% Buffer	N/A
Public listed Companies (e.g Reliance) ^^	25% Buffer	N/A
Other companies not in above list (e.g. Byjus)	25% Buffer	10%

- ^^ public listed companies = companies whose shares are traded at BSE/NSE.
- **Numbers not important.** Sufficient to know some type of companies are exempted from it.

15.25.2 💧🐯🗡️💰💡 Consolidated Sinking Fund (CSF) for State Govts' repayment



🚩👤 **FAQ by Zhande-walle Babushone:** if state government's loan have CSF fund, does union government's loans also have such funds? Ans. I don't know and I didn't check bcoz books/newspaper didn't mention so I did not become James Bond to find that out. because it will be a very inefficient way to prepare for the competitive exams. થોડા-પઢો-આગે-બઢો.

➡️ Next Handout: 1C2: Shares / Equities, SENSEX, Mutual Fund, etc.