



Pillar#1C2: Shares / SENSEX / Mutual Fund/ etc.

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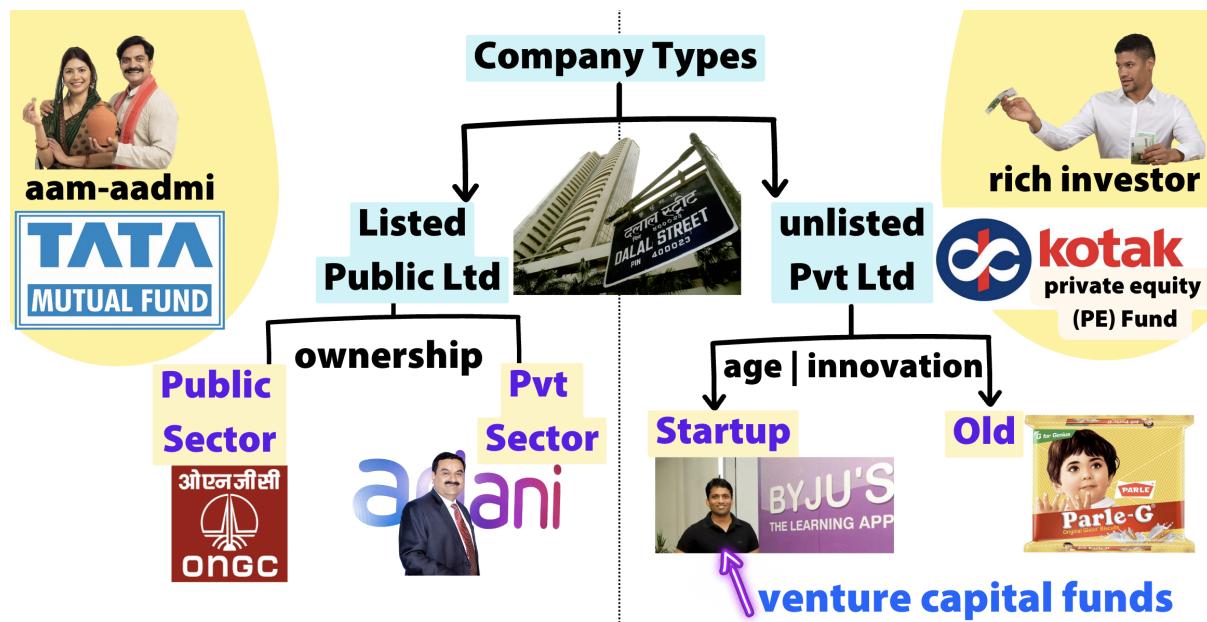
16 🐄📈🐻 EQUITY INSTRUMENTS (इकिटी)

- ⇒ Equity holders are called owners / proprietors of the company.
- ⇒ If company makes profit → they get dividend. They've last claim during liquidation.



16.11.1 📦 Private equity (PE) funds and Venture Capital Funds

- Private equity is a type of investment fund where wealthy individuals park their money into private unlisted companies.
- Unlisted companies = whose shares are not traded in the stock exchange like BSE/NSE) e.g. Byjus, Parle (1929).
- Venture capital fund (VCF) is a subtype of PE fund - which invests in startup companies.



Keywords	Features
Venture Capital Funds	VCF are professional firms helping startup companies with seed capital. (could be debt / equity / hybrid) (स्टार्टअप कंपनियों को शुरुआती पूँजी दिलवाते हैं)
Angel Investors ऐजल निवेशक	Rich person helping startup companies out of his hobby, passion, profit motive or time pass. e.g Ratan Tata in Urban Ladder app. (could be debt / equity / hybrid). Related topic: Pillar#2: Angel Tax in Budget/blackmoney
Corporate Strategic Investor	Invests in startup company with goal of acquiring the company or its technology at later date. स्टार्टअप कंपनी में निवेश करता है ताकि भविष्य में उसकी टेक्नोलॉजी पर कब्जा कर सके

? What does 'Venture Capital' mean? (Asked in UPSC-Pre-2014)

- A short-term capital provided to industries
- A long-term start-up capital provided to new entrepreneurs
- Funds provided to industries at times of incurring losses
- Funds provided for replacement and renovation of industries

? An individual investor who invests in the e-project usually during an early stage is (UPSC-IES-2020) A) corporate strategic investor B) founder capital C) angel investor D) venture capital

16.11.2 🌱 Share Types: Preference Shares vs ordinary shares

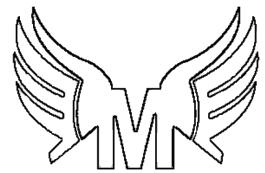
e.g. Jio 10% fixed dividend Preference Share on face value of ₹100. That means person is entitled to a FIXED ₹10 dividend (if company makes profit.)



Parameter	Preference Share अधिमान्य शेयर:	Ordinary Share साधारण शेयर:
Rate of dividend	Dividend payout's rate is fixed e.g. NIRMA 10%.	Dividend payout's rate fluctuates depending on how much money LEFT AFTER giving dividend to pref.share holders
if company makes ZERO profit, does this investor have a right to get dividend?	No. जब मुनाफा हुआ ही नहीं तो तंबुरे का डिविडेंड मिलेगा!!? कछ नहीं मिलेगा	No.
Rights upon liquidation of the company	they'll get money BEFORE ordinary shareholders	they'll get money AFTER pref.shareholders
Voting rights	Do not enjoy voting rights.	Yes have voting rights in company decisions.
Convertibility	Preferred stocks can be converted into ordinary shares	Equity stocks cannot be converted.
Issuance	It is not mandatory for company to issue preference shares.	A registered companies must issue equity shares. (More Refer to Pillar1C2: Company Types)
Risk to investor?	lower	higher

💡 NOTE: preference shares have many sub-types e.g. (cumulative vs non cumulative), (redeemable vs non-redeemable) but we will not PHD.

I'm distributing total ₹30 dividend to shareholders 	i've right to 10% dividend on share face value of ₹100! so 1st give me ₹10 	if any money left after that, then we'll get it! 
Preference Shareholders 	Ordinary Shareholders 	yes, i can also be a shareholder in my own company. तो मैं dividend देता भी हूँ, और लेता भी हूँ।
Voting rights?		



16.11.3 🌟 Shares for Employees / VIPs / Special investors : ESOP, Equity Warrents



Sweet Equity	Shares sold @discount to directors & employees for their value addition to company [Amount is regulated under Companies Act] 👉FAQ: How is Sweet Equity similar / different than ESOP/Equity Warrant Ans. NOTIMP. 1 liner GK. थोड़ा-पढ़ो-आगे-बढ़ो.
Sweat Equity कुछ काम नहीं परीक्षा में	- 1)What is this? NOT IMPORTANT. - 2) How different from Sweet Equity? NOT IMPORTANT. ►👉FAQ: I'm a commerce graduate / hot-shot MBA-walla and I've 500 jaat ke Counter arguments. Ans. Good. Plz Keep it with yourself. This course for teaching some basic one liners for MCQ. We are not preparing for your semester exams.

16.11.4 🌟 Share types depending on risk / quality

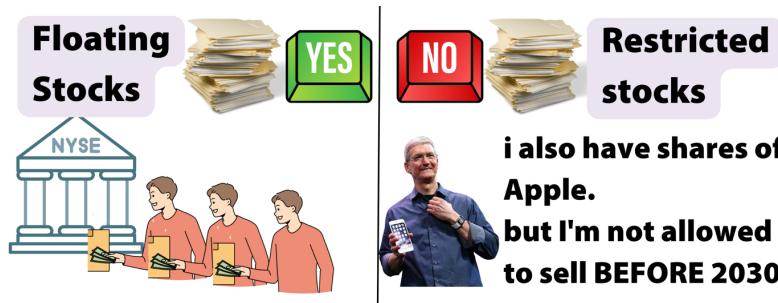
Penny stocks फालतू कंपनी का	Shares whose market price remain excessively low compared to its face value. Such pathetic companies give zero or little dividend. 👉👉FAQ: I'm a commerce graduate / sharemarket ka hot-shot trader and I've 500 jaat ke Counter arguments. Ans. Good. Plz Keep it with yourself.
Blue Chip stocks दमदार कंपनी का	Shares of a nationally recognized, well-established and financially sound company with a history of generating good return for the investor. E.g. Reliance, TCS,
Multi-bagger Share	When company's share price climbs rapidly of time. e.g. IRCTC (2021) from ₹300 to ₹1000 = 233% return on investment (ROI) within January to October 2021
Cyclical / Seasonal Shares	When price of a company's shares depend on the particular business cycle. e.g. automobile shares will generally rise during Navratri till Diwali shopping season.

►👉FAQ: tell me Similarity and difference between Blue chip vs Multibagger? ANS. Notimp.

►👉FAQ: Share vs stock- what is the difference? This academic-pedantry NOTIMP4EXAM.

16.11.5 ⚖️ Share types: Floating vs Restricted Stocks

Q. are the shares available for buying/selling in secondary market?



16.12 📈 ACCOUNT TYPES

Account	Meaning/subtypes
Personal Account	- 1) Natural person account e.g. Mark Zuckerberg - 2) Artificial legal person's account (=company's account) e.g. Meta (Facebook).
Real Account	- 1) Tangible Real Accounts e.g. buildings, vehicles, machines - 2) Intangible Real Accounts e.g. Goodwill, Patent, Copyright, Trademark, etc.
Nominal Account	- 1) Gain/Income account e.g. revenue from goods sold, income earned from investments, - 2) Loss/Expense account e.g. salaries, rent, cost of raw material.

16.12.1 🐾 Goodwill –while buying another company/brand

Item	Price in Million \$ (Not real. Just e.g.)
Company Whitehat's assets (building, machine, software copyrights etc.)	250
Byjus buys Whitehat at price	300
Difference = Goodwill acquired by Byjus =	50

- Goodwill is an 'intangible asset' for the buyer company (Byjus in above example.)
- Goodwill represents Whitehat's reputation, customer base, brand, or other intangible factors- for which Byjus paid 50 million extra, BEYOND the fair-market value of Whitehat's assets.

MCQ. Goodwill Account is a/an ___ (UPSC EPFO-2023)

- (a) Personal Account (b) Real Account c) Nominal Account (d) Expense Account

16.13 🐾 RATIOS / NUMBERS TO COMPARE THE COMPANIES

Note: If I've not covered a particular ratio e.g. Price to Book Ratio (PB) = means I feel it is poor cost benefit for the exam.

16.13.1 🐾 Valuation of companies

Term	Valuation of Listed Company	Valuation of (unlisted) Startup company
Meaning	It is the total value of a listed company's shares.	It is the process of estimating the total value of a Startup company.
Formula	Current share price (X multiply with) total number of	Complex formula involving company's financial performance, its assets and liabilities, and its future



Term	Valuation of Listed Company	Valuation of (unlisted) Startup company
	shares.	growth potential.
Example	See Apple Company in previous section	Byjus @ \$22 Billion (2022-Oct) @\$12 Billion (2023-Aug)

16.13.2 Valuation → Startups → 🦄 Unicorn Startup

Means the startup has valuation of 1 billion U.S. dollars or more. e.g. Unacademy, Byjus, etc.

16.13.3 Valuation → Listed Companies (Small Cap/Mid Cap/Large Cap)

Market capitalisation = {Total number of share multiplied with current price of every share.}

Market cap can change every day, depending on the price movement in sharemarket.

Apple Company	(A) Total No. Of Shares	(B) Price of 1 share	Market Cap = A x B
2023-Jan	15.63 billion units	\$125	\$1.9 trillion
2023-Sept	15.63 billion units	\$171	\$2.6 trillion

In India, shares are classified based on market capitalization as follows:

Type	Small Cap	Mid Cap	Large Cap
Market Capitalisation ^{^^} (General understanding)	less than ₹5000 cr (=₹50 billion)	between 5000- 20,000 cr (=50-200 billion)	more than 20,000 cr (=₹200 billion)
Market Capitalisation (exact SEBI Rule)	below 250 rank	101–250 rank	top-100 companies based on Market cap
Examples	VIP Suitcase	Castrol	Reliance, Infosys, TCS etc giants
Risk to shareholder	High	Medium	Low
Liquidity of shares (how easy to re-sell & Exit)	Low. Difficult to find buyer	medium	high. Easily u can re-sell to exit.

^{^^} Note: This crores rupee number varies from year to year depending on how much share prices changed. We'll not waste time memorising EXACT number.

16.13.4 Reliance - first company to hit 20 lakh cr Market Cap (2024-Feb)

self-explanatory from the topic heading itself.

16.13.5 🍺🌐 Market Froth & Asset bubble in Small-cap & Mid-cap (बाजार झाग और संपत्ति गुब्बारा)

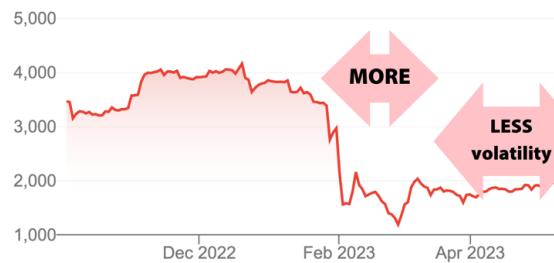
- During market froth, investors begin to ignore fundamentals (e.g. a company's profit-loss balance sheet) and buy its shares rapidly → demand rise → share price increases in a rapid-unsustainable manner.
- This ultimately results in an asset bubble that can lead to a collapse, e.g. Dotcom bubble in the USA (2001) and the Subprime crisis (2007–08).
- 2024: SEBI felt that small-cap and mid-cap companies were experiencing market froth → SEBI issued some technical directives on mutual funds to reduce their investments/exposure in small cap and cap.



16.13.6 🌸 Tulip Mania (किसी निवेश के पीछे सामूहिक पागलपन)

- mid-1600s: Tulip flower was introduced in Holland/Netherlands.
- some people started buying Tulips in high quantity, with the hopes of re-selling it to customers at much higher price. But ultimately this bubble collapsed.
- Today, if price of an asset (share, real-estate, Bitcoin) start climbing unreasonably high → Columnist describe it as 'Tulip Mania'.

16.13.7 📈 💲 Volatility / ViX (कीमतों में अस्थिरता)



- If the prices of a share changes rapidly in a short time span → we say it has "high volatility". e.g. Adani after Hindenburg report.
- Mathematically expressed thru an indicator called "ViX"

16.13.8 🐾 PRICE-TO-EARNINGS (P/E) RATIO AND EPS (EARNINGS PER SHARE)

from Investors' point of view	if high	if low
P/E Ratio = $\frac{\text{Market Price per Share}}{\text{Earnings per Share (EPS)}}$	 Expensive/ Overvalued	 cheap/ undervalued
EPS = $\frac{\text{Company's Profit}}{\text{Total number of Shares}}$	 Strong company	 Weak company

Note: real formulas/ real interpretations are more complex. this is for basic understanding for MCQ.

16.13.9 🐾 Leverage Ratio, Debt to Equity Ratio, ROCE, etc

from Investors' point of view	if high	if low
1. Return on Capital Employed (RoCE)	 Strong company	 Weak company
2. Return On Equity (RoE) (Formula not imp)		
Leverage = $\frac{\text{Total Debt (loans)}}{\text{Ratio Total Equity (share)}}$ also known as "Debt to Equity Ratio"	 Weak company	 Strong company



Year 2022	Tata Motors	Maruti
Debt:Equity ratio	2 (means Tata borrowed 2x times more money than the amount of share capital it has)	0 (debt-free company)

Note: real formulas/ real interpretations are more complex. this is for basic understanding for MCQ.

16.13.10 Net Worth = Total Assets –(minus) Total Liabilities

Amount	Mukesh Reliance	Anil Ambani's Reliance Capital Ltd. Company
Total Assets (A)	₹16 Trillion	₹63,000 crore
Total Liabilities (L)	₹ 6 Trillion	₹83,000 crore
NET Worth = A - L	16-6=10 POSITIVE	NEGATIVE 20,000 cr. Case going on in IBC code

FAQ: can we say NET-worth represents profit/loss of the company? Ans. It is more refined than that. Because company may be profitable for present year. But IF its liabilities are too big then it may have NEGATIVE net-worth. But we'll not do PHD. થોડા-પઢો-આગે-બઢો.

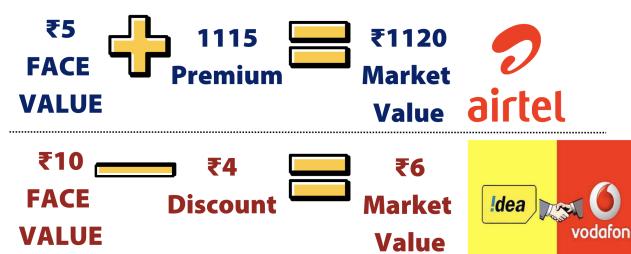
16.13.11 EBITDA, Depreciation, Amortization

EBITDA	It shows Company's Earnings Before loan Interest repayment, Taxes payment, Depreciation, and Amortization. Higher number is better.
Depreciation	Represents wear and tear, repairs, or decrease in the value of physical assets like machinery and buildings. ભૌતિક સંપત્તિઓं કા ઘિસાવ / મૂલ્યહાસ
Amortisation	Represents decrease in the value of intangible assets like patents and copyrights. અમૂર્ત સંપત્તિઓની ઘિસાવ / મૂલ્યહાસ

16.14 METHODS OF ISSUING SHARES

16.14.1 Share price

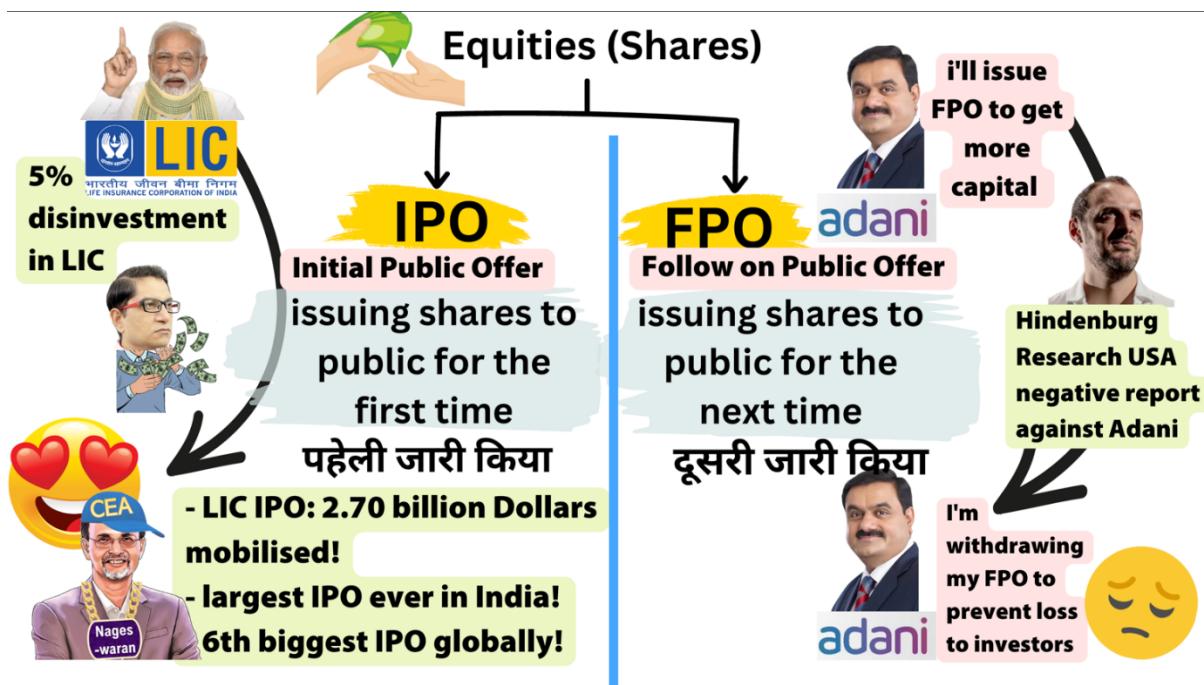
- Share have printed price on the certificate called Face Value or Par Value (सममूल्य).
- If they're sold at higher price than face value, it's called "trading at a Premium Value"
- if sold lower than face value, it's called "trading at a discount".



16.14.2 Sharemarket- company related documents

Guidance	Guidance report contains company's estimate of its future growth. Company releases this report for investors/shareholders/analysts.
Prospectus	it is the document containing all the info about the IPO-wali company.

16.14.3 IPO vs FPO



💡 QFAQ: When FPO is issued, is it primary market or secondary market? Ans. It is ultimately a Petipack/brand new share = primary market. However, this pedantry NOTIMP4EXAM.

16.14.4 Underwriter / Lead managers

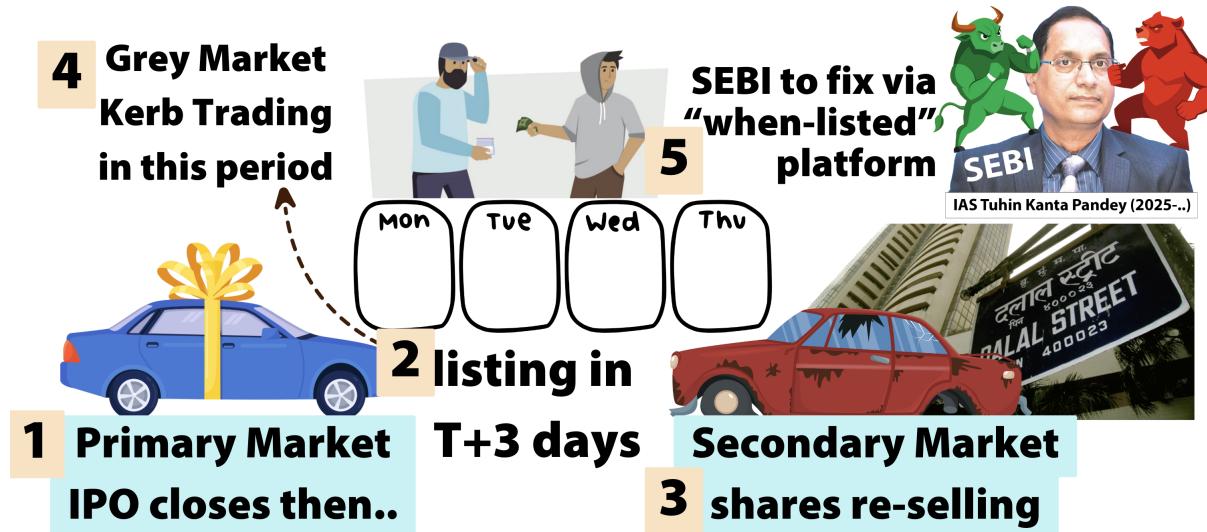
- Underwriter is a merchant banker/investment banker (ref Pillar-1B1)
- He undertakes the responsibility of issuing IPO/FPOs on behalf of the company promoters.
- If IPO not fully subscribed, then underwriter will buy unsold shares.
- Lead Manager = synonym for underwriter. (there is internal difference, but boycott PHD).

16.14.5 Terms: IPO, FPO, QIP

IPO and FPO	⇒ Explained in video using above chart.
Rights issue (अधिकार निर्गम):	Company issues additional shares (FPO) but gives first right to existing shareholders to buy them, if they refuse then offered to outsiders.
QIP	Qualified Institutional Placement (QIP): When company issues the shares only to qualified institutional buyers (QIBs) e.g. mutual funds, pension funds, insurance companies etc
Private Placement	If Zee offers to sell its shares only to Ambani. But not to others retail investors.



16.14.6 🌐🤝 GREY MARKET / “kerb trading” & “When-Listed” Platform



- In primary market, when the IPO closes, it gets listed in secondary market/stock-exchange in three working days (T+3).
- Grey market / “kerb trading” refers to the unofficial trading of shares even before being listed on stock exchanges.
- Grey market is an unregulated market and works on cash transactions.
- SEBI aims to reduce grey market activity thru a new platform called “when-listed” platform.
- It’ll allow investors to sell the IPO-allotted shares even before they get listed in the secondary market. Further technical details, not important for the scope of our exam.

16.14.7 Share-selling: Offer for sale (OFS) and share pledging



💡FAQ: How is OFS different than IPO/FPO? Ans. Motives are different. IPO/FPO is when owner wants money for the company by selling fresh shares. OFS is when owner wants money for himself by selling his own shares. But this pedantry is NOTIMP.

16.14.8 Share-selling: Open Offer

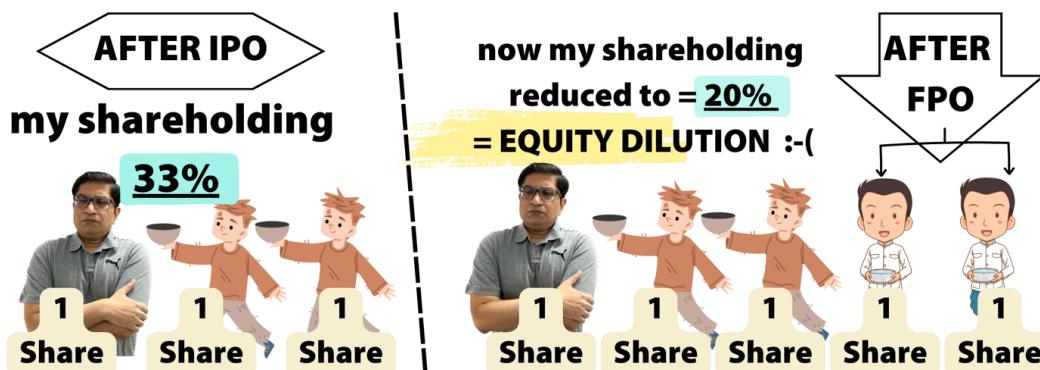


- 1. I already have 25% shareholding.**
- 2. I'm making an "Open Offer"**
- 3. to you to buy 26% more shares,**
- 4. so I can have 51% Majority shareholding**



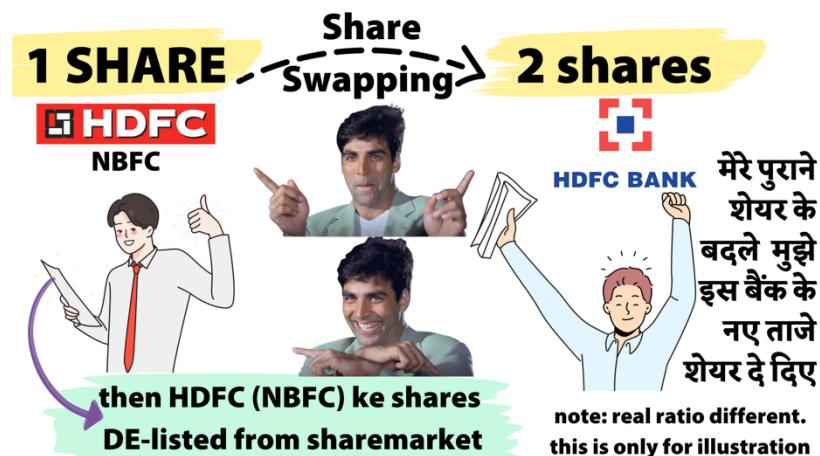
💡FAQ: now I'm confused between OFS vs Open offer? Ans. Khichdi mtt karo. Their objectives are different. Observe the photos carefully.

16.14.9 🌱 Share Selling: Equity dilution



16.14.10 🌱 Share Swapping and De-listing

Terms in news after HDFC (NBFC) got merged into HDFC (Bank), in 2023.



16.14.11 🌱 Bonus Shares





	Total Qty	Price	Total Value in ur DEMAT account
Before	1 Share	₹100 x 1 No.	₹ 100.00
After Bonus Share	3 extra Shares	₹100 x 4 No.	₹ 400.00?? NO. this will NOT happen reason given below:

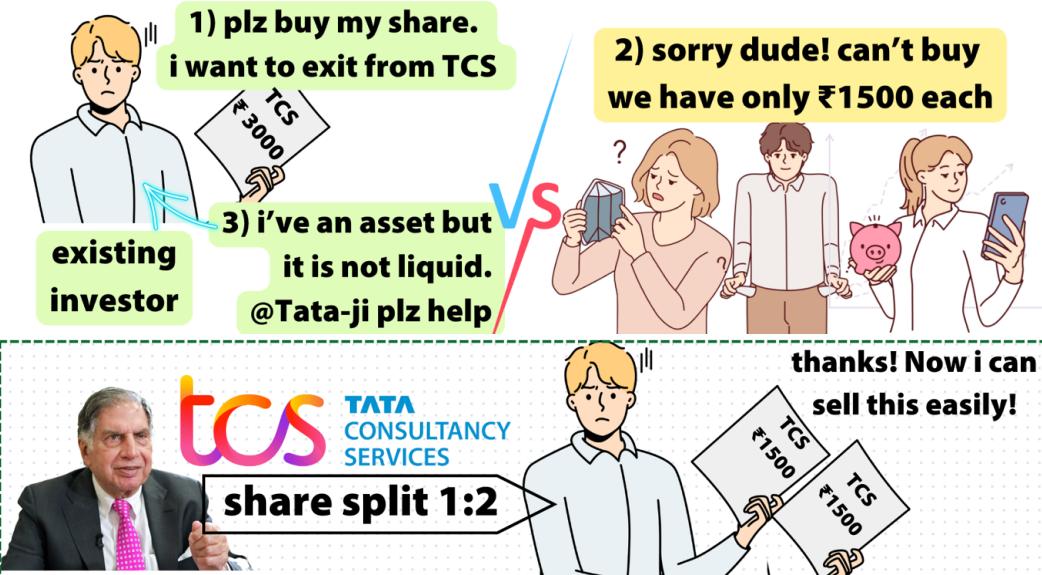
- After bonus shares → total number of shares in DEMAT account will increase.
- But the bonus shares are assumed to be purchased at ₹0 by the shareholder.
- So average price will decrease- in secondary markete.g.

$$\frac{\text{Per share price}}{\text{Total shares (4 Nos.)}} = \frac{\text{Total price (100+0+0+0)}}{4} = \frac{100}{4} = ₹25$$

share	original	bonus share1	bonus share2	bonus share3	Average Price per share
purchase price of Shareholder	₹100	₹0	₹0	₹0	₹25

16.14.12

Share Splitting



	Qty	Price	Total Value in ur DEMAT
Before	1 Share	₹3000 x 1 No.	₹ 3000.00
After Share split (1:2)	2 share	₹1500 x 2 No.	₹ 3000.00 (Total Value of Asset NOT increased. It's unchanged.)

Note: Share splitting depends on marzi/ discretion of company's board of directors. It is not done on 1-1 investor's complaint/request. I have given an example only for illustration.

FAQ: I have 500 doubts in Bonus share vs Share split! Ans. Remember them as single photo-frame without doing compare-contrast. IF you've time to waste then do [self-PHD from this article](#).

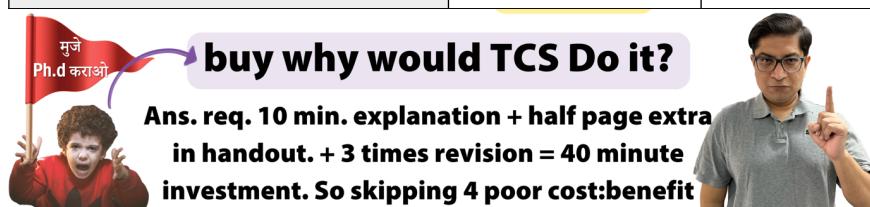


16.14.13

Share buyback by the Company



Total Share liabilities of TCS	BEFORE	AFTER Share buyback
Amount	₹ 12 lakh crores	12,00,000 - 18,000 = ₹11.82 lakh cr



16.14.14

IPO → Special Purpose Acquisition Company (SPAC)

Faded topic. Removing from handout.

16.14.15

ADR/GDR: DESHI Shares in Videshi soil



Figure 1: बिना अमरीकी SEBI से पंजीकरण किए, उनके शेयरबाजार 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 Depository Receipts (ADR: अमरीकी निपेक्षागार रसीट) & sell them to American investors. **Denomination:** USD.
- **Global Depository 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

16.14.16

🚗 🌎 Direct listing of Indian Companies in foreign stock exchanges (2023)



Note: This topic is still developing. It is allowed via Gift-City (Gujarat). (Ref: Pillar#3A)

16.14.17

เหรียญ Initial Coin Offering (ICO)



Figure 2: Cryptocurrency में पागल हुई पब्लिक को फिरसे बेवकूफ बनाऊ, तो कैसे?

- ⇒ Company wants investors' money for launching new cryptocurrency, or service/app related to an existing cryptocurrency.
- ⇒ Then, it'll issue Initial Coin Offering (ICO) → Investor subscribes to it, and receives 'tokens' (and not SHARES). Investors can use the 'tokens' to buy companies coins/services or may sell it to a third party.
- ⇒ RBI has cautioned Indians not to invest in such instruments, because of the dangers which we already learned in the Handout Pillar#1A-1: Bitcoins.

16.15 📈 STOCK EXCHANGES / SECONDARY MARKET: MEANING & EXAMPLES



Shares are issued through IPO @Primary market. Then, they can be resold at secondary market, commonly known as *Share market or Stock Exchange or Bourses*.



- ⇒ **World's Oldest:** Amsterdam Stock exchange, Netherlands (1602)
- ⇒ **Asia's Oldest:** Bombay Stock Exchange (BSE: 1875)
- ⇒ India's stock exchanges chronology: BSE → A'bad → Kolkata → NSE (early 90s)
- ⇒ Just like Banks have Core Banking Solutions for e-banking, Stock exchanges have their electronic platforms for trading. E.g. BOLT (BSE's On-line Trading System), NEAT (National Exchange for Automated Trading). They communicate using VSAT (Very Small Aperture Terminal) Satellite.
- ⇒ Stock exchanges can have separate platform/website for trading in Debt (Bonds etc) and trading in equities (shares).

MCQ. Consider the following statements: (Pre'24-Set-C-Q52)

1. In India, NBFCs can access the Liquidity Adjustment Facility (LAF) window of RBI.
2. In India, Foreign Institutional Investors can hold the G-Secs.
3. In India, Stock Exchanges can offer separate trading platforms for debts.

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

16.15.1 Social Stock Exchange

- ⇒ It is a market for buying/selling shares/bonds/mutual fund for projects/organizations related to hunger/malnutrition, poverty, gender equality, LGBT welfare, rural sports, Slum Area Development, affordable housing. Etc.
- ⇒ **Budget-2019:** we'll set up a **Social Stock Exchange** under SEBI's regulation. It'll help social enterprises and voluntary organizations to raise capital as share/bond/mutual funds for eradicating hunger, malnutrition, poverty, gender equality, LGBTQIA+ communities, rural sports, slum area development, affordable housing
- ⇒ Then SEBI setup Ishaat Hussain panel to study it. Then SEBI setup Harsh Bhanwala panel to study it further. They've given recommendations but NOTIMP
- ⇒ **ES24:** so far 51 non-profit organisations (NPOs) and non-government organisations (NGOs) raise funds from the public through the stock exchange mechanism worth ₹12 crores. for social projects in education, livelihood generation, skill development, etc.
- ⇒ To be listed on SSE, NGOs/NPOs must disclose their past and present audit reports, must have minimum 3 years experience etc.

16.15.2 Social Stock Exchange: zero-coupon, zero-principal instrument

- ⇒ Refer to "debt instrument" section of the handout.

16.15.3 Secondary Market: Significance? (द्वितीयक बाजार का महत्व)

- ⇒ Cost of Transactions . You don't have to search around for buyers/sellers manually. सब लोग एक जगह पे मिल जाते हैं। एक दूसरे को ढूँढने मे रिक्षा का खर्च/लागत बच जाता है।
- ⇒ Providing Liquidity to Financial Assets. तरलता बढ़ती है क्योंकि खरीदार मिल जाता है।
- ⇒ Facilitating Price Discovery of shares / bonds. औकात पता चल जाती है कंपनी की।
- ⇒ Investor sells securities in secondary market → ₹₹ could be re-invested to a new company's IPO in primary market → Contributes to Economic Growth. (पुरानी घटिया कंपनी में से निवेश की रकम निकाल



कर नई और बढ़ेतर कंपनी में निवेश हो सकता है)

16.15.4 📈 DEMAT Account and Depositories



Figure 3: कागजी शेयर्स को चोरी/आग से बचाऊँ, तो कैसे?

- ⇒ If shares and bonds are traded in paper-form, then transactions are slow & prone to the risk of theft, forgery and fire. कागजी स्वरूप में शेर से रखे जाएं तो चोरी होने का जालसाजी का आग लगने का डर 😱
- ⇒ Depository is an organization that holds the securities (like shares/bonds etc.) in electronic (=DEMATERIALIZED) form. Then facilitates its trading online.
- ⇒ Upon client's request, Depository can 'rematerialize' it as well (i.e. giving physical/hard copy of share/bond etc) to client.
- ⇒ Customer must open a "Demat" account in a depository-partner (DP). DP can be Bank/NBFC.
- ⇒ SEBI regulates them under the Depositories Act 1996. Notable examples:
 - Central Depository services Limited (CDSL: owned by BSE, HDFC, Canara Bank etc.)
 - National Securities Depository Limited (NSDL: owned by SBI, IDBI, UTI, NSE etc.)
 NSDL also has RBI license to operate Payment Bank

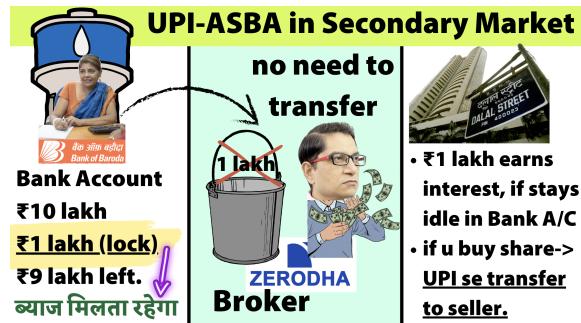
2024-March: India has 9.2 crore registered investors. Nearly 20% Indian households now channelling their household savings into financial markets" - said Economic Survey 2024.

16.15.5 📈 (💻:👤💼) DEMAT → ASBA Reforms in IPO/Primary Market



- ⇒ Scamster Rupal Panchal (2005) opened multiple fake DEMAT accounts to increase the chances of getting share allocations in IPO.
- ⇒ Then she'd sell such shares in stock-exchange for higher prices.
- ⇒ Subsequently, SEBI made PAN Card (issued by Income Tax Dept) compulsory for opening DEMAT Accounts. SEBI also introduced ASBA (Application Supported by Blocked Amount)- it allows the underwriter to block the amount in IPO-investor-applicant's bank account, but only IF shares allotted to the applicant, his bank money will be deducted. ASBA-Benefits:
 - only serious investors with sufficient bank balance can apply.
 - investor continues to earn bank interest on his blocked amount until the process of IPO-share allotment is over.

16.15.6 UPI-ASBA in Secondary Market 2024-Jan Reform by SEBI



What does above chart mean? Ans. watch lecture video.

16.15.6.1 📈 34 ISIN Number

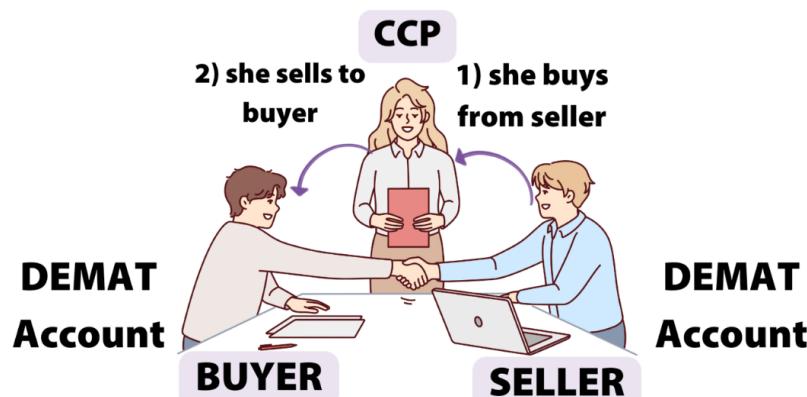
- ⇒ International Securities Identification Number (ISIN) is a Unique 12 characters, consisting of both letters and numbers. प्रतिभूतियों का अंतरराष्ट्रीय पहचान संख्यांक
- ⇒ It's a serial code to identify securities e.g. Reliance Industries Limited Shares ISIN: INE002A01018; Infosys Shares: INE009A01021.

16.15.7 📊 CAS system (=monthly statement of transactions)

- A Consolidated Account Statement (CAS)= document showing investor's monthly transactions across all mutual funds/shares/bonds etc. held in dematerialised (demat) mode.
- CAS is emailed to the investors by the depositories (NSDL or CDSL)
- CAS helps investor to (1) get alerted about any fraudulent transactions without his knowledge (2) total value of his investment.

16.16 🤝 CENTRAL COUNTERPARTIES (CCPs), NOVATION & ESMA CONTROVERSY

Problem



- CENTRAL COUNTERPARTIES (CCPs) act as intermediary between the buyers and sellers in financial market. E.g. G-Sec, T-bill, shares, bonds, derivatives, forex, commodities



- They act as a central counter-party to every trade i.e. CCP becomes seller to the buyer, and simultaneously CCP becomes buyer to the seller. This process is called “**novation**”. (HOW? Ans. Observe the chart carefully.)
- so, if one of the party does not honour the agreement → CCP will take care of it. Thus, CCP prevents system failure.
- 🤔 Controversy? Indian CCPs also deal with international financial trades e.g. in Europe. But, European Securities and Markets Authority (ESMA) is planning to cancel their license/ registration/ entry. What exactly is the matter? NOTIMP4Exam. Enough to know in 1 line ke Indian CCPs facing some problem in Europe.

16.16.1 🤝 CCP Examples in India

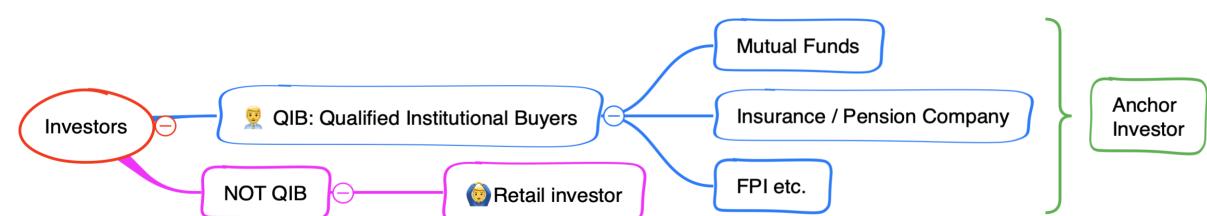
The Clearing Corporation of India (CCIL), Indian Clearing Corporation Ltd (ICCL), NSE Clearing Ltd (NSCCL), Multi Commodity Exchange Clearing (MCXCL), India International Clearing Corporation (IFSC) and NSE IFSC Clearing Corporation Ltd (NICCL).

16.16.2 🤝💰 CCP Regulation in India: Who regulates CCP in India?

Matter	Regulator
Money transfer between buyer and seller	RBI using powers of Payment and Settlement Systems Act, 2007
Foreign currency transactions	RBI using powers of Foreign Exchange Management Act, 1999
Shares, Bonds, Commodities	SEBI using powers of SEBI Act, 1992 and Securities Contract (Regulation) Act, 1956 (SCRA)

16.17 🧑🛒 INVESTORS KE TYPES

16.17.1 Types of Investors: Depending on Buying Capacity



1. 🧑💼 **Qualified Institutional Buyers (QIB)** (अर्हता प्राप्त संस्थागत निवेशक): Investors with expertise and financial muscle to make large investments in capital markets. E.g. Mutual Funds, Insurance Company, Foreign Venture Capital Funds etc. SEBI has separate registration norms for them.
 - a. **Anchor investors:** They're sub-type of QIBs who are offered shares before IPO-launch. This gives confidence to other investors to subscribe the given IPO.

2. 🧑🛒 **Retail investor:** An individual investor who is not a QIB. (आम/खुदरा निवेशक)

Underwriter will keep quota for each category of investors, as per SEBI norms.

16.17.2 🧑🛒 Types of Investors: Depending on Buying Behaviour



1. **Jobbers (आढ़ती):** Full time engaged in buying / selling securities using money from their own pockets. (Whereas brokers / commission agents buy/sell using money/shares of their clients).
2. **STAG (Male Deer):** He buys newly issued securities from primary market & sells them in secondary market for quick profit. प्राथमिक बाजार से खरीद के द्वितीय बाजार में मोटे मुनाफे पर बेचने की इच्छा रखता
3. **Bull (तेज़िया):** Optimistic speculator who hopes share prices will rise , so purchases (to sell them later at much higher price). Just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise.
4. **Bear (मंद़िया):** A pessimistic speculator who fears prices will fall  so, he sells. A bear usually presses its victim down to ground. Similarly, bear speculator tends to force down the prices of securities.

MCQ. In the parlance of financial investment, ‘Bear’ denotes [UPSC-CDS-2012]

- (a) an investor, who feels that the price of a particular security is going to fall.
- (b) an investor, who expects the price of a particular share to rise.
- (c) a shareholder, who has an interest in a company, financially or otherwise.
- (d) any lender, whether by making a loan or buying a bond.

16.17.3 😊 Disposition effect: मुनाफा तुरंत लेके भागँगा, लेकिन नुकसान सहके बैठा रहँगा।

- if investor is in profit, he will sell immediately, but if he is in loss, then he will continue to hold for a long time, even if it results into more losses. Observe table
- SEBI used this term to describe the behavior of Indian investors in IPO.

	PAYTM	Zomato
Primary Market (IPO)	₹ 2150.00	₹ 76.00
Secondary Market Listing price (2021)	₹1950 (-9% loss)  we'll not exit. we'll wait for miracle	₹116 (=52% profit)  i'll book profit & immediately exit. I'll not wait
Current Price (2024)	₹620 (-71% Loss)  wish we had exited sooner	₹ 260 (=242% Profit)  wish i had waited!

16.17.4 Style of Trading / Investing based on duration and risk

Margin Trading	when a person is buying more shares, than he can afford to. usually done by borrowing money from the broker. Risky because if the investment fails then person will get into huge debt.
Day trading / Intra-day trading	Individuals buy and sell shares over the Internet over a period of a single day's trading, with the speculative intention of profiting from small price



	fluctuations.
Swing Trader	He's buying a share for just few days or weeks then sells it for profit.
Long term investor	He's buying for himself and he holds the share for more than 1 year.
Block Deal	When large value order placed e.g. ₹5cr or more. This is usually done by institutional investors such as Mutual Fund, Insurance companies etc.
Contra Trading / investing	- investor will do opposite of what everyone else is going. - e.g. in Corona-lockdown, if everyone is buying Pharma shares and ignoring PVR-cinema shares → then contra trader will begin investing in PVR-cinema shares (with the hope that after Corona unlock down → cinema industry will boom and contra-investor will make great profit)

Further subtypes with various animal / bird names can be found on Investopedia but with poor cost :

benefit in exam. #⌚થોડા-પઢો-આગે-બઢો

16.17.5 Trader Types: Retail vs Proprietary Traders

	Retail	Mutual Fund	Proprietary Traders
Objective	Profit	Commission	Profit
Capital	Self	Clients'	Self
e.g.	if you're doing it in solo-mode with small amount of money.	Tata-MF, Birla-MF	Jaypee Capital, Edelweiss Capital = registered as company, and doing it in systematic manner with large employees & large amt of money.

16.18 ✅ SENSEX & OTHER NOTABLE INDICES (उल्लेखनीय संकेतक/ सूचकांक)

- ⇒ **SENSEX?**: Sensitive Index/ संवेदी सूचकांक. It's the weighted average of Free Float Market Capitalization (FFMC) of 30 companies, selected by Bombay Stock Exchange (BSE)'s officials
- ⇒ **NIFTY?** National Stock Exchange (NSE)'s index of 50 companies.
- ⇒ **Nikkei?** Tokyo Stock Exchange index of 225 companies.

? MCQ. Which of the following statements is/ are correct? [UPSC-CDS-2012-I]

1. NIFTY is based upon 50 firms in India.
2. NIFTY is governed and regulated by the Reserve Bank of India.
3. NIFTY is the stock index of Bombay Stock Exchange.

Answer Codes: (a) Only 1 (b) Only 2 (c) Only 3 (d) 1 and 3

16.18.1 SENSEX Goes up and down when?

✅ SENSEX – when does it go up	⬇️ Goes down when
RBI's soft /easy monetary policy → cheap loan & credit cards → consumers to spend more → more profit to company → more dividend : investor thinks “better I buy more	Tight monetary policy (More in Pillar#1A2) संकुचन वादी मौद्रिक नीति के दौरान सेंसेक्स नीचे गिरेगा



SENSEX – when does it go up	Goes down when
shares to get more dividend": Bullish	
Peace, Economic boom / prosperity, Political Stability (शांति, आर्थिक समृद्धि, राजनीतिक स्थिरता)	✗ War, recession, political instability → Bearish market. (युद्ध, मंदी, राजनीतिक अस्थिरता)
When govt. hikes foreign direct investment limits	When govt reduces FDI limit
Merger-Acquisition, New product launched, Environmental clearance given to factory	CEO/MD arrest/FIR, Courts slapping fine, media exposing scandal... (कोई कांड हो जाए)

16.18.2 📈反腐斗争 Force Majeure (अभेद्य शक्ति)



Figure 3: Corona के चलते विजनेस प्रोजेक्ट पूरा नहीं किया, तो क्या जेल में भेज देंगे, या फार्सी पै लटका देंगे? कुछ नहीं उखाड़ सकते मेरा!

- ⇒ French word for 'superior force'. It refers to unexpected external circumstances (अप्रत्याशित बाहरी परिस्थितियाँ) that prevent a party to a contract from meeting their obligations. e.g. *Acts of God (natural disasters, epidemics), war, terror attacks.*
- ⇒ In such cases, courts may not punish party for dishonoring contract. (करारनामे के दायति को न निभाना)
- ⇒ E.g. Corona (COVID-19) Virus → Singapore Govt put restrictions on entry of Chinese → Singapore construction firms facing labour crunch (श्रमिकों की कमी) → invoked 'Force Majeure' to clients, "we can't finish building your homes/offices in time." Coronavirus: >55million people infected across the world (as of 2020-Oct).

16.19 🐄📈🐻 SHAREMARKET: 2020-2024



16.19.1 🐄📈 India becomes 4th-largest equity (Share) market (2024-Jan)

- 2024-Jan: Ranking of Combined value of shares listed on a country's stock exchanges: 1) U.S., 2) China, 3) Japan, 4) India (\$4.33 trillion) 5) HongKong (\$4.29 trillion)



- Reason for India climbing to 4th place? 1) Chinese regulators getting strict, so foreign investors shifting money out of China towards Indian Sharemarket. 2) Stable political environment in India 3) Strong GDP growth.

16.19.2 🚫 FPI exit is not damaging that much -says ES25:

Foreign portfolio investment (FPI) = Foreigners doing upto 10% shareholding in an Indian company.

Year	FPI exit from India,	impact on NIFTY index
2020-Mar	pulled out \$8 billion	23% fall
2024-Oct	pulled out \$11 billion	6.2% fall^^

- ^^ Because, even when foreigner exits, their shares are confidently purchased by Indian investors and Indian mutual funds.
- So Indian stock market is more resilient to external shocks compared to the past.

16.19.3 😱 Another crisis in US Sharemarket coming - ES25?

- American Company share prices have increased by 20% each in 2023 and 2024.
- But consumer income levels have not increased greatly. So concerns over how Apple Tesla and other companies will improve sales in future?
- Data centres, music companies and solar panel manufacturers have issued complex investment products in USA. It could result in another Subprime Crisis of 2007.

16.19.4 🎃 Relation between Indian and American share market as per ES25:

- in last 10 years, Indian sharemarket gave avg. 8.8% return. - But 2024 April-Dec only 4.6%
- Whereas USA NASDAQ giving more 20% return each in 2023 and 2024.

Pattern	finding (2000–24)
If US market falls, then Indian market falls?	yes. 21 out of 22 times this happened.
If Indian market falls, then US market falls?	No. In fact, 13 out of 51 times, when Indian market fell, US market has gone up. (because the foreign investors would have moved money from India to USA)

- Granger causality is a statistical tool to find if one variable can predict another variable based on its past values.
- ES25 used this statistical tool to find relation between S&P 500 (american share market index) and Nifty 50 (american share market index)
- Finding? Indian markets tend to react more to US trends. Reverse case not very true. (Bcoz American investment in Indian market is higher than Indian investment in American market. इसलिए उनके भागने से हमें फर्क पड़ता है। हमारे भागने से उन्हें खास फरक नहीं पड़ता।)
- Many young Indian investors who entered the market after Corona have never seen a significant market correction. If the US share market falls in 2025, it will severely affect these young Indian investors' sentiments and spending behavior.



16.20 MARKET THEORIES

16.21 Efficient Market Hypothesis /theory (EMH)

- financial markets are efficient in processing information and pricing securities. So one investor CANNOT always KEEP earning more profits than the average trend in market.
- Gist: शेयर बाजार में जो होना है, वह होकर रहना है। तुम कम्पनी का चार्ट/बेलेंश-शीट पढ़कर तंबूरा कुछ नहीं उखाड़ सकते। भले आपका एक दाव सही लग जाए, लेकिन दो-तीन गलत भी लग जाएंगे तो। फिर नफा मोटा नहीं सामान्य(एवरेज) ही हो जाएगा।
- However, some experts disagree with it. We'll not debate. थोड़ा-पढ़ो-आगे-बढ़ो।

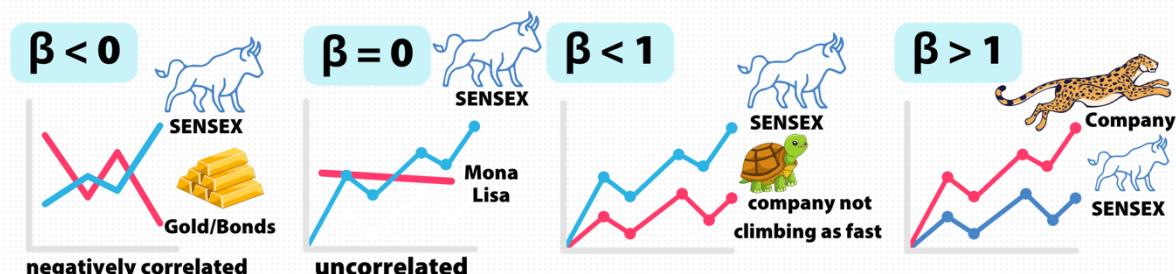
16.21.1 Random walk theory

- Share prices move unpredictably.
- Therefore, company's past shares prices/charts shouldn't be used to predict future prices.
- So, it is impossible to beat/defeat the share-market.

16.22 ALPHA AND BETA VALUES

16.22.1 Beta Value to monitor price volatility or risk of an asset

Indicator to monitor price-volatility/risk of an asset.



Value	Meaning
$\beta > 1$	This company's share moves faster than sharemarket in both directions. High Reward: if SENSEX moves upward at 1x speed, this company will move at may be 1.5x speed. High Risk: If SENSEX falling at 1x speed, this company will fall at 1.5x speed. Usually Tech/Startup/small-cap companies show this behaviour.
$\beta < 1$	This company moves slower than SENSEX. Low risk, Low return.
$\beta = 1$	This company's share moves parallel to SENSEX.
$\beta = 0$	uncorrelated to the market. Mona-Lisa Painting: its value changes independently of SENSEX movement.
β less than 0	negatively correlated to the market. This asset moves in the opposite direction of the SENSEX. e.g. Bond/Gold. If SENSEX goes up, people will shift money from gold/bonds to shares so gold/bond will fall. (However, this is not always true in real life.)

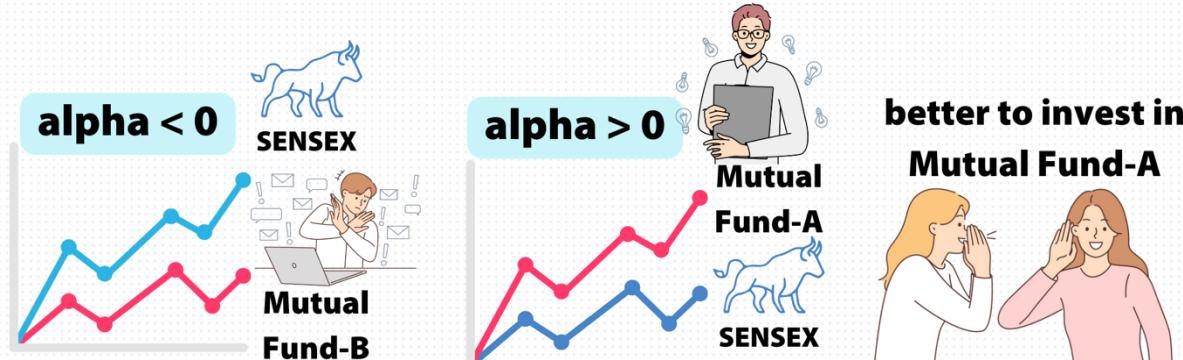
MCQ. In the context of finance, the term 'beta' refers to _ _ (Prelims 23-SET-A-Q073)

- (a) the process of simultaneous buying and selling of an asset from different platforms
- (b) an investment strategy of a portfolio manager to balance risk versus reward



- (c) a type of systemic risk that arises where perfect hedging is not possible
 (d) a numeric value that measures the fluctuations of a stock to changes in the overall stock market

16.22.2 Alpha value to compare performance of Mutual Funds



This indicator used mainly to compare a Mutual Fund / Hedge Fund manager's performance against a benchmark e.g. SENSEX

Value	Meaning
Alpha > 0	This MF gives better profit than SENSEX. e.g. if HDFC-MF has 2% Alpha. Means when SENSEX claimed 10%, then HDFC-MF gave 12% return.
Alpha = 0	This MF performing same as SENSEX
Alpha < 0	This MF gives less return than SENSEX

16.22.3 📈 FAQ: Alpha vs Beta similarity / correlation / difference

Term	Alpha	Beta
Usage	Mainly to compare performance of Mutual Funds.	Mainly to find volatility/risk of a share.

Beyond that we'll NOT PHD. UPSC is only asking one liner from here. We'll not spend more time.

16.22.4 🍷 Types of Analysis – fundamental vs Technical

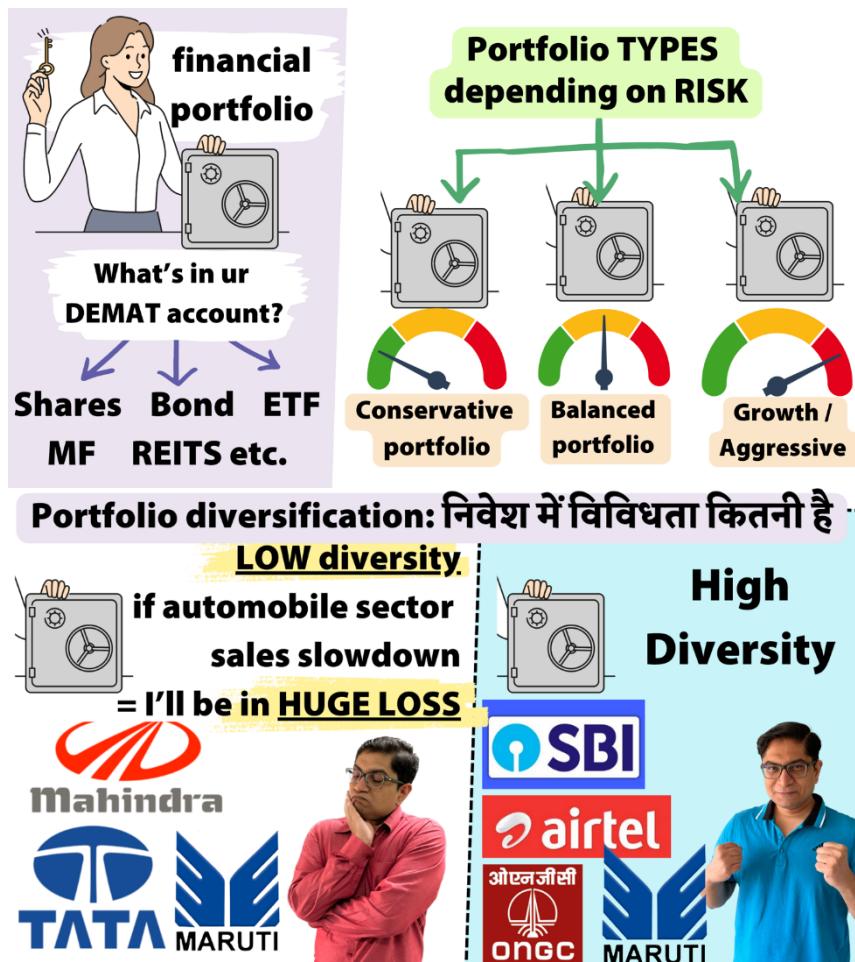
	Fundamental Analysis	Technical Analysis
Investor studies what?	Company's profit, loss, balance sheet, new products-launch etc.	Share price related charts-graphs & mathematical-indicators e.g. Simple-moving-average of the share price for last 200 days (200-day SMA). More examples of indicators (listNOTIMP): Relative Strength Index (RSI), Stochastic Oscillator, Moving average convergence divergence (MACD) etc.
Suitable for	Long term Investor (longer than 1 year)	Intraday Trader (buy/sell within a single day) Swing Trader (buy/sell for few days or weeks)

16.22.5 🍷 DEMAT Portfolio: Meaning, Types, Portfolio Diversification

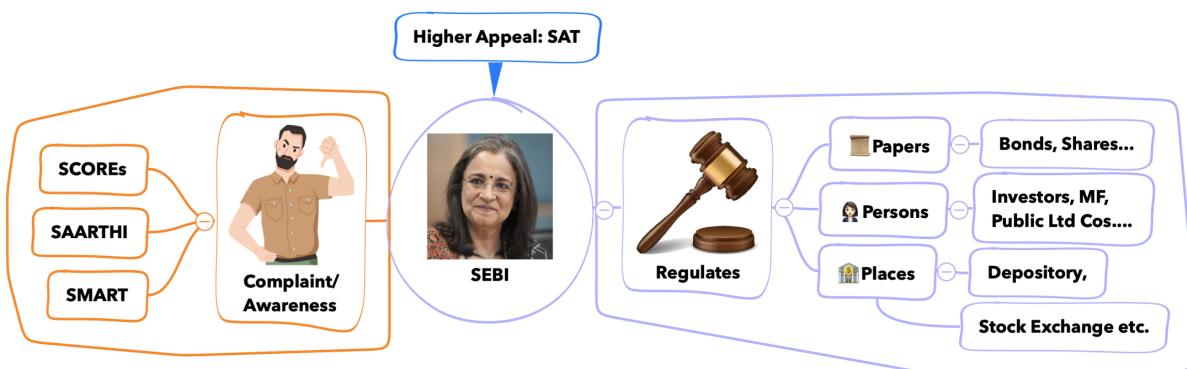
Portfolio means the collection of assets held by an investor.



In financial market, “Portfolio” means the list of shares/bonds/ETF you’re keeping in your DEMAT account.



16.23 📊🐱 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)



- ⇒ HQ- Mumbai भारतीय प्रतिभूति और विनियम बोर्ड,
- ⇒ (1988) Formed by an executive order → (1992) Became Statutory Body → powers increased through amendments in 1999 & 2014. Now it can order search and seizure, attachment of properties, arrest and detention. (खोज अभियान, संपत्तियों की जब्ती/कुर्की, गिरफ्तारी और निरोध)
- ⇒ **SEBI Board Composition:** Chairman + 1 officer from RBI + 2 officers from Union Government + 5 members appointed by Union Government.
- ⇒ **Chairman:** upto 5 years / 65 age. Reappointment possible.
- ⇒ SEBI Chief Selection was done by Financial Sector Regulatory Appointments Search Committee



(FSRASC) headed by the Cabinet Secretary (IAS).

- ⇒ Regulates **Process** of issuing securities (Bonds, Shares, IPO, ETF, ReIT, INVITS, etc.) using the Securities Contracts Regulation Act, 1956 [SCRA: प्रतिभूति संविदा विनियमन]
- ⇒ Regulates **Places** (Depositories, Stock exchanges, Commodity Exchanges etc.)
- ⇒ Regulates **Persons** (Investors, Brokers, Fund Managers, Public Limited companies etc.)
- ⇒ Regulates any Collective Investment Scheme (**CIS**) of ₹100 cr/> [In the aftermath of SAHARA scam & Chit Fund scams. सामूहिक निवेश योजनाएँ]
- ⇒ **Further appeal:** Securities Appellate Tribunal (SAT) → Supreme Court.
 - Same SAT also hears appeals against the orders passed by Insurance Regulatory Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). (More in Pillar#1D)
- ⇒ SEBI has “**SCORES**” online **portal** for investor-complaint. 2024- version 2.0 launched to give justice within 21 days of complaint.
- ⇒ SEBI has **Securities Market Trainers (SMARTs)** Program for investor education (निवेशक प्रशिक्षण)
- ⇒ Saarthi app: Sebi’s app for investor awareness. (निवेशकों में जागृति के लिए सेबी का नया एप)

16.24 SEBI’s New Chief IAS Tuhin Kanta Pandey

Sr.	Name, Qualification	Tenure
10th	Madhabi Puri Buch, IIM, ICICI-Banker	2022–25
11th	Tuhin Kanta Pandey, IAS	2025 se 3 yrs

16.24.1 Securities Market Code

- ⇒ 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)
- ⇒ Benefits? Same as the bullet points written in conclusion of “SEBI Investor Charter.”

16.25 SEBI INVESTOR CHARTER (निवेशक अधिकार पत्र)

- ⇒ (Definition) 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.
- ⇒ (Origin) Budget-2021: we’ll create an "investor charter" (निवेशक अधिकार पत्र) for financial investors across all financial products (Share, Bond, derivatives, Commodities market etc).
- ⇒ SEBI notified this in 2021-November.
 - This charter applies on Entities/actors e.g. investors, mutual funds, stock brokers, stock exchanges, depositories, underwriters, real estate investment trusts (REITs), infrastructure investment trusts (InvITS), & other collective investment schemes,
 - This charter applies on Events e.g. initial public offerings (IPO), FPO, etc.
- ⇒ More details shifted to Mains-Handout. #RAFTAAR.



16.25.1 📈🐱🏃 SEBI: why protect investors & 🚀 investors participation?



Figure 4: पूँजी बाजार की जड़ों को गहरा करना है तो सिफे अमीरों का नहीं, गरीबों की बचत का पैसा भी जाना चाहिए!

- ⇒ Share market scams erode publics' hard-earned savings → alcoholism, depression, suicide and other social ills. (जनता की बचत का पैसा घपले में बर्बाद तो जनता में शराब, अवसाद, आत्महत्या और अन्य सामाजिक बुराई)
- ⇒ Duped investors will shy away from share market & they may invest in gold / real estate = not very beneficial to economy as it our import-bill, creates black money opportunities.
- ⇒ If households don't participate in capital market → companies will have to approach the banks to get more loans. But banks' lending capacity is limited by CRR, SLR, PSL, NPA, PCA.(REF in 📄 Pillar#1B2)
- ⇒ If more retail investors participate in capital market = “Deepening of the capital market” → factory expansion, job creation, and economic growth. (खुदरा निवेशक की मदद से पूँजी बाजार की जड़ों की ओर गहरा करना- ताकि रोजगार सृजन और आर्थिक वृद्धि में मदद मिले)

16.25.2 🎯🏃: measures to 🚀 retail investors participation- 25% public holding in Govt Companies

- ⇒ Budget 2019: For all the listed government companies, we will strive for minimum 25% public shareholding. (आम जनता को भी सरकारी कंपनियों के शेयर खरीदने का मौका मिले)
- ⇒ SEBI to raise minimum public shareholding in listed private sector companies to 35%.
- ⇒ 🎉 ATMANIRBHAR: minimum shareholding related norms deferred under Corona crisis.

16.25.3 🐱 Yes! capital market has deepened says 📈 ES25:

Matter	Before	2024-Dec
number of investors	4.9 crore (2020)	13.2 crore
Number of mutual fund account holders	2.9 cr (2021)	5.6 cr
Monthly avg investment in SIP	₹0.10 lakh crore	₹0.23 lakh crore
Number of IPOs listed	196 (2023)	>250
₹ mobilized from IPO	₹53,023 cr (2023)	₹1,53,987 cr
Indian IPOs as % of Global IPOs	17% (2023)	30%

- SIP = Systematic Investment Plan.
- Higher investor participation = demand for shares increase = SENSEX goes up = more investors get attracted to join.
- Indian families' investments in Indian sharemarket has increased by over ₹40 lakh crore in the last five years.



16.25.4 🐾 Debt/Bond market, not fully developed laments 📈 ES25:

Parameter	India 🇮🇳	China 🇨🇳	Korea 🇰🇷
Corporate Bond Market (% of GDP)	18%	36%	80%

- Insurance companies not allowed to invest in debt issued by private sector companies. (due to regulations by IRDAI)
- Insurance and pension companies cannot invest in bonds that are lower than AA-rated. (due to regulations by IRDAI and PFRDA)
- most of the manufacturing companies do not have AA or better rating. So, they struggle to find investors in Bond market.
- Consequently, 60% of bonds are issued by Bank and NBFCs. (because most of the other companies will struggle to find investors)
- Secondary market in bonds is under-developed / not enough buyers available. So bond-assets are not 'very liquid'.

16.26 📊 🐾: 🏃 SEBI REFORMS TO BOOST INVESTORS' CONFIDENCE?

16.26.1 🔔 Circuit breaker



Harshad Mehta



Ketan Parekh



- ⇒ Harshad Mehta (1992), Ketan Parekh (2001) arranged money from banks, used it for rigging the share prices to make windfall gains during Bull-runs by other investors. Once the prices crashed, small investors suffered. बैंकों से गबन बंद करके पैसा लाए जिससे कंपनियों के शेयर जमकर खरीद के उसकी मांग और दामों को बढ़ाया ताकि लालच में अन्य निवेशक भी उन कंपनियों के शेयर ऊँची कीमतों में खरीदने लगे अंत में यह लोग अपने शेयर बेच कर भाग गए
- ⇒ To prevent such scams, SEBI introduced Circuit Breaker System, wherein if fluctuation in the share prices is more than "x%" than previous day, then stock exchange must stop trading for "y" minutes.



16.26.2 💰⌚ T+1 day Settlement instead of T+2 day

- ⇒ Badla System/Carry forward system: Buying of shares using borrowed money & making promises to carry forward the settlement for upto 72 days. scamsters misused (इसकी टोपी उसके सर पे: सौदा आज करते लेकिन पैसों का भुगतान/शेयर की डिलीवरी ७२ दिनों बाद होती- और इस समय के दौरान वही घपलेबाज उन्हीं शेयर



बेचने की टोपी दूसरों को पहेनाते रहता)

⇒ so SEBI discontinued Badla System (in 2001) & introduced (T+2) rolling settlement system i.e. after trade is conducted, the parties must settle it within two working days (= buyer pays money, seller deliver shares/bonds/securities). -> 2022: T+1 settlement started.

16.26.3 🌟⌚⌚ T+1 hour & T+0 hour (instantaneous) settlement

Term	Meaning	SEBI aims to launch from
T+1 hour	Within 1 hour, Payment-delivery concluded.	March 2024
T+0 hour	also called instant/instantaneous settlement.	October 2024

16.26.4 🛍️ (💻:👤💼:😈) Illegal Trading: Dabba-trading, Insider Trading, Front Running

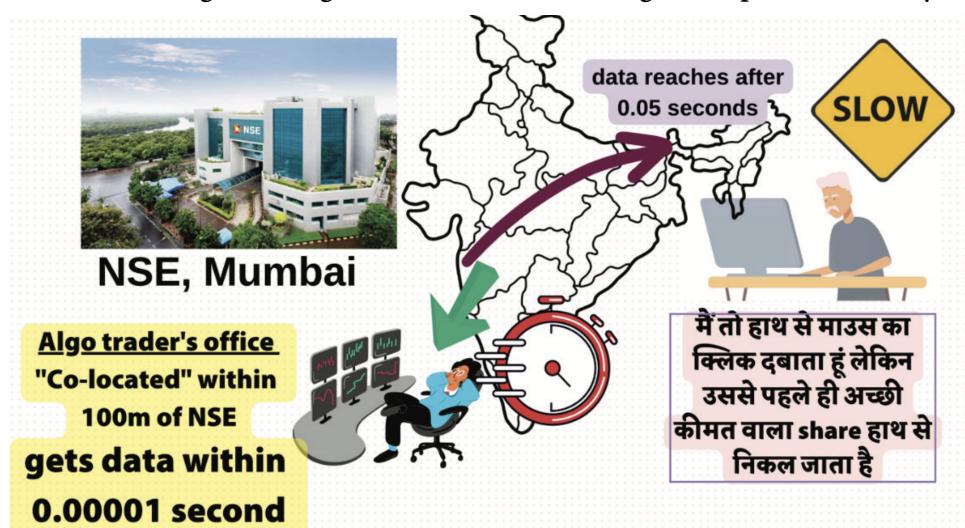
⇒ **Dabba Trading / Bucketing / Box Trading:** While share trade occurs at stock exchange linked with DEMAT accounts, the Dabba Trades occur in the unofficial books/ledgers of an unscrupulous broker. He may or may not execute those orders in actual DEMAT account. Investor prone to scam, govt deprived of taxes. So, SEBI declared it illegal.

⇒ **Insider Trading (भेदिया लेनदेन):** Whenever company launches new products, wins unique patents, or undergoes merger/acquisition- its share prices may 🔝. If a person associated with company uses such confidential information for buying/selling shares to make windfall gains. Such insider trading is illegal.

⇒ **Front Running (illegal) :** e.g. LIC Mutual Fund manager Yogesh knew that LIC-MF was going to invest heavily in X company. So he bought the shares of that X company in advance in his personal account (to make profit when price rises after LIC-MF starts buying). SEBI banned him. Want2Phd? <https://youtu.be/ajTZL1chho?si=fWvH1MhOQoxxi-Zm>

► 🧐 FAQ by Zhande-walle Babushone: *what is the difference between insider trading and front running?? Can we say front running is a some type of insider trading?*. Ans. It is notimp. Remember them as one-liners, instead of comparing "A" vs "B". Move to next topic. थोड़ा-पढ़ो-आगे-बढ़ो.

16.26.5 🛍️ (💻⌚👤💼) Algo Trading & Co-Location / “Trading access point (TAP)” System case.



What does this mean? Explained in the video.

Also called “Trading access point (TAP)” System case.



16.26.6 🔥 Investor Protection Fund (IPF)

- ⇒ SEBI requires Stock exchanges (BSE, NSE etc) and commodity exchanges (NSEL, MCX etc) to setup Investor Protection Fund (IPF: निवेशक सुरक्षा कोष).
- ⇒ IPF covers investors' 'non-speculative' type of losses. e.g. if the other party is not delivering shares because of some court case. IPF also promotes investor education and awareness.
- ⇒ max. protection per investor is ₹25 lakh.

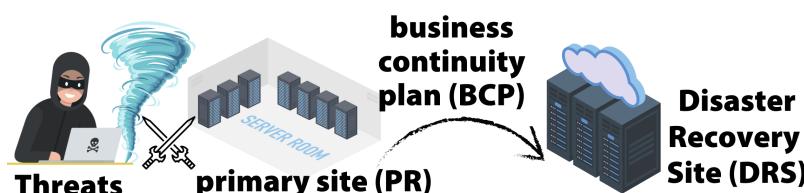
► 🧐 FAQ if we've Central Counterparties (CCPs) then why is this fund required? Ans. ok ask SEBI to shut it down. 1-linerGK hai. accept and move to next topic.

16.26.7 🔒 Settlement guarantee fund (SGF)

- Objective similar to the investor protection fund. But we'll not PHD.
- Stock exchanges, clearing corporations and brokers required to towards it.

16.27 SOS 🚨 SERVER CRASH PROTECTION

16.27.1 SOS 🚨 SEBI's BCP Plan & DRS Sites



- SEBI has designed business continuity plan (BCP) for market infrastructure institutions (MIIs) — i.e. (1) stock exchanges, (2) depositories, (3) clearing corporations.
- MII need to have a disaster recovery site (DRS). So when there is disruption in their server at the primary site (PR) → they'll move data/operations to the server at DRS site.
- 2024-March: Bombay Stock Exchanges (BSE) and the National Stock Exchanges (NSE) carried out mock drill / special trading sessions for this.

16.27.2 🚨 SEBI → LAMA - IT monitoring system/framework

- LAMA system helps Stock Exchanges, Depositories etc. to check their IT-system integrity on real-time basis.
- LAMA = Log Analytics and Monitoring Application. (Full form not imp)

16.27.3 SOS 🚨 IRRA Portal: Investor Risk Reduction Access (IRRA)

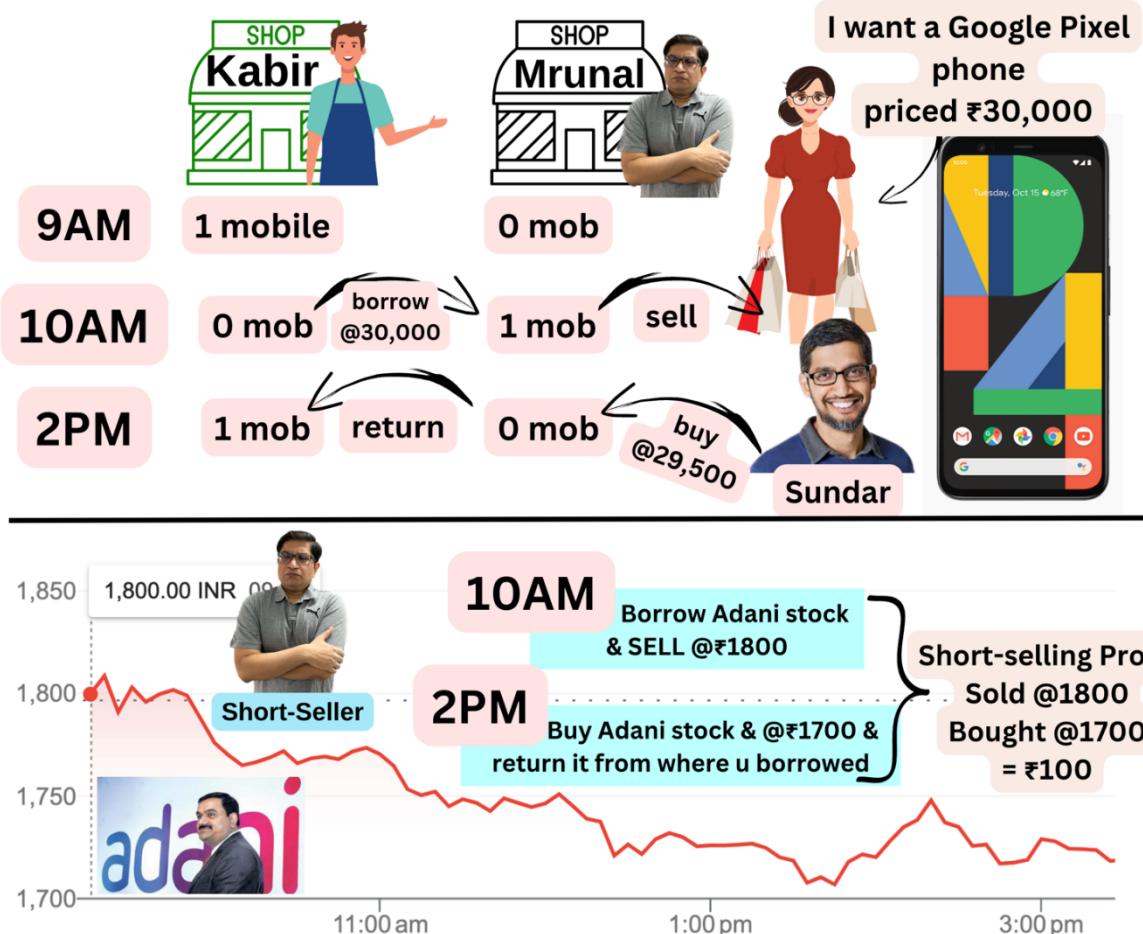
- is a platform that will act as a 'safety net' for investors during technical glitches/server errors.
- Helps Investor to cancel/close the trade to protect his money during server errors.
- Boss? jointly developed by all the stock exchanges – BSE, NSE, NCDEX, MCX and Metropolitan Stock Exchange of India (MSE)

16.27.4 🐻 💼 ADANI HINDENBURG, FLASH CRASH, SHORT-SELLING (2023)

- ⇒ Hindenburg Research firm (USA) alleged that Adani was doing stock manipulation, accounting fraud, money laundering, taking too much loans beyond the capacity to repay etc. (HOW exactly? Ans. Notimp after observing PYQ.)
- ⇒ then investors panicked and started exiting Adani shares at loss.
- ⇒ Shareprice fell from ₹3500 (2023-Jan) to ₹1500 (2023-Feb). Flash Crash = term to describe sudden (and huge) fall in share price. e.g. Adani after Hindenburg report (2023)



- ⇒ Adani's supporters argue that Hindenburg spreading negative news to make the share price fall, to make profit thru short selling of Adani shares. (How? Explained in the next section:)
- ⇒ SC had setup Justice A M Sapre panel to investigate Adani share crash and other regulatory aspects for stock markets. Its recommendations = Refer to Mains-handout.



16.27.5 ⚡ Short selling (make profit from falling share price)

- ⇒ Short selling occurs when an investor borrows a share (निवेशक शेयर उधार लेता है)
- ⇒ then sells it in the market (फिर बाजार में बेच देता है)
- ⇒ with hope to buy it back later for lesser price. (इस उमीद में कि बाद में उसे सस्ते दाम में वापस खरीद लेगा ताकि उसे मुनाफा हो जाए.)
- ⇒ See the graphics given. & watch video lecture for better understanding:

16.27.6 🦅 Adani pe Case in USA: Hague Service Convention for summons

- Adani had collected money from American investors and allegedly used it to pay bribe to Indian bureaucrats for the solar projects.
- 2024: American court started a case against Adani, under Foreign Corrupt Practices Act (FCPA)
- 2025: Trump paused FCPA Act for 180 days. So in a way, Adani got relief.
- Hague Service Convention (1965) helps a country to send judicial summons to an accused person staying in another country.
- 2025: News report hint that America may use this Hague treaty to seek help of Indian government to issue USA Court summons to Adani in India.



16.27.7 🎨💡Finfluencers:

- ⇒ Finfluencer is an influencer, who gives advice on financial investments via social media.
- ⇒ Sometimes they give wrong advice on behest of share market scamsters. SEBI punishes them.

16.28 🛍️ (Knife, 📚) ONLINE TRADING PLATFORMS → G-SEC

16.28.1 🎨🛍️ (Knife, 📚: 🧑‍🤝‍🧑, 🗂️) G-Sec Trading- Retail investors' RDG @RBI

- ⇒ RBI launched “Retail Direct Scheme” in 2021.
- ⇒ Under this scheme, RBI permits “Retail Direct Gilt (RDG) account” for retail investors on its E-Kuber online platform. (आम निवेशक रिज़र्व बैंक में आरडीजी नामक खाता खोल पाएंगे)
- ⇒ Both Resident Indians & non-resident Indians (NRIs) can open this account. (गैर निवासी भारतीय भी)
- ⇒ Then Retail investors can directly buy Treasury Bills (T-Bill), G-Secs (of Union Government), State Development Loans (SDL are ‘G-secs’ of State Govts) and Sovereign Gold Bonds, from RBI directly. (आम निवेशक सीधा रिज़र्व बैंक से इन प्रतिभूतियों को खरीद सकता है.)
- ⇒ Application fees to open the account = ₹ ZERO. Note: Retail investors can also invest in G-Sec/T-bill indirectly via Mutual Funds It is not banned. But if retail investors want to buy directly from RBI- then they've to goto RBI's RDG/e-kuber.
- ⇒ 2024: RBI said it'll launch a mobile app for this.
- 🎉 Benefit? 1) Earlier retail investors bought G-sec “indirectly” through mutual funds wherein mutual fund manager (MF) charged commission/fees. Now retail investor can buy directly so does not have to pay such commission/fees to MF managers. (बिचैलियों को ढलाली/कमीशन नहीं देना होगा)
- 🎉 2) Deepening of G-Sec market through 🔍 retail participation (बाजार की जड़ों को गहरा करेगा)

16.29 🎨🛍️ (Knife, 📚: 🧑‍🤝‍🧑, 🗂️) G-SEC TRADING: RBI's NDS-OM, OTC

- ⇒ RBI owns and regulates Negotiated Dealing System (NDS) for trading in G-Sec.
- ⇒ Clearing Corporation of India Limited (CCIL a company founded by SBI, IDBI, ICICI, LIC etc) maintains this system.
- ⇒ NDS system for recording the transactions of G-Sec buy-sell. NDS has following components:

Telephonic	i.e. buyer/seller call each other on the telephone, make the deal about buying and selling and then inform the reserve bank's NDS system (<i>ke we've done this deal</i>).
Over-The-Counter (OTC)	Buyer physically walks into the seller's office (or vice versa) and conducts the transaction. Later they report transactions to RBI's NDS System (<i>ke we've done this deal</i>). (ऑफिस में रुबरु मिलके खरीद-बिक्री करेंगे, बाद में रिज़र्व बैंक को सूचित करेंगे कि हमने ये किया था)
NDS-OM	Negotiated Dealing System-Order Matching system (NDS-OM): electronic, computer screen based, anonymous, order driven trading system for dealing in G-sec's secondary market. Buyer-seller places orders online without knowing names/phone numbers of each other. (खरीददार और विक्रेता एक दूसरे की असली नाम पहचान नहीं जान पाएंगे)

▶️💡FAQ: Then what is E-Kuber?

- ⇒ Ans. E-Kuber is the core banking solution (CBS: REF Pillar1A1) platform of RBI to digitally

handle all operations of RBI e.g. NEFT-RTGS, Repo, MSF, CRR, PSLC certificate trading, G-Sec, Sovereign Gold Bond, Retail Direct Scheme (RDG) etc.

⇒ You may think of E-kuber as a Windows Operating system, & NDS as a sub-component/excel-software inside of it that handles G-Sec buying-selling database management/account keeping.

AB CD ? MCQ. Find correct statement(s): (Asked in Prelims-2021)

1. Retail investors through demat account can invest in 'Treasury Bills' and 'Government of India Debt Bonds' in primary market. [आम निवेशक डीमैट खाते द्वारा प्राथमिक बाजार में सरकारी प्रतिभूतियों में निवेश कर सकता है]
2. The 'Negotiated Dealing System-Order Matching' is a govt securities trading platform of the Reserve Bank of India. [NDS-OM सरकारी प्रतिभूतियों में खरीद बिक्री करने के लिए रिजर्व बैंक द्वारा बनाया गया मंच है]
3. The 'Central Depository Services Ltd.' is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange. [CDSL को रिजर्व बैंक और बॉम्बे स्टॉक एक्सचेंज द्वारा संयुक्त रूप से बनाया गया था]

Codes: a) 1 Only b) 1 and 2 c) 3 Only d) 2 and 3

16.29.1 Bid-Ask Spread

Player	Jetha wants to buy at (Bidding price)	Bhide wants to sell at (Asking price)	Spread / Gap
WIPRO Share	600	800	₹200

In above situation, the deal can't happen because the Bid-Ask Spread is high.

- Either buyer or the seller will have to make price-compromise, only then deal can happen.
- If bid-ask spread is HIGH = liquidity of the asset decreases. Because it becomes difficult to sell such asset.

16.29.2 Arbitrage: Making profit due to difference in to markets/location.

Location	Delhi	Mumbai	Arbitrage
Gold Price (10gm)	60,900	60,800	₹100

- In above example, a dealer can buy the gold from Mumbai and sell to Delhi and he will make a profit (arbitrage) of ₹100.
- nowadays the arbitrage in financial assets (share/bond etc) is very low because of the online trading.

16.29.3 Yen carry trade & fall of Indian Sharemarket. (2024)





- Yen carry trade involves borrowing in a low-interest currency (yen) to invest in higher-yielding assets (e.g. Indian sharemarket).
- 2024: Japan's central bank → loan interest rate ↓ profit margins ↓ for Yen-carry traders → So foreign investors started fleeing.
- Result? Heavy fall in the stock exchanges. Japan's Nikkei 225 Index (-12%), Indian Sensex (~3%), South Korea's Kospi (8%) etc.
- More doubts/want2Ph.D? then watch <https://youtu.be/vd3kgnArQGY?si=pJtOAMrj4eg17hAx>

16.30 📦 👨‍🏭 💼 INVESTMENT FUNDS → MUTUAL FUND (MF) FOR AAM-AADMI



Figure 5: swag से करेंगे 'middle-class' का 'स्वागत' | Observe colors in logo, meant for attracting ordinary crowd

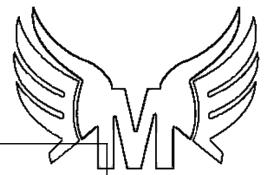
- ⇒ Mutual Fund is an Asset Management Company (AMC-NBFC) that pools savings of (retail) investors and gives them "Units".
- ⇒ MF Manager parks this money in securities & builds his 'portfolio'.
- ⇒ Whatever dividend/ interest is generated from the portfolio, it is distributed among investors in the proportion of their units.
- ⇒ Investor pays **Entry Load** (= fees for joining), **Exit Load** (= fees while quitting). SEBI regulates these fees.
- ⇒ Due to low deposit rates in banks, people invested money in mutual funds however post-IL&FS crisis, corona crisis, charm declining because mutual funds are subject to such market risks.
- ⇒ 🎾💼⚾️ “Side pocketing”: SEBI’s technical guidelines to help MFs to separate their IL&FS type stressed/toxic assets from their standard assets. Helps protecting the investors. How?
NOTIMP.

16.30.1 📦 👨‍🏭 💼 MF → Hybrid mutual funds

Type of MF	Invests money in
Equity-MF	Shares.
Debt-MF	Bonds, G-Sec, T-Bill etc. Short-term and long-term Bonds instruments
Hybrid-MF	Shares and Bonds both types.
Multi-asset	Shares, Bond & Gold.

16.30.2 🚆✋ MF: Open ended vs Close ended

Type	Open ended	Close ended
size of the fund	unlimited, everyone welcome.	fixed e.g. 50 cr fund. Manager will not accept more money once it is filled.
client can	whenever he wants	there is closing date, after which MF- manager will not



subscribe		accept money.
maturity	none.	Fixed maturity period e.g. 5 years

16.30.3 MF: Lumpsum (One-off) vs SIP

Type	One-time / one-off /lump-sum	Systematic Investment Plan (SIP)
client contributes ₹ →	only 1 time . (बस एक ही बार पैसा जमा करता है)	regular basis e.g. Monthly (नियमित रूप से बार बार पैसा जमा करता है)

16.30.4 Mutual fund → ESG, Shariya Mutual Funds

- ⇒ **ESG Mutual Funds**= These mutual funds will invest clients' money in companies that have good performance on Environmental, Social, And Governance (ESG) aspects.
- ⇒ **Shariya Mutual Fund**= These mutual funds will invest clients' money in companies that are compliant with Islamic Shariya law. E.g. They will **not** invest in alcohol, pork, gambling etc related companies.

16.30.5 Mutual fund → SIP, ELSS, ULIP

- ⇒ **Traditional Mutual Fund** = client invests entire amount at once. एक साथ पूरी रकम जमा करानी होती है
- ⇒ **Systematic Investment Plan (SIP)**= Mutual fund wherein client deposits small-small fixed amounts at fixed interval e.g. month basis etc. ग्राहक छोटी-छोटी किस्तों में रकम जमा करवाता है
- ⇒ **Equity Linked Savings Scheme (ELSS)**= It is a sub-type of mutual fund where money is locked in for 3 years and invested in equities (shares). It's eligible for certain benefits in Income Tax.
- ⇒ **Unit linked insurance policy (ULIP)**= client invest money in a scheme wherein → (1) some ₹ goes into Mutual Fund (2) some ₹ goes into insurance policy (Ref: HDT-Pillar#1D)

16.30.6 Mutual fund → Mutual fund risk-o-meter

- ⇒ SEBI requires 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'. (कितने जोखिम पूर्ण तरीके से निवेश कर रहा है)
- ⇒ 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.
- ⇒ This helps the investor to make decision- which Mutual fund he wants to joins depending on his risk appetite. (उस हिसाब से निवेशक तय करें उसे कौन से सलामती पूर्ण या जोखिमपूर्ण म्यूचुअल फंड में जाना है.)

16.30.7 Mutual Fund: Backstop Entity- SEBI proposal for stressed MF

NOT YET formed. And outdated for 2024-25. So deleting it. #RAFTAAR for Prelims.

16.30.8 Bond Buying Institution in Budget-2021

NOT YET formed. And outdated for 2024-25. So deleting it. #RAFTAAR for Prelims.

16.31 INVESTMENT FUNDS → HEDGE FUND (हेज फण्ड) FOR RICH-AADMI



Figure 6: Swag से नहीं करेंगे 'middle-class' का 'स्वागत'! Observe 'premium' logo-designs to attract rich people



- ⇒ Special type of Mutual Fund meant for HNI (High Net Worth Individual) who wants high risk high return. SEBI norms: Minimum investment per person is ₹1 crore. (सिर्फ अमीरों के लिए है)
- ⇒ Hedge Fund manager will invest their money in Junk Bonds, Risky assets; he'll do risky trading activities such as Arbitrage, Leverage, Short Selling, Future&Options(F&O) trading, Derivatives Trading etc. to generate maximum return. (how is that done in real life, what do these words mean? = UPSC-CSE not for recruitment of HF managers.)

16.31.1 📦 🚂 ♂ 🤷 Investment Funds: “Accredited Investor”

Deleting from handout. I'm not finding it exam-worthy anymore.

16.31.2 📦 🚂 🏢 💸 Investment Funds → REITs / InvITs: for rich-aadmi

	REITs: Real Estate Investment Trusts - (भू-भवन-संपत्ति निवेश न्यास)	InvITs: Infrastructure Investment Trusts-(अधिसंरचना)
Who can invest?	HNI / institutions: Min. ₹2 lakh ₹50,000 . (Note: these numbers keep changing. DON'T worry. It's enough to know- these are for rich people.)	₹10 lakh. ₹1 lakh (SEBI reduced minimum limits in 2019 to attract more investors)
Manager parks the money in?	in real estate projects that are soon to complete. He'll earn income from rent / sale.	In airport, highway, thermal plants, gas grid etc. He'll earn from toll collection at highways, services fees at airports etc.
Example	Blackstone-Embassy group	IRB, India-grid

✓ Benefits of REITs and InvITs-

- ✓ Stressed developer gets new finance to finish the project while HNI gets new opportunity to invest his money, and he may also sell the units to third party via stock exchange.
- ✓ SEBI permitted these instruments in 2014. Later SEBI relaxed technical norms related to capital, leverage, issue size but they are not important for us. हर तकनीकी नियम अपने लिए काम का नहीं

16.31.3 📦 🚂 ♂ 🎯 Investment Funds → Sovereign Wealth Fund (संप्रभु धन कोष)

- ⇒ State owned investment fund, wherein central bank, finance ministry and other public sector financial intermediaries park their surplus fund. →money used for investment.
- ⇒ E.g. 2020-Jun: Abu Dhabi Investment Authority (ADIA) bought 1.16% of Reliance Jio for ₹5600+cr. Singapore's GIC sovereign wealth fund, Qatar Investment Authority (QIA) also active in Indian market.
- ⇒ What is National Investment & Infrastructure Fund (NIIF) Ans. Ref: Pillar#5: Infrastructure

16.32 📦 🏛 INVESTMENT FUNDS → CPSE-EXCHANGE TRADED FUNDS (ETF: ईटीएफ)

- ⇒ Disinvestment (विनिवेश): government sells its shares from Central Public Sector Enterprises (CPSE: केंद्रीय सार्वजनिक क्षेत्र के उद्यम) but does not reduce its shareholding below 51%.

- ⇒ If Govt's shareholding reduced below 51%, then it is called **Privatization** (निजीकरण), although NITI prefers the term '**Strategic Disinvestment**'. (*More in Pill#2*)
- ⇒ 2014: Govt wanted to disinvest 10 CPSE (ONGC, GAIL ltd etc). If govt tried to sell individual company- shares, it would be more time consuming, and govt may not get good prices for each company.
- ⇒ So, Govt gave CPSE-shares to a fund manager Goldman Sachs - who created new securities out of it, called "Exchange Traded Funds (ETF)", and made a "New Fund Offer (NFO)" to the public to subscribe to these securities at ₹ 10 per unit.
- ⇒ If an investor holds the ETF → he will get returns from the dividend generated by those CPSE-companies in the backend. He may also sell these ETF to a third party via stock exchange, hence called Exchange Traded Funds.

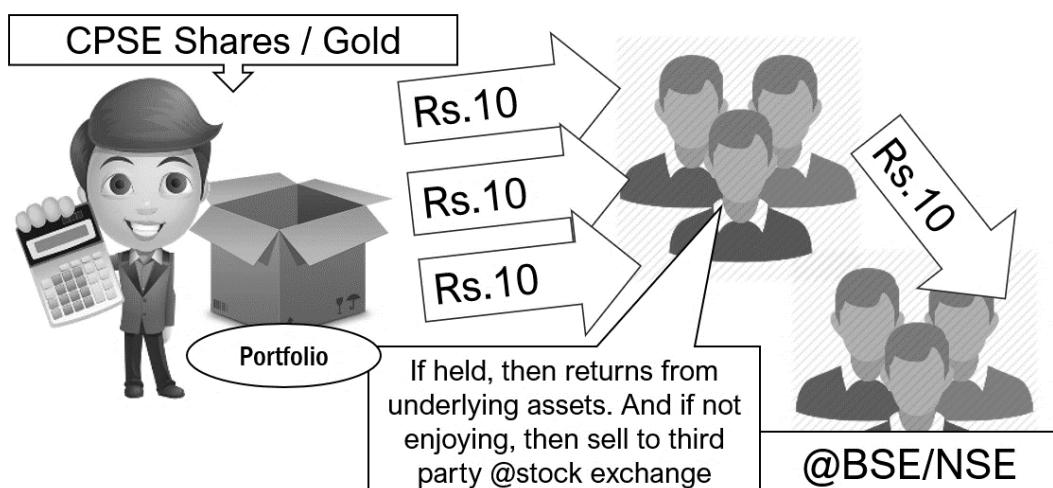


Figure 7: how do exchange traded funds (ETF) work?

- ⇒ **BHARAT-22:** Another CPSE-ETF when Govt wanted to disinvest shares from 22 companies including CPSE, PSBs and UTI using ICICI Prudential as fund manager (2017-18). However, PSB-NPA problem → poor dividends → BHARAT-22 not giving good returns, so, investors response was initially lukewarm.
- ⇒ Later govt announced, "We'll give the ELSS-walla income tax benefits to CPSE-ETF-investors as well" to attract investors.

16.32.1 (🦁Knife)📦: (🏛️🛒🤝) Bharat Bond (Debt) ETF (2019)

Similar to above thing but instead of shares, it has govt owned companies bonds.

16.32.2 (🦁Knife)📦: (🏛️🛒🤝) CPSE-ETF vs Mutual Fund

Table 1: Sad that I've to spoonfeed this much

Mutual Fund	CPSE-ETF
Objective = invest clients' money in shares/bonds	Objective different than Mutual Fund (1) help Government for its disinvestment (2) help Government company to borrow money (Bharat-Bond ETF)

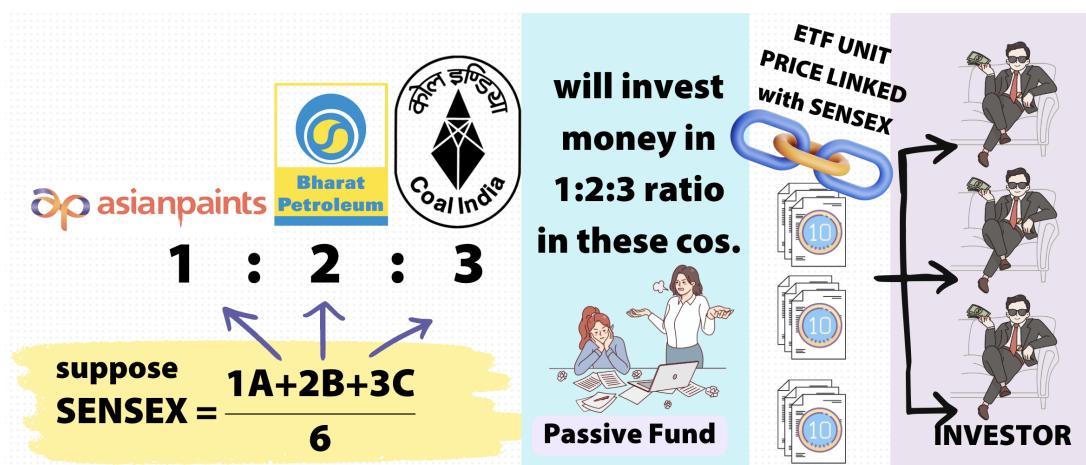


Mutual Fund	CPSE-ETF
fund managers may buy/sell variety of shares and bonds of Government companies and private sector companies for best returns through out the scheme.	He's not doing that. His objective given above.
a fund manager may also change the composition of the portfolio for example if Infosys shares are not performing well → he may sell them and fill up the box with Wipro shares for better dividend.	His portfolio (list of govt companies' shares/bonds) is fixed. It'll not change.
manager charges higher fees	lower fees.

16.33 😵 INDEX-ETF: A TYPE OF PASSIVE FUND

They collect client money and invests in the companies in a proportion to the stock-exchange weight assigned to those companies.

Fund	Index-ETF	Mutual Fund
Managed	Passively. Manager will mechanically invest money into an external indicator/index/asset without applying Brain. e.g. Index-ETF (see next section).	Actively. Manager will apply the brain before investing clients money. e.g. a mutual fund manager will decide whether to invest in Adani or reliance after checking their balance sheet and future expected profits.
Fees charged by Manager	less	more
Liquidity	higher/easier	lower/slower
Can be resold in secondary market?	Yes	difficult for close-ended MF with fixed maturity period e.g. 3 years.



MCQ. Find wrong about Exchange Traded Fund (ETF) (CDS-2018-I)



- (a) It is a marketable security. (b) It experiences price changes throughout the day.
 (c) It typically has lower liquidity and higher fees than mutual fund shares.
 (d) An ETF does not have its net asset value calculated once at the end of every

► 🤔 FAQ explain me terms mentioned in all of the above options in above MCQ!? Ans. Poor cost-benefit / self-study from google.

16.34 🌸🐂 BITCOIN ETF APPROVED IN USA (2024)

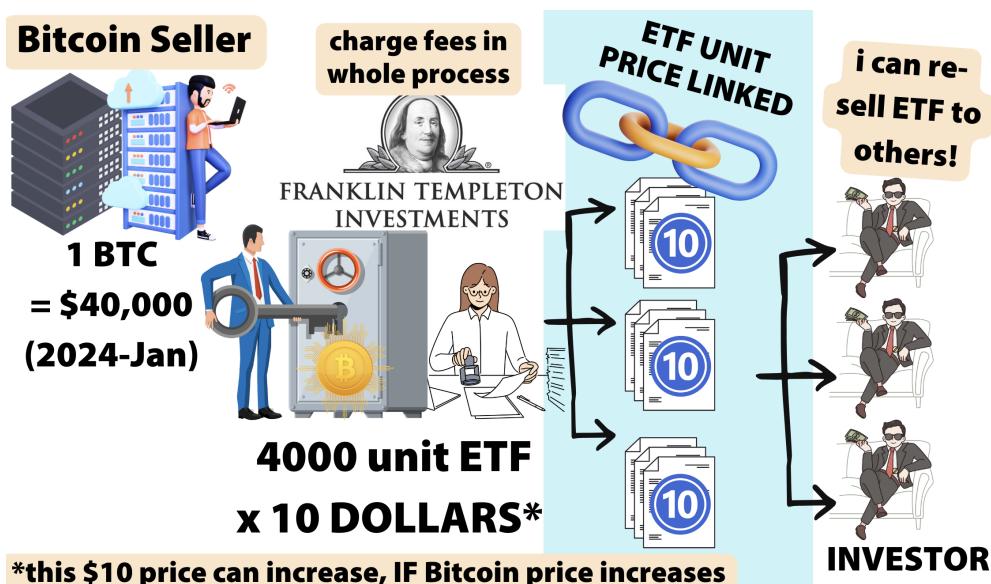
- How does it work? Ans. Explained in video lecture. I am not typing the entire movie script here, otherwise handout will become very long.
- 2024: USA's share market regulator i.e. Securities and Exchange Commission (SEC) approved Bitcoin ETF. (India has not yet approved.)

16.34.1 🌸🐂 Bitcoin ETF: Pros

- Bitcoin ETF provide no anonymity to investor = easier for the Government to demand tax from his profits/income.
- Bitcoin-ETF helps bypassing the dangers/complexities of buying Bitcoin directly from unknown websites/apps.
- Normal bitcoin wallet = If password is forgotten then difficult to recover.
- Whereas the Bitcoin-ETF = easier to retrieve lost passwords.
- They reduce volatility In prices. (because when mutual fund, insurance companies and other institutional investors invest put money in it, they will not randomly run away for smallest negative news. So the prices will remain stable.)

16.34.2 🌸🐂 Bitcoin ETF: Cons

- investor will have to pay the fees to the stock exchange for every buying and selling.





► 🧑 FAQ: (1) can we say Bitcoin-ETF is an example of passive funds? Ans. Yes but waste of time preparing a Mendeleev's periodic chemistry table ki kaunsa fund is example of active/passive.

► 🧑 FAQ:(2) can we also say XYZ is also a pros/cons of Bitcoin-ETF? Ans. AskChatGPT, my syllabus-finisher-bus can't wait for you. थोड़ा-पढ़ो-आगे-बढ़ो.

16.34.3 🇺🇸 Handshake Overseas ETF: temp-ban on Indian MF by SEBI (2024)

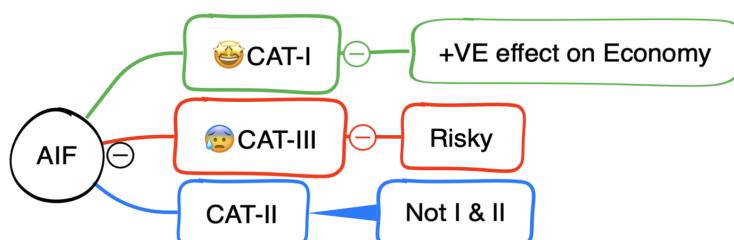


- Unrestricted outflow of money from Indian economy can cause crisis in ₹-\$ currency exchange. So RBI has legal powers to impose restrictions under FEMA Act (Foreign Exchange Management Act 1999)(Ref: Pillar#3)
- e.g. RBI ordered- Indian Mutual funds (MF) cannot invest more than \$1 billion in overseas exchange traded funds (ETF).
- 2024-Apr: Indian MF reached 95% of this quota/ceiling. So SEBI ordered MFs to temporary stop accepting more money from investors.

16.34.4 💰 Gold-ETF

- Investors give money → manager buys gold for safekeeping and trades it depending on price movements → returns are divided among the unit-holders.
- In between, the investor may sell his Gold-ETF to third party via Stock Exchange therefore they're also Exchange Traded Funds.
- WATCH VIDEO FOR MORE. IF I GIVE charts for it, handout will become very long.

16.35 📦 INVESTMENT FUNDS → ALTERNATIVE INVESTMENT FUNDS (AIF)



It's a technical classification by SEBI (वैकल्पिक निवेश कोष)

- **AIF Category I:** They generate positive spillover effects on the economy. Example: Venture Capital Funds, Angel investors fund, SME Funds, social venture fund, Infrastructure funds. SEBI keeps relaxed / lighter norms on them. जो कि अर्थतंत्र में सकारात्मक असर उत्पन्न करते हैं
- **AIF Category II:** Neither in Cat-1 nor in Cat-3 E.g. Private Equity or Debt Fund. जो ना तो ऊपर की श्रेणी में है ना नीचे की श्रेणी में है
- **AIF Category III:** They undertake excessive risk to generate high returns in short period of time. E.g. Hedge Funds, PIPE Funds. SEBI norms are stricter/heavier on them, because otherwise they may destabilize the capital market. जो कि अर्थतंत्र में जोखिम बढ़ाते हैं, नकारात्मक असर उत्पन्न करते हैं



16.35.1 (lion 🐁): (House 🏠) Govt's AIF for Real Estate Sector (2019)

Outdated for 2024-25 so deleting.

16.36 ⚡ ⏰ FORWARD / FUTURE CONTRACTS & CALL / PUT OPTION



Figure 8: भविष्य में खरीदने का सोचा तो किया, लेकिन दाम गिर जाए, तो खुद को बचाऊं तो कैसे?

- A Forward / Future contract is a customized contract between two parties where settlement takes on a future date at a price/quantity agreed upon today. E.g. *on 1/5/2025 I shall sell you 100 nos. of Infosys shares at ₹1000 each.*
- In such contracts, there is a risk of other party not honoring commitment if he's getting better deal elsewhere in the future. So, for protecting (=hedging) themselves, they (=buyer or seller) may buy "Option" from a third party by paying fees. नुकसानी से बचने के लिए बीमा लिया जाए
- Option is a type of insurance for executing the forward/future contract in a manner beneficial to them e.g. I'll sell you for ₹1000 on X date, & you must buy, but if I'm getting another buyer who is willing to pay ₹1500 then I may not sell you & you can't compel me. Such 'insurance options' are further subdivided into Call Option and Put Option, their internal difference & real-life mechanism not imp. for UPSC. (Still if u want to learn more, watch my Youtube Video: https://youtu.be/-2XHMvCiyQo?si=_aBi1-c6pGNxB4r1)
- Hedging = Act of purchasing such options/insurance to prevent your losses.

Ques: ? Which one of the following terms is used in Economics to denote a technique for avoiding a risk by making a counteracting transaction? [UPSC-CDS-2016-I]

- (a) Dumping (b) Hedging (c) Discounting (d) Deflating

16.37 🌱✋ OVER-FINANCIALISATION & SACHETISATION

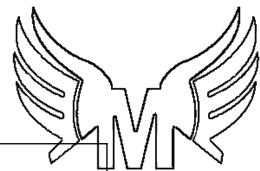


9 out of 10 investors lose money in this future-option (F&O) market - says SEBI.

16.37.1 🌱✋ Sachetisation of F&O Market not good - says ES24:

Sachetisation refers to the process of making products available in smaller/ more affordable packets so even poor people can buy it. (सेचेटीकरण = किसी उत्पाद को छोटे पैकेट में उपलब्ध कराना, ताकि गरीब भी खरीद सके।)

Product	minimum size to buy	sachetization happened?
clinic plus shampoo	₹1 sachet	Yes, poor can afford to buy.



Mutual Fund	₹100-250	Yes
Hedge Fund	₹1 cr	No. SEBI doesn't want poors to loose money in high risk. That's why higher requirement.
Future Option (FnO) Market	Discount-Brokers (e.g. Zerodha) allow poors to open account even if they've annual income of barely ₹1.20 lakhs.	Yes.

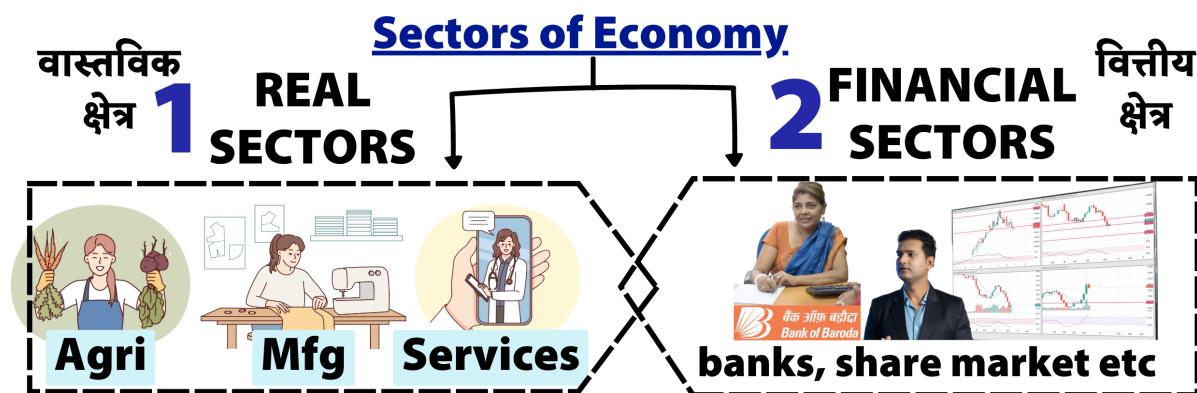
sachetization: making product affordable for poors



ES24: There is a need to reduce the sachetisation of F&O trade. Because

- Huge losses can occur in minutes if market predictions fail.
- SEBI reports 9 out of 10 F&O traders lose money. Yet Poor people are participating without understanding. They just gamble based on random tips from online finfluencers.
- Want2Phd? https://youtu.be/-2XHMvCiYQo?si=_aBi1-c6pGNxB4rl

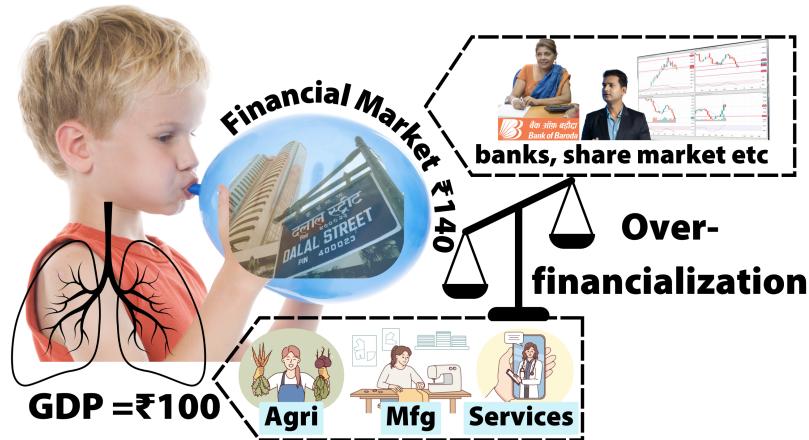
16.37.2 Sectors of economy: real sector vs financial sector



MCQ. Which are real sector in the economy ? (Pre'2022)

- Farmers harvesting their crops
 - Textile mills converting raw cotton into fabrics
 - A commercial bank lending money to a trading company
 - A corporate body issuing Rupee Denominated Bonds overseas
- Codes: (a) 1 and 2 only (b) 2, 3 and 4 only (c) 1, 3 and 4 only (d) 1, 2, 3 and 4

16.37.3 Over-financialization / Excess market capitalisation is dangerous says ES24:



- It refers to a situation where the financial sector (banks, stock markets, financial services, etc.) becomes disproportionately large relative to the real economy ($=\text{GDP} = \text{production of goods and services}$).
- India's market capitalisation (as a % of GDP) far higher than that of other emerging market economies like China and Brazil.

Financial Year	2018–19	2024-Mar	2024-May
India's Market Capitalisation to GDP Ratio (%)	77%	124%	140% of GDP ₹415 lakh crore (\$5 trillion dollars).

This is not necessarily a sign of economic advancement or sophistication.

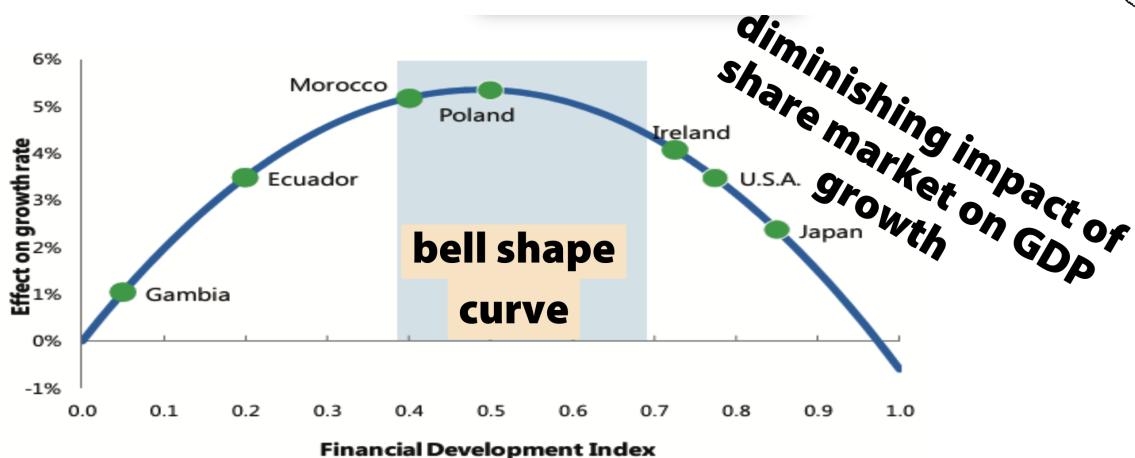
- These Financial assets (shares/bonds/bankers' loans) are ultimately claims on real goods and services in one way or another.
- So, if financial-sectors' claims on the real sectors' are excessively high, it is a harbinger of market instability rather than market resilience.
- It can create following problems:
- massive economic crisis e.g. Asian crisis of 1997–98, Subprime crisis of 2007–08 → Reduced capacity for sustainable long-term growth.
- increased inequality bcoz sharemarket players will make unreasonably high amount of money than normal people in normal jobs.
- Excessive financial speculation (e.g. future options trading where 9 out 10 ppl loose money.)

16.37.4 ⚡ Over financialisation damages productivity cautions 🔖 ES25:

Excessive financialisation damages the productivity. Because

- More number of talented youth opts for financial sector careers (e.g. investment banker) rather than real sector jobs (e.g. Mechanical engineer designing new electric car).
- money is moving in the financial sector (complex trading in future-option market) rather than in the real sector (e.g. designing new CPU)
- Creates complex products whose risks are not apparent to the regular consumer. (e.g. Future-Option Trading)
- Money goes into high collateral-low productivity projects. (e.g. Bonds of Real Estate Companies.)

16.37.5 🎓 Bell-shaped relationship: financial sector impact on GDP Growth - 🔖 ES25:



impact of steroids



**एक हद के बाद
बहुत ज्यादा
वृद्धि नहीं होगी**

- incremental increase in the financial sector can improve the GDP growth to what level?
- yes- for under-developed and developing countries such as Gambia, Ecuador and Morocco
- not so much for developed nations, such as Ireland, the USA, and Japan.
- But if weak SEBI / poor regulation then possible that developing economy (nations to the left of the bell curve) reach a point of over-financialisation, which will harm their growth.
- we should strive to maintain the fine balance between financial sector development and over-financialisation on the other.

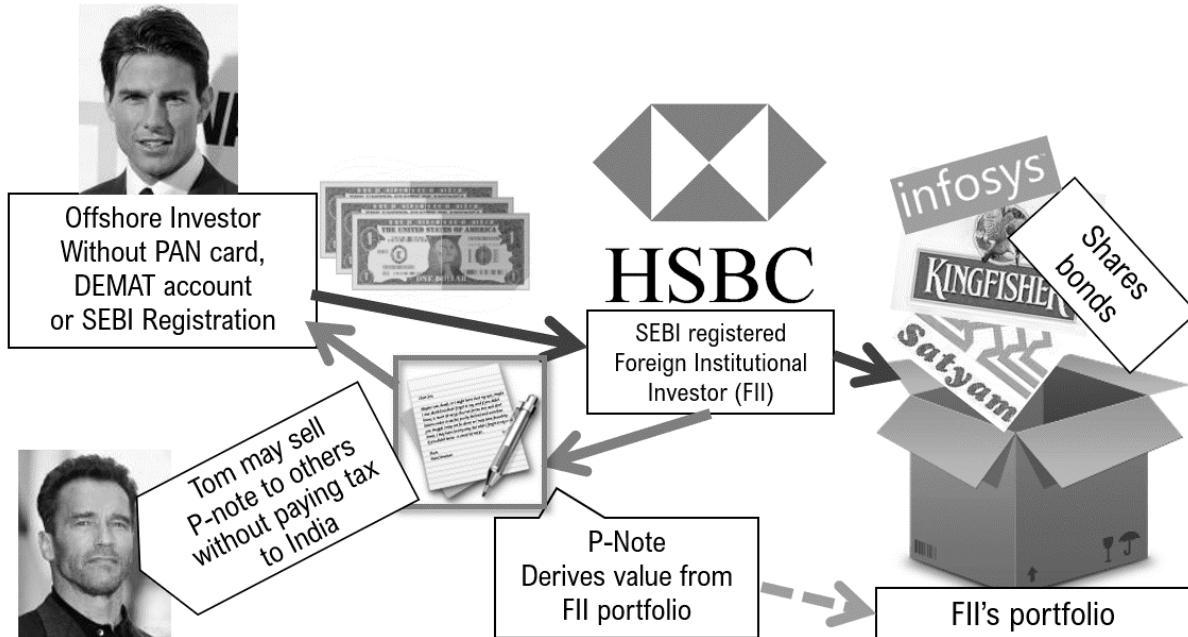
16.38 📈 💵 DERIVATIVES & SWAPS (व्युत्पन्न प्रतिभूतियां और अदला-बदली)

- ⇒ 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. इस प्रतिभूति का मूल्य किसी और संपत्ति से उद्भवित होकर आता है
- ⇒ They're usually generated by the process of 'securitization'. E.g. NHB taking loan papers from banks, using them to generate new Mortgage Backed Securities. (प्रतिभूतिकरण की प्रक्रिया से इसे बनाते हैं)
- ⇒ **SWAP:** is derivative instrument to swap one financial asset with another financial asset (usually) to reduce the risk e.g. Currency Swap Agreement between two countries to protect themselves against dollar volatility (more in 📈 Pillar#3).
- ⇒ Similarly, there are **Credit Default Swap (CDS)** agreement against the risk of default, **Interest swap agreement** to protect against volatility in interest rates. But their mechanisms NOT IMP.

16.39 🤞 💼 PARTICIPATORY NOTES (P-NOTES: पार्टिसिपेटरी नोट्स)

- ⇒ A foreigner wishes to **invest** his money in India but does not want to go through the hassles of registering with SEBI, getting PAN card number, opening a DEMAT account etc. So, he will approach a SEBI registered foreign institutional investor (FII) / foreign portfolio investor (FPI) such as Morgan Stanley, Citigroup or Goldman Sachs. He'll pay them & instruct them to purchase particular shares and bonds and store them in their Demat account.

- ⇒ Then FII will give him P-Notes, and he'll receive interest and dividend accordingly.
- ⇒ He may also sell those P-notes to a third party. (किसी अन्य व्यक्ति को भी बेच सकता है)
- ⇒ P-Notes are **Offshore Derivative Instruments** that derive the value from the underlying Indian shares and bonds. (अपतटीय व्युत्पन्न उपकरण)



बिना SEBI पंजीकरण के भारतीय पूँजी बाजार मे निवेश करू, तो कैसे?

P-Notes are harmful for Indian economy because:

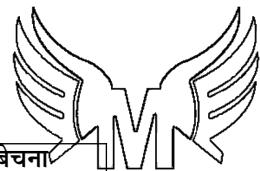
- ⇒ P-note investors are not directly registered with SEBI. Identity of the actual investor, source of funds remain disguised= chances of Tax evasion, money laundering, terror finance (इसके निवेशक ने स्वयं सेबी मे पंजीकरण नहीं करवाया वह पैसा किधर से लेकर आया यह सब जानकारी नहीं मिल पाती, कर चोरी, काले धन को वैध बनाना,आतंकी वित्तपोषण)
- ⇒ If P-Note owner sells his P-Notes to another foreign investor, Government of India may be deprived of taxes. (Compared to a scenario where Indian share owner is selling his shares to another Indian investor at profit, then government gets securities transaction tax and capital gains tax on his profit, & he can't dodge it because DEMAT accounts linked with PAN card.)

More on PAN card@Pillar#2 → BlackMoney)

Therefore, SEBI tightening the control P-Notes e.g. "X" category of FPIs can't issue P-Notes. "Y" category of FPI can issue P-Notes but they'll have to deposit \$1,000 to SEBI etc.

Table 2: Sad that even for such simple things I've to create such spoonfeeding-tables just to prevent FAQs from weak students

P-Notes	Foreign investor wants to invest in Indian share/bond market without registering with SEBI. He wants to buy Indian companies' shares/bonds in India. फिरंगी आदमी भारत की कंपनी मे निवेश करना चाहता है लेकिन सेबी से पंजीकरण नहीं करवाना चाहता
Bharat-DR	Foreign Company wants to Indian to invest in its foreign/firangi-shares,

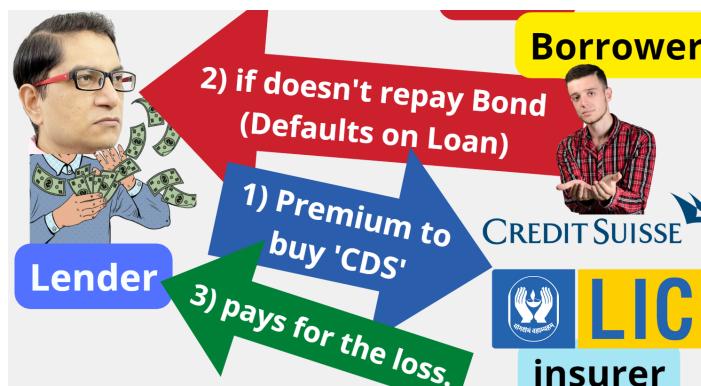


	without registering with SEBI. फिरंगी कंपनी अपनी कंपनी के शेयर्स भारतीयों को बेचना चाहती है लेकिन सेबी से पंजीकरण नहीं करवाना चाहती
ADR/GDR	Non-American Company wants to American people to invest in its shares without registering with American SEBI. गैर-अमेरिकी कंपनी अपनी कंपनी के शेयर अमेरीकी जनता को बेचना चाहती है लेकिन अमेरिका के शेयरबाजार नियंत्रक से पंजीकरण नहीं करवाना चाहती. GDR- similar concept, refer to respective segment.
Masala/Panda/ Kangaroo Bonds etc	Foreign company/org wants to borrow money, in a particular currency from a particular country. Refer to respective segment

AB CD ? _____ is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (Pre-2019)

- (a) Certificate of Deposit (b) Commercial Paper (c) Promissory Note (d) Participatory Note

16.39.1 Credit Default Swap (CDS)



- ⇒ CDS is an instrument to protect the lender/bond investors from the loan default by the borrower
 ⇒ PS: LIC is not 'insurer' in this case. I've used its logo only for easier visualisation.
 ⇒ Topic was in news, due to some scam involving a Swiss Bank "Credit Suisse"

16.39.2 Currency Swap

e.g. Central Bank of Japan and Indian RBI signed agreement to help each other upto \$75 billion in dollar currency, during currency-exchange/balance of payment related crisis (Ref: Pillar#3 for more.)

AB CD MCQ. Which of these are financial instruments? (Pre'24-Set-C-Q54)

1. Exchange-Traded Funds (ETF) 2. Motor vehicles 3. Currency swap

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

16.40 TAX ON INVESTMENT / FINANCIAL ASSETS

- Normally, whenever we make investment, it is subjected to variety of taxes such as income tax, capital gains tax, securities transaction tax, commodities transaction tax, stamp duty etc. depending on the type of investment/transaction. (Ref: Pillar#2A-Taxation for more)
- However, in following investments, government provide some relief in the taxes. How much/when? NOTIMP.

RGESS Started in 2012	Rajiv Gandhi Equity Savings Scheme= Govt gives income tax benefit to people who invest in the share market for the first time. Discontinued by
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Budget-2017 (मध्यमवर्ग का नया निवेशक पहली बार शेयर बाजार में निवेश करें तो आयकर में राहस्य)

16.40.1 🍍😊 Tax relief given on (निम्न चीजों पे टैक्स में रियायत/छूट दी जाती है)

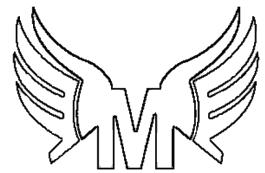
CATEGORY	Examples
Bank FD (sp.type)	- - 5-Year Tax Saving Fixed Deposit (FD) with Banks
Small Savings / social security More in Pillar1D	- Public Provident Fund (PPF) - Employee Provident Fund (EPF) - Sukanya Samridhi Yojana (SSY)- Fixed bank deposit in the name of daughter - National Savings Certificate (NSC) - Senior Citizen Savings Scheme (SCSS)
Pension/Insurance Pillar1D	Unit Linked Insurance Plans (ULIPs), - National Pension System (NPS), EPFO
Share market	Equity-Linked Savings Scheme (ELSS)
Bonds	Tax-Free bonds by some (NOT ALL, only Some) of the Govt companies/statutory bodies such as - National Highways Authority of India (NHAI), - Indian Railway Finance Corp (IRFC), - Power Finance Corporation (PFC), - Housing and Urban Development Corporation (HUDCO), - India Infrastructure Finance Company Limited (IIFCL) etc.
Donations	Election donation, PM-CARES fund (ref Pillar2), Army Welfare Fund, Zero Coupon Zero Principal (ZCZP) Bonds etc.
Location based	Investments made from GIFT City (Gujarat). (Ref: Pillar#3A: Intl. Trade)

Above list is NOT exhaustive/complete. There could be some more tax-free instruments also. But we are not here for Chartered Accountant exam.

16.40.2 🍍😢 Tax relief NOT given on

Now, if the name of an instrument is not mentioned in above list → then good chance, it is subjected to some tax for example

- Bank Savings Account pe interest income.
- Sovereign Green Bond (Yes government has NOT given any tax benefit on it, YET)
- Municipal Bonds, G-Sec, T-Bill;
- Shares, Company Bonds; Futures, Options, P-Notes
- Mutual Fund, REITS, InVITS, ETF; Bitcoins and Cryptocurrency (30% Tax)
- Property, Mona-Lisa Painting, Gold-Silver etc precious metals, Diamonds, Racehorses etc.



**AB
CD** ? MCQ. [CSP23-SET-A-Q021] Consider the following statements :

- Statement-I : Interest income from the deposits in Infrastructure Investment Trusts (InvITs) distributed to their investors is exempted from tax, but the dividend is taxable.
- Statement-II : InvITs are recognized as borrowers under the 'Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002'.
- (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

**AB
CD** ? MCQ. Find correct about “Inflation-Indexed Bonds (IIBs)” in India (Prelims-2022)

1. Government can reduce the coupon rates on its borrowing by way of IIBs.
2. IIBs provide protection to the investors from uncertainty regarding inflation.
3. The interest received as well as capital gains on IIBs are not taxable.

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

16.41 COMMODITY MARKET, FMC, SEBI MERGER

- A commodity market / exchange (वस्तु बाजार) is a place where buyers & sellers trade goods in bulk - food grains, cotton, precious metals or energy resources (coal, oil gas)
- “Commodity Futures”: Type of contract for future delivery and settlement of commodity e.g. “on 1/5/2021, I shall deliver you 500 quintals of wheat at X price”.
- Commodity exchanges were under a statutory regulator Forward Market Commission (FMC) under the Ministry of Consumer Affairs and Public Distribution.
- But Jignesh Shah generated fake receipts without any commodities in the warehouses & traded at NSEL-commodity exchange. FMC failed to prevent scam. (एक कांड हो गया था)
- So first FMC transferred to Finance Ministry and FMC ultimately merged with SEBI (2015).

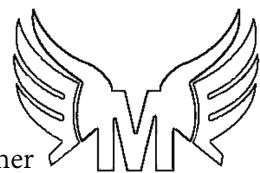
16.41.1 Commodity Market: Gold exchanges & Budget-2021

- ⇒ 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)

16.41.2 Commodity Market: Electronic Gold Receipts (EGRs)

स्वर्ण कंपनियां “डब्लूडीआरए” नाम की वैधानिक संस्था द्वारा पंजीकृत गोदामों में सोने की ईट/बिस्किट जमा करेंगे, उसकी “इलेक्ट्रॉनिक स्वर्ण रसीदें” सेबी द्वारा पंजीकृत इलेक्ट्रॉनिक गोल्ड एक्सचेंज पर बेची जाएगी। ग्राहक/निवेशक ऑनलाइन तरीके से उसे खरीद पाएंगा।

- Stage1: Gold companies deposit their gold in the warehouses authorized by Warehousing Development and Regulatory Authority (WDRA, it is a statutory body under Ministry of Consumer Affairs, Food & Public Distribution.)
- Stage2: Warehouse manager generates Electronic Gold Receipts (EGRs).
- Stage3: EGR are listed on the SEBI regulated electronic gold exchanges. → Buyer can buy the



gold electronically and be assured of the quality. Later he may even sell this EGR to another investor or he may go to warehouse to collect physical gold.

Benefits: 1) Assured quality. 2) Tax evasion is difficult due to online transactions monitored by SEBI. इसे ग्राहक को स्वर्ण की गुणवत्ता के बारे में सुनिश्चित होंगी। कर चोरी मुश्किल होंगी क्योंकि ऑनलाइन खातों की निगरानी होगी।

16.41.3 💍⭐🏦🤝 Commodity Market: India's first bullion exchange (2022)



India International Bullion Exchange (IIBX) is India's first bullion exchange @ GIFT City, Gujarat.

- ⇒ Bullion refers to physical gold and silver of high purity stored as coins, biscuits or bricks (ingots).
- ⇒ A bullion market/exchange is a place where large quantity of gold and silver is traded for 24/7 basis. (बुलियन मार्केट ऐसा स्थान है जहां बड़ी मात्रा में सोने और चांदी का दिनरात अविरल कारोबार होता है।)

16.42 🎓 FSDC: FINANCIAL STABILITY & DEVELOPMENT COUNCIL (2010)



Figure 9: अभी भी इतने सारे "कांड" क्यों हो रहे हैं, गवर्नर साहब? - वित्तमंत्री @ FSDC meeting.

- ⇒ **Functions?** Supervision of the economy & large financial conglomerates, coordination among the financial regulators, financial literacy and financial inclusion. (वित्तीय स्थिरता और विकास परिषद)
- ⇒ Chairman – Finance Minister. Other members : Minister of State (Finance),
 - heads of all other financial sector regulatory bodies (e.g., RBI, SEBI, IRDAI, PFRDA and IFSCA-ref Pill3 gift city),
 - Secretaries (IAS) of the departments of (i) Economic Affairs, (ii) Expenditure, (iii) Financial Services, (iv) Revenue, (v) Ministry of Corporate Affairs and (v) Ministry of Electronics and Information Technology
 - Chief Economic Adviser (CEA)
- ⇒ Secretariat assistance by: FinMin → Dept. of Economic Affairs (आर्थिक मामलों का विभाग)

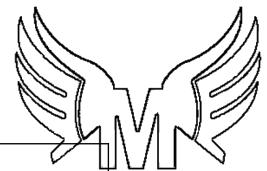
AB CD ? 'Financial Stability and Development Council': find correct statement(s): (Pre-2016)

1. It is an organ of NITI Aayog.
2. It is headed by the Union Finance Minister
3. It monitors macro-prudential supervision of the economy.

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

16.43 🎓♀ BODIES WITH SIMILAR SOUNDING NAMES: FSB, FATF

FSB (2009) HQ: BASEL	<ul style="list-style-type: none"> - Financial Stability Board is a brainchild of G20. (वित्तीय स्थिरता बोर्ड) - Functions? Financial monitoring at global level, Coordination between national financial regulators bodies. (अलग-अलग देशों के वित्तीय नियंत्रक के बीच तालमेल) - India has 3 seats in FSB: 1) Secretary of Department of Economic Affairs (IAS) 2)
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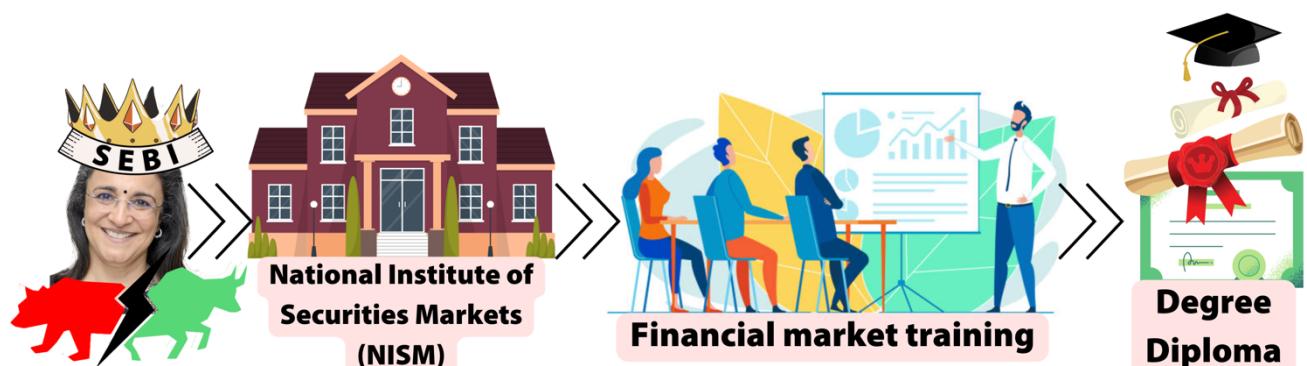


	Dy. Governor of RBI 3) SEBI chairman
FATF (1989) HQ: Paris	<ul style="list-style-type: none"> - Financial Action Task Force (वित्तीय कार्रवाई कार्यदल) is a brainchild of G7. - India member in 2010. Function? Combating Money laundering and terror finance. (<i>More</i> Pill#2) (धन शोधन और आतंकी वित्तपोषण से लड़ना)
IOSCO	<ul style="list-style-type: none"> - International Organization of Securities Commissions (IOSCO) is the international body of world's securities regulators. SEBI is a member. - Famous for its IOSCO Guidelines for Investors Protection & risk prevention

16.43.1 Financial Sector Assessment Program (FSAP) by WB & IMF

- is the quinquennial (5–5 years) survey jointly conducted by the IMF and the World Bank.
- 2011–12: first FSAP survey for India conducted.
- This survey covers following areas: (i)Basel-III reforms, (ii) Compensation, (iii) Over-the-Counter (OTC) derivatives, (iv)Resolution, and (v) Non-Banking Financial Intermediation (NBFI). [Note: This is given in ES24 so i pasted, else i don't waste pages like this.]

16.43.2 NISM- capacity building for financial market professionals - Budget-2023



- ⇒ National Institute of Securities Markets (NISM) is an educational institute set up by SEBI. HQ: Mumbai, Foundation Year-2006
- ⇒ Budget-2023: NISM to conduct more training courses for financial Market
- ⇒ NISM will give them degrees, diplomas and certificates for finishing such courses

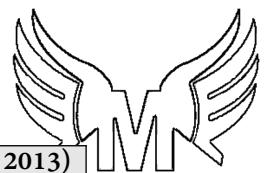
16.44 PILLAR 1C3: CORPORATE GOVERNANCE

16.45 COMPANY TYPES

16.45.1 Company types based on incorporation

Chartered Companies	Setup by a charter given by a king / queen. E.g. East India Company in 1600. (चार्टर्ड कंपनिया)
Statutory Companies	Setup by special acts of Parliament or State legislature. E.g. RBI, LIC, SBI. (वैधानिक कंपनिया)
Registered Companies	Registered under the Companies Act, 1956 (and later 2013) e.g. Tata Motors, Infosys. (पंजीकृत कंपनिया)

16.45.2 Company types based on number of members



	Private ltd.	Public Limited Company (Companies Act 2013)
Members	Min. 2 to Max. 200	Min. 7 to Max. unlimited number (depending on how many shares issued & purchased by the people)
can they invite public at large, to buy shares /bonds? क्या सामान्य जनता को विज्ञापन देकर अपने शेयर-बांड बेच सकते हैं?	Can't	<p>⇒ A public ltd. company can invite public at large, to subscribe to its shares and bonds.</p> <p>⇒ If their shares are listed on a stock exchange (BSE, NSE etc), it's a 'Listed Public Limited Company' (e.g. Reliance), else it's an 'Unlisted Public Limited Company' (e.g. India Post Payment Bank : IPPB)</p>
Directors (Min-Max)	2-15	<p>⇒ Min 3 to Max 15. out of them one must be Indian Resident, 1 must be Woman and 1/3rd of the directors must be independent directors.</p> <p>⇒ Independent directors are persons without any pecuniary interest in company, they are supposed to protect minority shareholders' interests. (अल्पसंख्यक शेयरधारकों के हितों की रक्षा करने के लिए स्वतंत्र डायरेक्टर)</p>
Term limit	N/A	Their directors have age limit, term limit.
Corporate Governance Norms	Norms either not applicable or relaxed. UPSC-CSE≠CA	<p>Companies Act requires them</p> <p>⇒ to hold specific number of annual meetings of board of directors, norms for quorum, mechanism for e-voting,</p> <p>⇒ have to appoint Company Secretary,</p> <p>⇒ Implement mechanism for protecting whistleblowers And so on...</p>

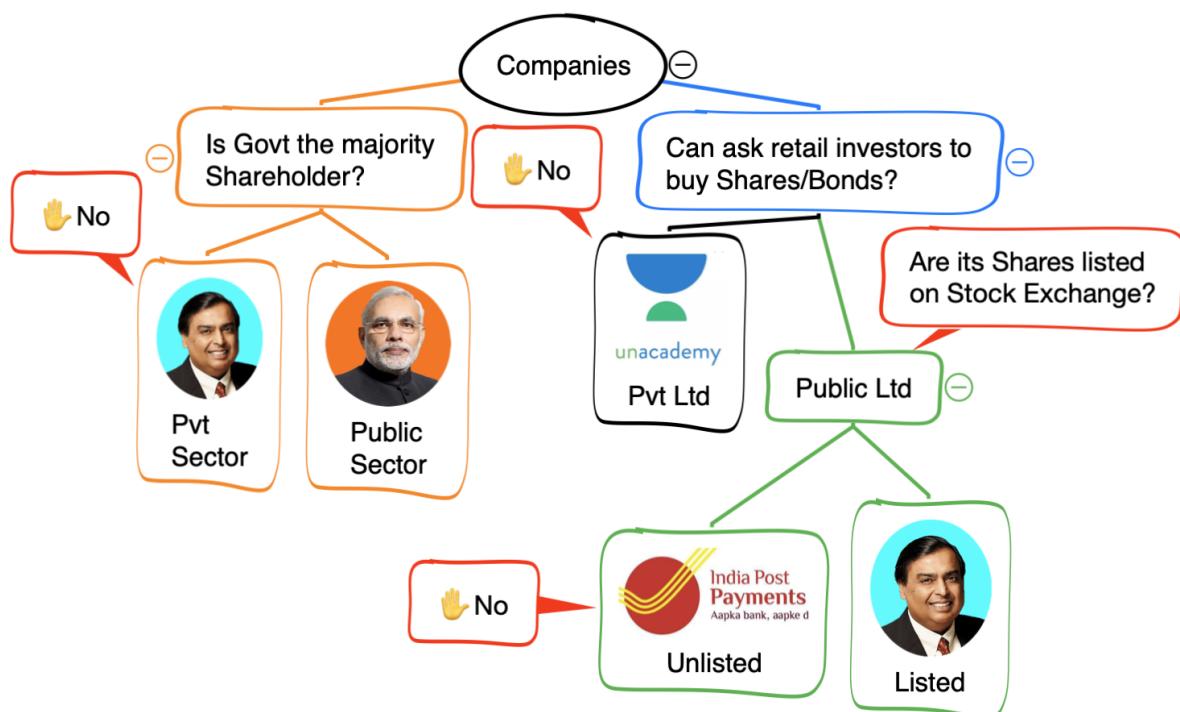
FAQ: How can pvt limited company have shareholding?

- ⇒ Ans. They can ask friends and family, venture capital funds, angel investors and other type of investors to invest in the company. They cannot put an advertisement in the newspaper that we are inviting the public at large to buy our shares. IF they want to invite public at large, → they need to convert registration from private limited company to public limited company.
- ⇒ Companies usually start as originally as private limited companies. e.g. Infosys (private ltd) in early 80s → when their business grows and they want more capital they will convert into public limited companies. → they will issue shares for the first time for the public at large → so we call it Initial Public Offer (IPO) e.g. same infosys (public ltd) in early 90s launched IPO..
- ⇒ In future same public ltd. company may also require more capital so again they will issue more shares for the second time, third time etc. → then we call it Follow on Public Offer (FPO)



16.45.3 🏛️👤 Company types based on Ownership

👤 Government / Public Sector / सार्वजनिक क्षेत्र	👤 Private Sector / निजी क्षेत्र की
When Government owns 51%/> shares. Examples: Steel Authority of India (SAIL), India Post Payment Bank (IPPB)	When private parties own 51%>. E.g. Reliance, Tata, Adani
Holding Company / नियंत्रक कंपनी A company that owns majority shares in another company. E.g. Tata Sons ltd. holds majority shares of Tata Consultancy Services (TSC), Tata Steel, Tata Sky etc.	Subsidiary Company / नियंत्रित कंपनी A company that is controlled by a parent holding company. E.g TCS, Tata Steel, Tata Sky are subsidiary co of Tata Sons.



16.45.4 🏛️👤 Company Types: Misc.

Under Companies Act	<ul style="list-style-type: none"> ⇒ One Person Company: special type of private ltd company having only one member. <small>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</small> ⇒ Not for Profit Company: e.g. GSTN, NPCI etc. their profit is re-invested in business expansion. They get certain tax benefits & relief in how frequently they've to submit data to MCA. (<small>लाभ-रहित कंपनी, जो कंपनी मुनाफे के लिए नहीं बनाई गई</small>) ⇒ Dormant Companies: A) setup to start business in future B) setup to store intellectual property C) not filled annual returns for two consecutive years. (<small>निष्क्रिय/सुप्त कंपनी</small>)
👤 Under	⇒ Limited Liability Partnership (LLP) Company is formed by minimum 2 or



LLP Act 2008 सीमित देयता भागीदारी अधिनियम	<p>more partners.</p> <ul style="list-style-type: none"> ⇒ Individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct. E.g. Vajiram and Ravi IAS Study Centre LLP ⇒ LLP's registration fees, auditing/reporting norms, tax liabilities, winding up process etc. are more flexible than a (public or pvt) ltd. company registered under Companies Act. उनके लिए नियमों में रियायत/आसानी होती है।
Under Indian Partnership Act 1932	<ul style="list-style-type: none"> ⇒ A Partnership firm is formed by minimum 2 or more partners. ⇒ Each partner is liable jointly with all the other partners for losses, wrongful biz. decisions and misconduct.

16.45.5 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'.
- ⇒ 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.

16.45.6 Commercial Organizations: Other Types

PSU, CPSE	Ref: Pillar2: Disinvestment
MSME	Ref: Pillar1D: financial inclusion, Pillar4B
Startups	Ref: Pillar4B

16.45.7 Corporate Governance → LLP settlement Scheme 2020

Faded topic. Deleting from handout

16.46 STATUTORY BODIES IN MINISTRY OF CORPORATE AFFAIRS (MCA)

16.46.1 Competition Commission of India (भारतीय प्रतिस्पर्धा आयोग)

- ⇒ Competition among companies= consumer gets goods and services at the most competitive / affordable prices. कंपनियों के बीच स्पर्धा होगी तभी तो ग्राहक को अच्छी सेवा और किफायती दाम में चीजें मिलेंगी
- ⇒ Therefore, government must prevent cartelization (price fixing or production fixing by a group of Companies), prevent monopoly (single company commanding the production / supply), protect consumers' interests and ensure freedom of trade.
- ⇒ 1970: Monopolies and Restrictive Trade Practices (MRTP) Act.
- ⇒ Later MRTP Act replaced with Competition Act, 2002- which has a statutory regulator Competition Commission of India (CCI: 1 Chairman + 6 Members)
- ⇒ In past, CCI has imposed penalties on cement companies, real estate companies. It is also investigating Airtel, and other telecom companies for alleged cartelization.
- ⇒ Competition (Amendment) Bill, 2022 to increase CCI's powers further. But mostly technical so I'm avoiding it for Poor cost:benefit.
- ⇒ Appeals against CCI are heard by National Company Law Appellate Tribunal (NCLAT)

16.46.2 Google pe Penalty by CCI

Refer to Pillar4B: service sector.

16.46.3 Insolvency and Bankruptcy Board of India (IBBI)

This too is a statutory body under the Ministry of Corporate Affairs (MCA). Read Pillar#1B-2: NPA



Table 3: Bodies under Companies Act 2013

Features	National Company Law Tribunal (NCLT)	National Financial Reporting Authority (NFRA)	Investor Education & Protection Fund	Serious Fraud Investigation Office (SFIO)
	राष्ट्रीय कम्पनी विधि अधिकारण	राष्ट्रीय वित्तीय प्रतिवेदन प्राधिकरण	निवेशक एवं शिक्षा रक्षण कोष	गंभीर घोखाधड़ी अन्वेषण कार्यालय
Members	Judicial + technical. They've benches @Delhi, Kolkata, Jaipur etc.	Chairman + members	Boss: Corp. Affairs Secretary (IAS). Plus, members from RBI, SEBI, financial experts	Civil servants & financial experts
Appeal	NCLAT (Appellate tribunal)	NFRAA (Appellate Authority)	Regular Courts	Regular Courts
Cases	Hear the cases related to Companies Act, Board room battles, Merger-Acquisition, Corporate Insolvency & Bankruptcy (I&B)	Sets standards for Auditors & (CA), in listed companies and large unlisted companies. If malpractices-> investigate and debar them, Powers of civil court.	They use unclaimed money from shares/bonds for financial literacy and awareness	Investigate white-collar (financial) frauds. Powers to search, seize, arrest. Once SFIO gets case, other agencies (like CBI) can't proceed.

16.46.4 Unclaimed shares and dividends of IEPF & ₹ Budget-2023



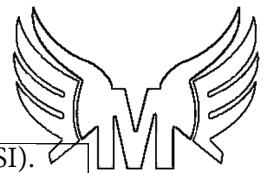
Figure 10: Image source: Agnipath (2012)

Investor Education & Protection Fund Authority (IEPF) is a statutory body in Companies Act, 2013.

- ⇒ Secretary (IAS) of Ministry of Corporate Affairs is the ex-officio chairman of this IEPF body.
- ⇒ IEPF looks after the unclaimed shares, bonds, dividends, interest etc.
- ⇒ IEPF uses such money for investor awareness.
- ⇒ ₹ Budget-2023: if a person wants to 'reclaim' the unclaimed shares and unpaid dividends from IEPF → we'll setup an IT portal to help him file such application.

16.46.5 ⚖️ 🧑‍⚖️ Ministry of Corporate Affairs also associated with:

Chartered Accountants Act 1949	Regulates the CA profession through a Statutory body: Institute of Chartered Accountants of India (ICAI). ICAI also has IPA status under I&B Code.
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Company Secretaries Act, 1980	Statutory Body: Institute of Company Secretaries of India (ICSI). Also has IPA status. REF (More in Pillar#1B2)
Cost and Works Accountants Act, 1959	Statutory Body: Institute of Cost Accountants of India (ICAI). Also has IPA status. What does it mean? REF (More in Pillar#1B2)
Legislative Responsibilities of MCA	<ul style="list-style-type: none"> ⇒ 1860: Societies Registration Act- for registration of literary, scientific and charitable societies. E.g. Sahitya Akademi, National School of Drama etc. जो मुनाफे के लिए नहीं लेकिन कला साहित्य विज्ञान के प्रसार के लिए बने ⇒ 1932: Partnership Act ⇒ Companies Act 1956 → 2013. ⇒ 2008: Limited Liability Partnership Act
E-governance initiatives of MCA	<ul style="list-style-type: none"> ⇒ INC-29 online form to registration of new company. Later it was replaced with Simplified Proforma for Incorporating Companies (SPICe) online form. ⇒ MCA-21 portal, where companies can file online documents related to Companies Act compliance. MCA21 Version 3.0= this latest Version 3.0 portal will have additional modules for e-scrutiny, e-Adjudication, e-Consultation and Compliance Management.
Officers	Indian Corporate Law service (ICLS) via UPSC CSE-exam

16.46.6 Companies Act: EoD- Central Data Processing Centre in Budget-2023

- ⇒ In the past, Ministry of corporate affairs had launched many E-governance initiatives that helps the company to register and upload documents. Example MCA21, SPICe, SPICe+ etc. How do they work? What exactly do they do? NOT.IMP
- ⇒ Budget-2023: well - setup Central Data Processing Centre for faster processing of various forms filled by Companies under the Companies Act. How Exactly? Not.IMP
- ⇒ Benefit? Ease of doing business for the companies.

16.46.7 Corporate Governance (कॉर्पोरेट शासन)



Figure 11: तुम मेरे पापा के दोस्त हो? - Cyrus Mistry

Shifted to Mains-QEP. Basically deals with how to ensure that company is run without any scams/scandals.

- ⇒ Companies Act has various provisions for it. E.g.
- ⇒ Term limits on board of directors,
- ⇒ provision for independent directors to protect minority shareholders,
- ⇒ Reservation for women directors.
- ⇒ How many companies can one Chartered Accountant audit?
- ⇒ Protection for whistleblower, company secretary etc.



- ⇒ SEBI can also issue some directives. E.g. splitting CMD post.
- ⇒ Notable committee for improving corporate governance in India: Uday Kotak (2017). What does above things mean? Ans. shifted to Mains Handout.

16.46.8 💰 (CSR) Corporate Social Responsibility (कॉर्पोरेट सामाजिक जिम्मेदारी)

कंपनी ने अपने मुनाफे का कुछ हिस्सा समाज कल्याण में लगाना होगा

- Mandated under Companies Act 2013: Last 3 years' avg. profit → spend 2% of that on CSR (education, environment, public health, sanitation, disaster management etc.)
- Applicable on both public ltd and private ltd. with very huge profit / turnover / networth (*what's the difference between these terms, what's the exact figure? Ans. NOTIMP.*)
- Ministry of Corporate Affairs (MCA) gives National CSR Awards to companies.

MCQ. Find correct about CSR : (Pre'24-Set-C-Q60)

1. CSR rules specify that expenditures that benefit the company directly or its employees will not be considered as CSR activities.

2. CSR rules do not specify minimum spending on CSR activities.

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

16.46.9 🚧 NSE Prime regulation for corporate governance (2022)

- National Stock Exchange has developed this voluntary framework.
- It has a set of higher standards of corporate gov. for Companies listed on NSE stock exchange.

MCQ: 'NSE Prime', sometimes mentioned in news, denotes: (UPSC-EPFO-2023)

- (a) A high standard corporate governance initiative
- (b) Long-duration Sovereign Green Bonds
- (c) Concessions and tax-holidays for hi-tech startup companies
- (d) Special privileges for certain categories of Non-Banking Financial Institutions

16.47 🤝 💳 TAKEOVER RELATED TERMS

- Sometimes in news because of the Elon musk purchase of Twitter ("X"). - We will not DO to the actual B.Com/MBA aspect of it. - We will get a very vague only, with some examples.

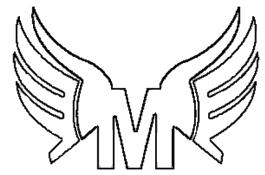
Friendly Takeover	Hostile Takeover
When board of director approve selling the company to another company.	where a person takes control of another company (the target company) without the consent of the target company's board of directors.
e.g. Ranbaxy sold to Sunpharma	e.g. How Elon Musk acquired Twitter ("X")

16.47.1 🤝 💳 Leverage Buy-Out (LBO)

- e.g. Elon Musk borrows money to takeover/acquire majority shareholding in Twitter ("X").
- Note: in real life, it is more complex, but we will not prepare MBA/B.Com here.

16.47.2 🤝 💰 Poison Pill against Takeover by Twitter

- it is a strategy adopted by a Company (Twitter) to defend itself against hostile takeover (By Elon Musk). Generally involves giving extra shares to existing shareholder to make % shareholding composition unfavorable to new buyer who is trying to take over (Musk). HOW?NOTIMP



16.47.3 🤝 De-Merger When a company subdivided into multiple companies.

BEFORE	AFTER De-merger
1) ITC (Hotel, Cigarettes, FMCG^^)	1) ITC (Cigarettes, FMCG) 2) ITC (Hotel)
1) TATA Motors	planning to divide into (1) truck (2) cars & EV

^^ FMCG = Fast Moving Consumer Goods e.g. soap, shampoo, toothpaste, potato-chips etc.

16.47.4 🤝 Mock Questions for Mains

Mostly around measures for deepening the capital market, corporate governance, sovereign gold bond etc instruments, investor's charter etc. This handout deals with ONLY Prelims #RAFTAAR.



Next Handout: 1D: Insurance, Pension, Financial Inclusion