Auditing Course Material

5. Functions of RBI

The entry relating to Cooperative Societies fall in State List (Article 246 of the Constitution of India) whereas the entry relating to Banking fall in the Union List. This resulted in the duality of jurisdiction over cooperative banks both by the Reserve Bank of India, in terms of the Banking Regulation Act, 1949, and the Registrar of Cooperative Societies (of the State concerned).

However, the 2020 amendment in the Banking Regulation Act, 1949 remove this "duality of jurisdition". As per this amendment, the urban cooperative banks and multi-state cooperative banks, are now brought under supervisory powers of Reserve Bank of India (RBI). It expanded the RBI's regulatory control over co-operative banks in terms of management, capital, audit and liquidation.

As a part of the regulatory and supervisory regime over co-operative banks, the RBI has been entrusted with the powers to issue licenses and cancel licenses of co-operative banks, supersede their boards, inspect them and also issue directions to them in the public interest, interest of banking policy, control over loans and advances, etc.

Please note that this "duality of jurisdiction" has been abolished only for Urban Co-operative Banks (UCBs) and multi-state cooperative banks. All other types of Co-operatives are still under dual control. It means, there is no change in regulator of Rural co-operatives.

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5. Functions of RBI

Chapter III-D was inserted in the RBI Act 1934 with effect from 9th Jan 2007 by way of an amendment to the RBI Act, 1934. In the said chapter, there are provisions of regulation of transactions relating to derivatives, money market instruments, securities, etc. by the RBI.

Derivatives and Money Market Instruments are discussed in later chapters.

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5. Functions of RBI

The Parliament of India enacted the Payment and Settlement Systems Act, 2007 (PSS Act, 2007) with an objective to provide for the regulation and supervision of payment systems and to designate the RBI of India as the authority for that purpose. RBI constituted Payment Regulatory Board in October 2025 for regulation, supervision, and oversight of payment and settlement systems in India.

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5. Functions of RBI

The protection of the interests of the Consumers has been one of the vital mandates of the RBI. The various provisions in the RBI Act 1934, the BR Act 1949, etc., are replete with the phrases like in the interests of depositors, wherever it entrusts power to the RBI.

For this purpose, RBI launched various *Ombudsman Scheme*.

1. The Banking Ombudsman Scheme 2006

The Banking Ombudsman is a quasi-judicial authority appointed by the RBI. It aims to provide a cost-effective grievance redressal mechanism to customers for deficiency in certain banking services. All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme. The complaint has to be first filed in the respective banks before approaching Ombudsman.

2. The Ombudsman Scheme for Digital Transactions (OSDT)

In February 2019, the RBI launched Ombudsman Scheme for Digital Transactions (OSDT). It is launched under Section 18 of the Payment and Settlement Systems Act, 2007 which will provide a cost-free and expeditious complaint redressal mechanism relating to deficiency in customer services in digital transactions conducted through non-bank entities (like mobile wallets or tech enabled payment companies using UPI for settlements) regulated by RBI. The Ombudsman for Digital Transactions is a senior official appointed by the RBI (appointed for a period not exceeding 3 years at a time) to redress customer complaints against System Participants as defined in the Scheme for deficiency in certain services covered under the grounds of complaint. The Scheme also provides for an Appellate mechanism under which the complainant / System Participant has the option to appeal against the decision of the Ombudsman before the Appellate Authority.

3. The Ombudsman Scheme for Non-Banking Financial Companies, 2018

It aims to redressal of complaints against NBFCs registered with RBI under Section 45-IA of the RBI Act, 1934. The Scheme provided a cost-free and expeditious complaint redressal mechanism relating to deficiency in the services by NBFCs covered under the Scheme. The Scheme provided for an Appellate mechanism under which the complainant/NBFC has the option to appeal against the decision of the Ombudsman before the Appellate Authority.

Note that, the Reserve Bank of India (RBI) integrated these 3 Ombudsman Schemes viz.

1. the Banking Ombudsman Scheme, 2006,
2. the Ombudsman Scheme for Non-Banking Financial Companies, 2018, and
3. the Ombudsman Scheme for Digital Transactions, 2019,

into one Scheme - **'The Reserve Bank - Integrated Ombudsman Scheme, 2021'** with effect from November 12, 2021.

The unified ombudsman scheme aims to provide redress of customer complaints involving deficiency in services rendered by RBI-regulated entities viz. banks, NBFCs (Non-banking Financial Companies) and pre-paid instrument players if the grievance is not resolved to the satisfaction of the customers or not replied within a period of 30 days by the regulated entity. It includes non-scheduled primary co-operative banks with a deposit size of Rs 50 crore and above. The integrated scheme makes it a “One Nation One Ombudsman’ approach and jurisdiction-neutral. The Scheme defines ‘deficiency in service’ as the ground for filing a complaint, with a specified list of exclusions. Therefore, the complaints would no longer be rejected simply on account of “not covered under the grounds listed in the scheme”.

Note that **Ombudsman** is a government official who deals with complaints made by ordinary people against public organisations. This concept of the Ombudsman arrived from Sweden. It means an officer appointed by the Legislature to handle complaints against a service or administrative authority.

5. Functions of RBI

The mushrooming of unauthorized and unregulated money lenders in the financial system of the country necessitated the RBI to do something more than what has been provided in the RBI Act 1934, or the BR Act 1949. Thus, RBI takes various initiatives on Financial Inclusion and Financial Literacy.

Financial inclusion is aimed at ensuring that individuals have access to and can benefit from a range of financial services. These services include banking, savings, credit, insurance, and payment systems.

The goal of financial inclusion is to create a more inclusive and equitable financial system, allowing people to manage their finances, build assets, and protect themselves against financial shocks. This is especially crucial in developing economies, where a significant portion of the population may be excluded from formal financial services.

Efforts to promote financial inclusion often involve the use of technology, such as mobile banking and digital payments, to reach individuals in remote or underserved areas. Governments, financial institutions, and international organizations play key roles in advancing financial inclusion through policy initiatives, regulatory reforms, and the development of innovative financial products and services.

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5. Functions of RBI

The Reserve Bank of India performs several related functions that support the financial system. As the Banker to the Government, it carries out merchant banking functions for both the central and state governments, managing their banking transactions and financial services. It also acts as their banker by maintaining accounts, facilitating payments, and managing public debt. In addition, the RBI functions as the Banker to Banks, where it maintains the banking accounts of all scheduled banks, enabling smooth inter-bank transactions and providing various settlement and clearing services essential for the stability of the banking system.

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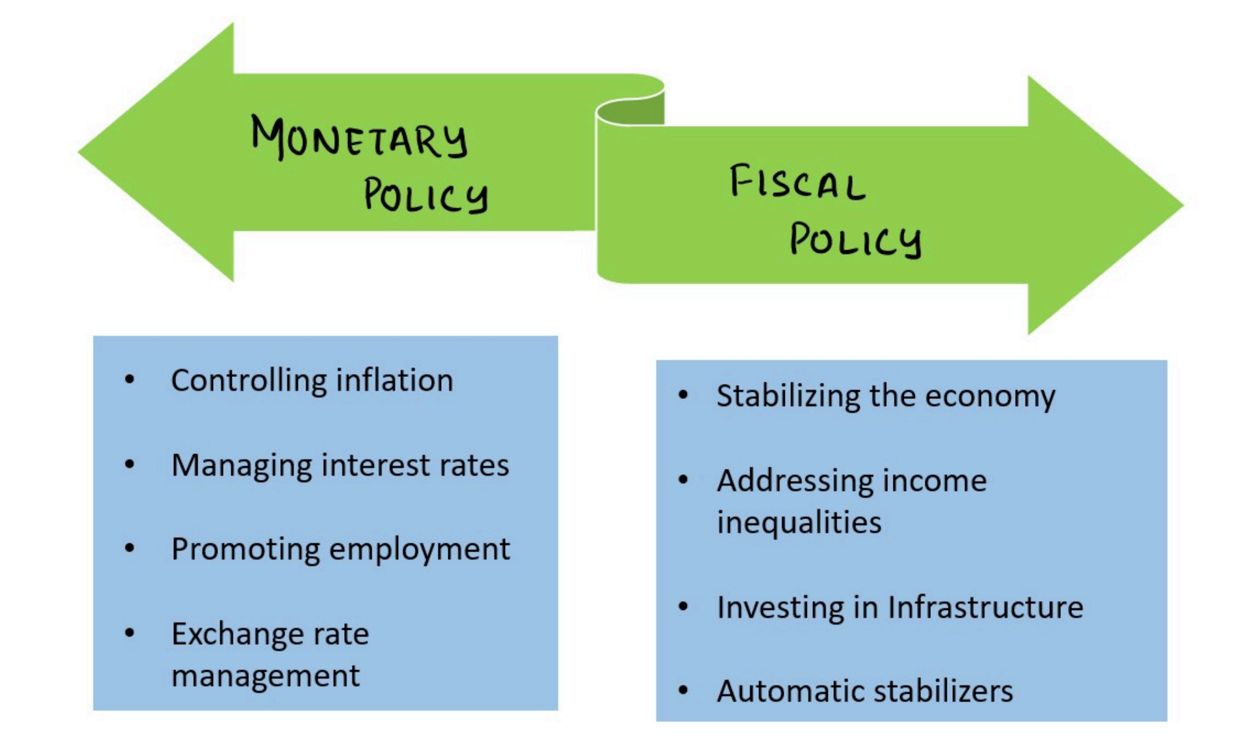
1. Introduction



Monetary and fiscal policies are two crucial tools used by governments and central banks to manage and stabilize economies. They serve distinct purposes and operate through different mechanisms, but they are both essential in promoting economic stability and growth.

Uses of Monetary Policy

Monetary policies are used for the various purposes as given below:

- *Controlling Inflation:* One of the primary objectives of monetary policy is to maintain price stability by controlling inflation. Central banks adjust interest rates and use other tools to influence the money supply, which in turn affects inflationary pressures.
- *Managing Interest Rates:* Monetary policy helps set interest rates, influencing the cost of borrowing and spending. By adjusting interest rates, central banks aim to stimulate or cool down economic activity.
- *Promoting Employment:* Monetary policy plays a role in supporting full employment by influencing economic activity. Lowering interest rates can encourage borrowing and spending, leading to increased business activities and job creation.
- *Exchange Rate Management:* Central banks often use monetary policy to influence exchange rates. By adjusting interest rates, they can impact the attractiveness of a currency to foreign investors and traders.

Uses of Fiscal Policy

Fiscal policies are used for the various purposes as given below:

- *Stabilizing the Economy:* Fiscal policy, managed by governments, involves adjusting government spending and taxation. During economic downturns, governments can increase spending or reduce taxes to stimulate economic activity. In times of overheating, they may implement austerity measures to cool down the economy.
- *Addressing Income Inequality:* Fiscal policy can be used to address income inequality through progressive taxation and targeted social spending programs. This helps redistribute wealth and promote a more equitable distribution of resources.
- *Investing in Infrastructure:* Governments use fiscal policy to invest in infrastructure projects, education, and healthcare. This long-term investment can contribute to economic growth and development.
- *Automatic Stabilizers:* Certain aspects of fiscal policy, like unemployment benefits and progressive taxation, act as automatic stabilizers. These features help stabilize the economy by providing support during downturns and restraining excessive growth during economic upswings.

Differences between Monetary and Fiscal Policies

Central banks are responsible for implementing monetary policy. Governments, typically through legislative processes, determine fiscal policy.

Monetary Policy involves adjusting interest rates, open market operations, reserve requirements, and other measures to influence the money supply and interest rates. Fiscal Policy involves adjusting government spending and taxation to influence aggregate demand.

Monetary Policy can be implemented relatively quickly and can have an immediate impact on interest rates and financial markets. Fiscal Policy implementation may take longer, and its effects may take more time to materialize.

Monetary Policy primarily addresses macroeconomic goals such as price stability and full employment. Fiscal Policy addresses broader economic and social objectives, including income distribution and public infrastructure.

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2. Monetary Policy

The Monetary Policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the specified goals.

The Committee to Review the Working of the Monetary System (under chairmanship of **Dr. Sukhamoy Chakravarty**) recommended in 1985 a new monetary policy framework.

Before 2016, the objective of monetary policy was to maintain price stability and ensuring adequate flow of credit to the productive sectors of the economy. However, pursuant to the amendment to RBI Act 1934, in May 2016, the primary objective of monetary policy is to **maintain price stability while keeping in mind the objective of growth**.

Further, in 2016 amendment, it was added that, it is essential to have a modern **Monetary Policy Framework** to meet the challenges of an increasing complex economy.

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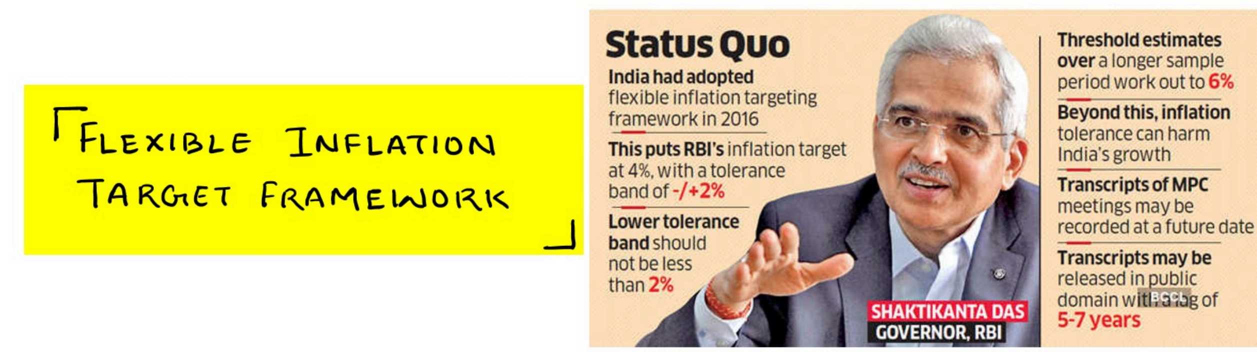
2. Monetary Policy



Now there is a Flexible Inflation Targeting Framework (FITF) in India (after the 2016 amendment to the Reserve Bank of India (RBI) Act, 1934. The amended RBI Act provides for the inflation target to be set by the Government of India, in consultation with the RBI, once every 5 years.

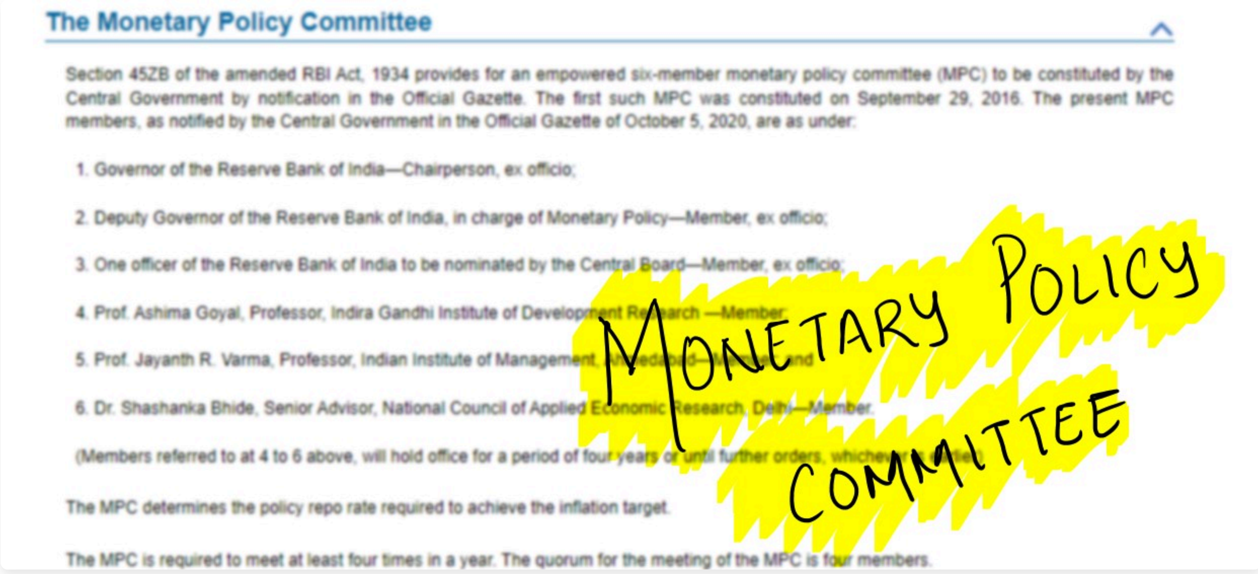
The Central Government has notified 4% Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016, to March 31, 2021, with the upper tolerance limit of 6% and the lower tolerance limit of 2%.

Factors that constitute a failure to achieve the inflation target:

i. the average inflation is more than the upper tolerance level of the inflation target for any 3 consecutive quarters, OR
ii. the average inflation is less than the lower tolerance level for any 3 consecutive quarters.

While the Government of India sets the FITF, it is the RBI which operates the Monetary Policy Framework of the country. The amended RBI Act explicitly provides the legislative mandate to the Reserve Bank to operate the monetary policy framework of the country.

2. Monetary Policy



The Monetary Policy Committee

Section 45ZB of the amended RBI Act, 1934 provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette. The first such MPC was constituted on September 29, 2016. The present MPC members, as notified by the Central Government in the Official Gazette of October 5, 2020, are as under:

1. Governor of the Reserve Bank of India—Chairperson, ex officio;
2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy—Member, ex officio;
3. One officer of the Reserve Bank of India to be nominated by the Central Board—Member, ex officio;
4. Prof. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research —Member;
5. Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad—Member; and
6. Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi—Member.

(Members referred to at 4 to 6 above, will hold office for a period of four years or until further orders, whichever is earlier)

The MPC determines the policy repo rate required to achieve the inflation target.

The MPC is required to meet at least four times in a year. The quorum for the meeting of the MPC is four members.

Now in India, the policy interest rate required to achieve the inflation target is decided by the Monetary Policy Committee (MPC). The first such MPC was constituted on September 29, 2016. The present MPC members, as notified by the Central Government in October 2024, are as under:

Composition of MPC

1. Governor of the Reserve Bank of India – Chairperson, ex officio;
2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy – Member, ex officio;
3. One officer of the Reserve Bank of India to be nominated by the Central Board – Member, ex officio;
4. Ram Singh, director, Delhi School of Economics, University of Delhi—Member;
5. Saugata Bhattacharya, economist—Member;
6. Nagesh Kumar, director and chief executive, Institute for Studies in Industrial Development, New Delhi—Member.

Members referred to at 4 to 6 above, will hold office for a period of 4 years or until further orders, whichever is earlier.

Meetings and Voting Mechanism

The MPC is required to meet at least 4 times in a year. The quorum for the meeting of the MPC is 4 members. Each member of the MPC has 1 vote, and in the event of an equality of votes, the Governor has a second or casting vote.

Monetary Policy Report

The resolution adopted by the MPC is published after the conclusion of every meeting of the MPC. Once in every 6 months, the Reserve Bank is required to publish a document called the **Monetary Policy Report** to explain:

i. the sources of inflation and
ii. the forecast of inflation for 6-18 months ahead.

Operationalisation of Monetary Policy

The MPC determines the policy interest rate required to achieve the inflation target. The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate.

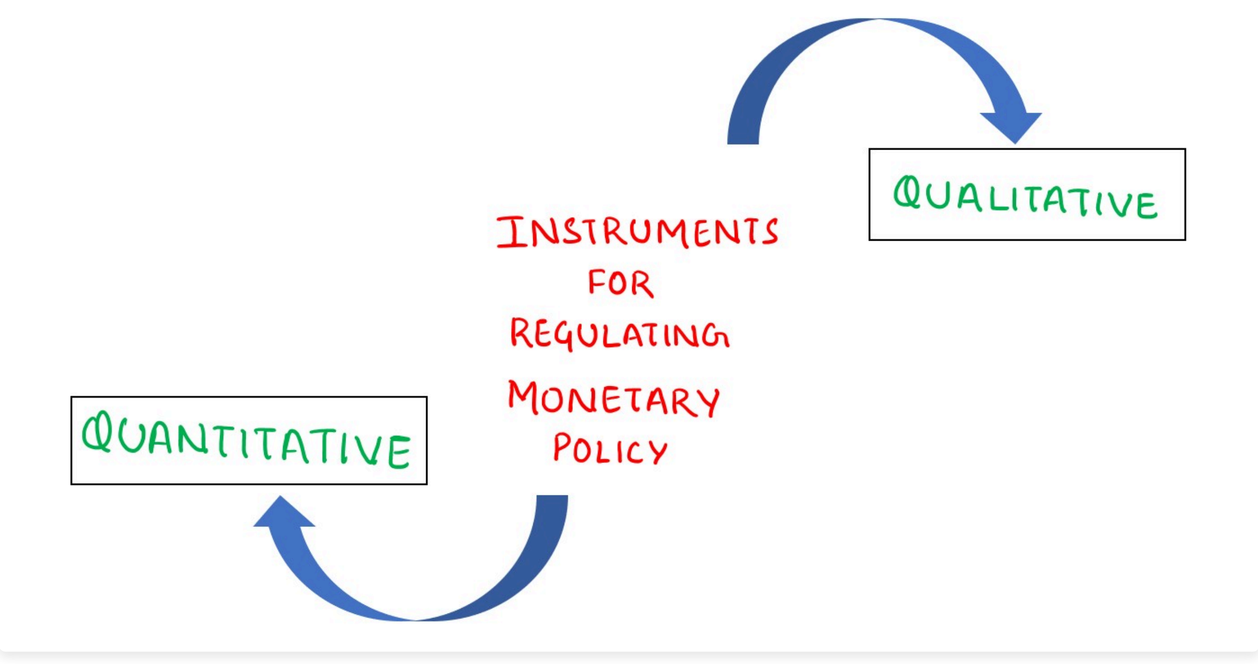
The Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations. The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate (WACR) is aligned with the repo rate.

Earlier Advisory Framework

Before the constitution of the MPC, a Technical Advisory Committee (TAC) on monetary policy with experts from monetary economics, central banking, financial markets and public finance advised the Reserve Bank on the stance of monetary policy. However, its role was only advisory in nature. With the formation of MPC, the TAC on Monetary Policy ceased to exist.

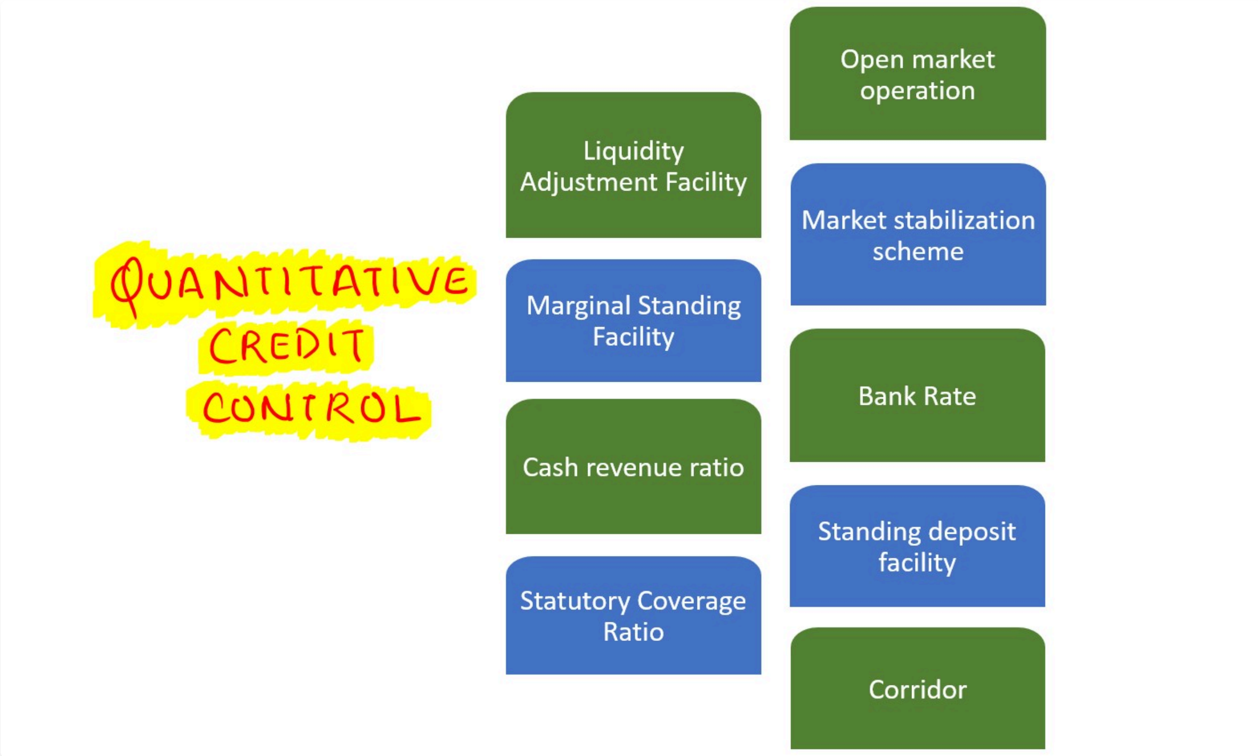
3. Regulating Monetary Policy

The Reserve Bank of India uses various instruments for regulating monetary policy. These instruments can be qualitative or quantitative in nature. Whereas, quantitative instruments influence the volume of Money and credit supply in the system, the qualitative instruments regulate credit supply in certain selective sectors (directions) of the economy.



3. Regulating Monetary Policy

The Quantitative Credit Control (**controls the volume**) measures are discussed below.



Liquidity Adjustment Facility (LAF)

It is a tool used in monetary policy, which operates through repo and reverse repo auctions of the securities. The RBI conducts repos, when there is excess liqudity in the system. Under this, the RBI sells securities with an agreement to re-purchase it at a pre-determined date and rate (called **repo rate**). Reverse repo is just the opposite of repo, in which the RBI purchases securities with a committment to sell at a pre-determined date and rate (called *reverse repo rate*). This leads to injection of liquidity in the system.

Thus, the *Repo Rate* is the (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF). The *Reverse Repo Rate* is the (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.

The LAF consists of overnight as well as term repo auctions.

Marginal Standing Facility (MSF)

A facility under which scheduled commercial banks can borrow an additional amount of overnight money from the RBI by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.

Cash Reserve Ratio (CRR)

The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such percent of its Net Demand and Time Liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.

Statutory Liquidity Ratio (SLR)

The share of NDTL that a bank is required to maintain in safe and liquid assets, such as unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

Open Market Operations (OMO)

These include both, outright purchase and sale of government securities by the RBI, for injection and absorption of durable liquidity, respectively.

Market Stabilisation Scheme (MSS)

This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through the sale of short-dated government securities and treasury bills. The cash so mobilized is held in a separate government account with the Reserve Bank.

Bank Rate

It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

Sterilization and Quantitative Easing

Sterilization
1. Form of monetary action in which a central bank seeks to limit the effect of inflows and outflows of capital on the money supply 2. Most frequently involves the purchase or sale of financial assets by a central bank 3. Designed to offset the effect of foreign exchange intervention 4. Used to manipulate the value of one domestic currency relative to another 5. Initiated in the foreign exchange market
Quantitative Easing
1. Monetary policy, adopted by the government to increase money supply in the economy to further increase lending by commercial banks and spending by consumers 2. Central bank infuses a pre-determined quantity of money into the economy by buying financial assets from commercial banks and private entities leading to an increase in banks' reserves

Other Liquidity Tools

The **Standing Deposit Facility** will allow the RBI to absorb surplus funds from banks without collateral. This concept was first recommended by the Urjit Patel committee report in 2014. The Government approved it in February 2018.

The **Corridor** in monetary policy refers to the difference between the Reverse Repo rate and the high cost MSF rate. The corridor structure for the policy rate is a helping guide for the RBI to design its monetary policy operations.

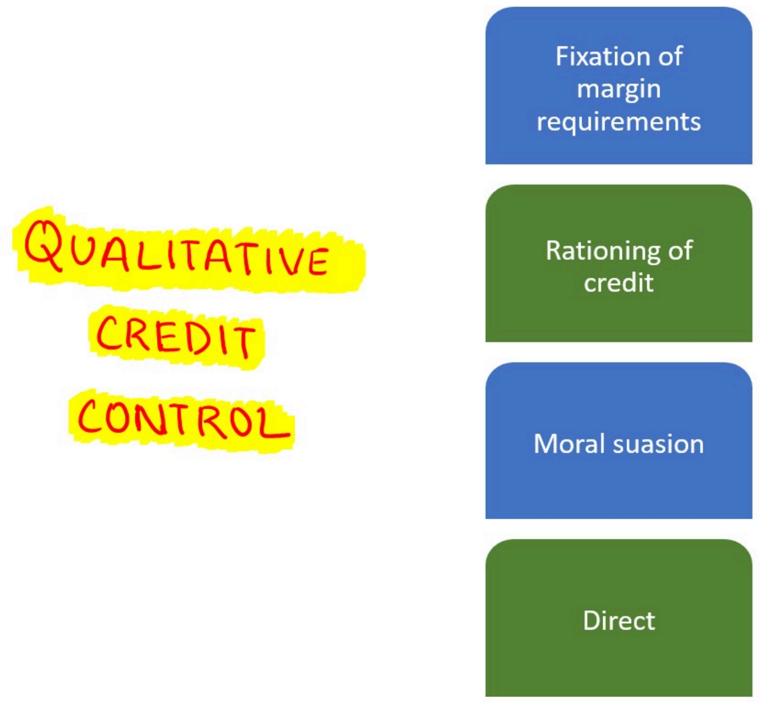
Long Term Repo Operations (LTRO)

In March 2020, the Reserve Bank of India (RBI) introduced a tool called Long-Term Repo Operation (LTRO) to inject liquidity in the system, as well as to ensure transmission of rates. Under LTRO, the RBI provides longer term (1 to 3 years) loans to banks at the prevailing repo rate. The banks provide government securities as collateral. As banks get long-term funds at lower rates, their cost of funds falls. In turn, they reduce interest rates for borrowers. LTRO helped RBI ensure that banks reduce their marginal cost of funds-based lending rate, without reducing policy rates.

This helps banks get funds for a longer duration as compared to the short-term (up to 28 days) liquidity provided by the RBI through other tools such as Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

3. Regulating Monetary Policy

The Qualitative Credit Control (**controls the distribution**) measures are discussed below.



Fixation of Margin Requirements

The term Margin denotes that percentage of the loan amount, which cannot be borrowed from bank. Hence this portion of finance is to be compulsorily brought by the borrower from own source. By using this method, during the period of inflation with a view to control credit, the RBI raises the margin and during deflation it lowers the margin to expand the credit.

Rationing of Credit

Rationing of credit is another method of selective credit control. It is made by regulating the purposes for which the loans are given among the various member banks. Finance is to be distributed to various sectors as per these requirements. Priority sector should be given preference in lending loans.

Moral Suasion

Under Moral Suasion, RBI issues periodical letters, advises, meetings etc. to bank to exercise control over credit in general or advances against particular commodities.

Direct Action

Under this method, if the commercial Banks do not follow the policy of the Central Bank, then the Central Bank has the only recourse to direct action (like punishment).

4. Fiscal Policy

Fiscal Policy refers to the policy of the Government of India regarding taxation, public expenditure, and public borrowing, with the aim of influencing overall economic activity. It is a key instrument for achieving objectives such as economic growth, price stability, equitable income distribution, and efficient allocation of resources.

Fiscal Responsibility and Budget Management (FRBM) Act, 2003

The modern fiscal framework in India is largely guided by the **Fiscal Responsibility and Budget Management (FRBM) Act, 2003**, introduced to ensure fiscal discipline, reduce deficits, and improve long-term macroeconomic stability. Amendments over the years—especially after the 2016 FRBM Review Committee headed by N.K. Singh—have strengthened the framework to suit the needs of a rapidly growing and complex economy.

Before the FRBM Act, fiscal policy focused mainly on meeting annual budgetary needs. However, post-FRBM, the emphasis shifted to maintaining prudent levels of deficit, improving debt sustainability, and creating sufficient fiscal space for development. Today, fiscal policy aims to balance growth with stability, while also allowing flexible responses to shocks like global recessions, pandemics, or supply-side disruptions.

Types of Fiscal Policies

There are 2 types of Fiscal Policies.

1. Expansionary Fiscal Policy

This policy is adopted during periods of recession, low aggregate demand, or slow economic growth. It involves measures such as increasing public expenditure, reducing tax rates, and allowing a higher fiscal deficit. The aim is to stimulate demand, boost investment, and revive economic activity.

2. Contractionary Fiscal Policy

This policy is used when the economy faces high inflation or overheating. It includes reducing government spending, increasing taxes, and narrowing the fiscal deficit. The objective is to reduce excess demand, control inflationary pressures, and restore macroeconomic stability.

4. Fiscal Policy

The enactment of the Fiscal Responsibility and Budget Management Act (FRBMA), in August 2003, marked a turning point in fiscal reforms, binding the government through an institutional framework to pursue a prudent fiscal policy.

Features of FRBMA

The important features of the FRBMA are as follows:

- The Act mandates the Central Government to take appropriate measures to reduce fiscal deficit to not more than 3% of GDP and to eliminate the revenue deficit by March 31, 2009, and thereafter build up adequate revenue surplus.
- It requires the reduction in fiscal deficit by 0.3% of GDP each year and the revenue deficit by 0.5%.
- The actual deficits may exceed the targets specified only on grounds such as national security or natural calamity.
- The Central Government shall not borrow from the Reserve Bank of India except by way of advances to meet temporary excess of cash disbursements over cash receipts.
- RBI should not subscribe to the primary issues of Central Government securities from the year 2006-07.
- The Central Government must lay before both Houses of Parliament 3 statements:

i. Medium-term Fiscal Policy Statement,
ii. Fiscal Policy Strategy Statement,
iii. Macroeconomic Framework Statement
along with the Annual Financial Statement (Union Budget).

- There should be a quarterly review of the trends in receipts and expenditure in relation to the budget.

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5. Instruments of Fiscal Policy

The Government of India uses several instruments to regulate fiscal policy. These instruments operate through three broad channels—taxation, public expenditure, and public borrowing—which together influence aggregate demand, investment, employment, and income distribution in the economy. While some instruments directly affect the level of government spending or revenue (*quantitative tools*), others influence how resources are allocated across sectors (*qualitative tools*).

Qualitative and Quantitative tools are discussed next.

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5. Instruments of Fiscal Policy

Quantitative instruments of fiscal policies influence the overall volume of government spending or revenue. Given below are the various tools:

1. Taxation Policy

Taxation is one of the most powerful tools of fiscal policy. By increasing or decreasing tax rates, the government can directly influence disposable income, consumption, investment, and inflation.

- Higher taxes → reduce disposable income → lower demand → control inflation
- Lower taxes → increase disposable income → boost demand → support growth

India uses both:

- Direct taxes (*Income Tax, Corporate Tax*)
- Indirect taxes (*GST, Customs, Excise*)

Tax reforms such as GST and the new income tax regime aim to simplify the system and improve compliance.

2. Public Expenditure Policy

Changes in government expenditure have a significant impact on economic activity due to the high multiplier effect of public spending.

Government expenditure is of two types:

1. *Revenue Expenditure* – subsidies, salaries, pensions, grants, interest payments
2. *Capital Expenditure* – infrastructure, health, education, railways, defence

Higher expenditure stimulates growth, while expenditure compression helps control deficits and inflation.

3. Public Borrowing

When government expenditure exceeds its revenue, it borrows to bridge the gap. Borrowing affects interest rates, liquidity, and long-term debt sustainability. Sources include:

- Market borrowings (Government Securities, T-Bills)
- External loans
- Small savings schemes

The Fiscal Responsibility and Budget Management (FRBM) Act 2003 sets limits on fiscal deficit and debt to ensure sustainable borrowing.

4. Deficit Financing

The Government may finance part of its deficit through monetisation, i.e., borrowing from the RBI.

Although rarely used today, it is an important tool during emergencies.

- Increases money supply
- Supports recessionary economies
- But may create inflation if used excessively.

5. Instruments of Fiscal Policy

Qualitative Instruments of Fiscal Policy influence the composition and direction of government spending and taxation. Various tools are discussed below.

1. Subsidies and Transfers

Targeted subsidies help support:

- Agriculture
- Food security
- Employment schemes
- Education and health

Transfers such as MGNREGA wages or PM-KISAN income support improve income distribution and rural consumption.

2. Tax Incentives and Concessions

Selective tax reliefs are used to promote investment in specific sectors such as:

- MSMEs
- Startups
- Infrastructure
- Renewable energy
- Export-oriented units

Examples include lower corporate tax rates, Section 80C deductions, and incentives for manufacturing under Make in India.

3. Public Investment Priorities

Government prioritises sectors that generate long-term growth:

- Roads, railways, and ports
- Urban housing
- Digital infrastructure
- Green energy and sustainability

Such investments improve productivity and attract private investment.

4. Grants and Fiscal Transfers to States

Through Finance Commission recommendations, the Union Government transfers:

- Tax-devolution
- Incentive-based grants
- Disaster-relief grants
- Sector-specific grants

These transfers impact state-level development and regional balance.

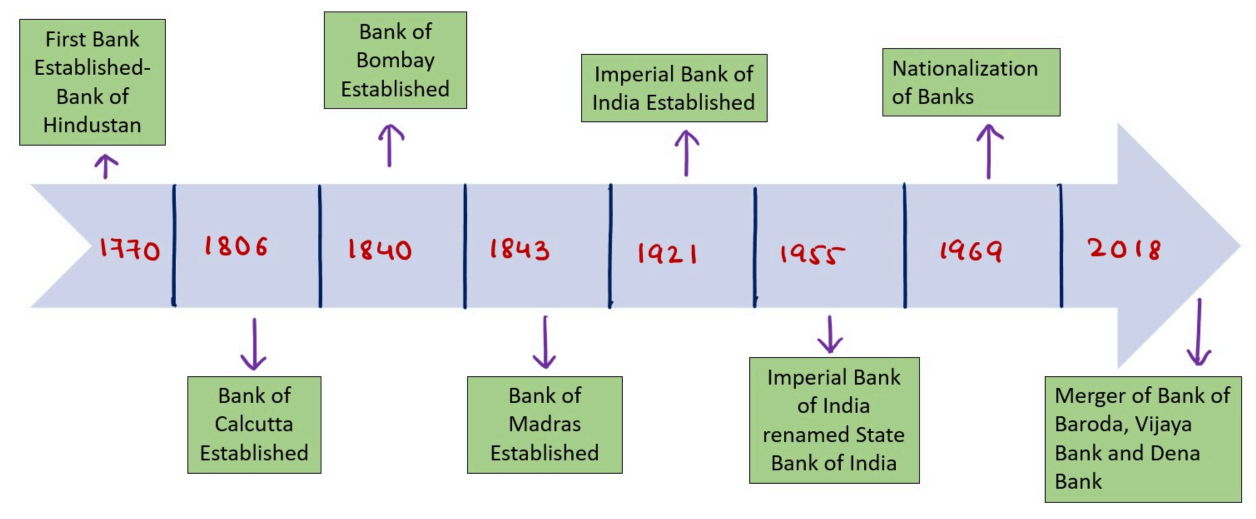
5. Regulation of Public Sector Enterprises (PSEs)

Fiscal policy influences the functioning of public enterprises through:

- Capital infusion
- Disinvestment policies
- Performance-linked support

This helps maintain fiscal discipline and improve efficiency.

1. Background



The Banking Regulations Act, 1949 defines the term **Banking** as the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.

The **first bank in India** was the **Bank of Hindustan** started in **1770** by Alexander & Co., an English Agency House in Calcutta under European Management which failed in 1782 with the closure of the agency house. It was liquidated during the period 1829-1832.

The first bank in the modern sense was established in the Bengal Presidency as the **Bank of Calcutta** in **1806**. It was renamed as Bank of Bengal in 1809. This was one of the 3 banks funded by a presidency government (British Government), the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. These banks were given the right to issue notes in their respective region. The three presidency banks were merged in **1921** to form the **Imperial Bank of India** on the advice of J. M. Keynes. It acted as the Central Bank of India, till the establishment of RBI in 1935.

After India's independence, Imperial Bank of India became the **State Bank of India**, SBI in **1955**. The SBI acquired the control of 7 banks (called associate Banks) in 1960. They were the 7 regional banks of former Indian princely states.

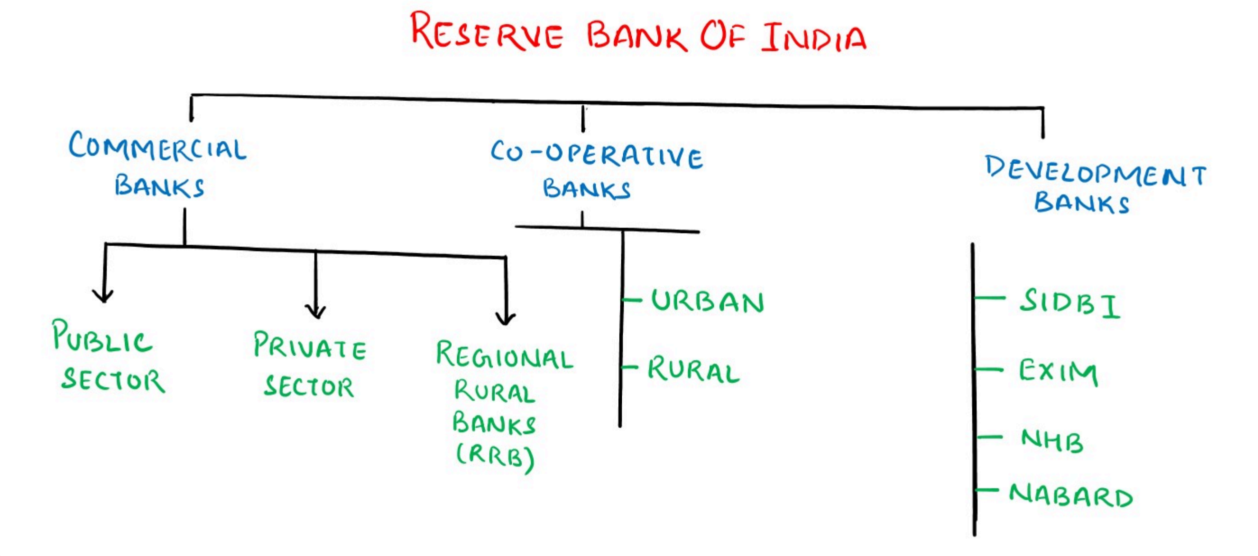
The State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and Bharatiya Mahila Bank were merged with State Bank of India with effect from 1st April 2017.

The merger of Bank of Baroda, Vijaya Bank and Dena Bank was done in 2018, to create the country's third largest lender, named **Bank of Baroda.**

In September 2019, the Government decided to merge 10 banks into 4 bigger banks -

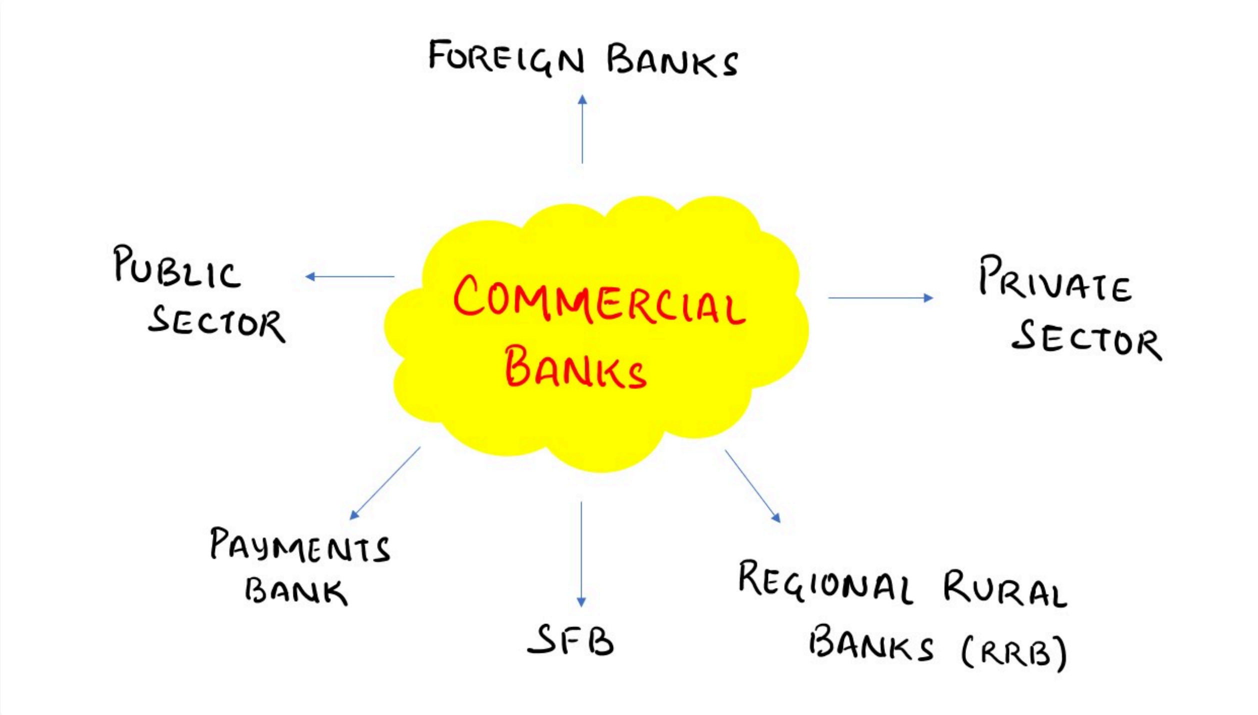
1. Oriental Bank of Commerce (OBC) and United Bank of India (UBI) are merged with the Punjab National Bank (PNB). So, after this merger now the PNB will be the second-largest Public Sector Banks of India after the State Bank of India in terms of the branch network.
2. Syndicate Bank is merged with the Canara Bank.
3. Andhra Bank and Corporation Bank are merged with Union Bank of India.
4. In the fourth merger, the Indian bank is merged with the Allahabad Bank.

As shown in the figure, the Banks can be divided into: (a) Commercial Banks (b) Co-operative Banks (c) Developmental Banks



Commercial Banks and Cooperative Banks are discussed next. The Developmental Banks are discussed in a later chapter (Financial Institutions).

2. Commercial Banks



The Commercial Banks can be divided into Scheduled Banks and non-Scheduled Banks. A Scheduled bank is a bank that is listed under the Second Schedule of the RBI Act, 1934. In order to be included under this schedule of the RBI Act, banks have to fulfill certain conditions such as having a paid up capital and reserves of at least Rs 5 lakh and satisfying the Reserve Bank that its affairs are not being conducted in a manner prejudicial to the interests of its depositors.

List of Scheduled Public Sector Banks

Sr.No.	Name of the Bank
1.	Bank of Baroda
2.	Bank of India
3.	Bank of Maharashtra
4.	Canara Bank
5.	Central Bank of India
6.	Indian Bank
7.	Indian Overseas Bank
8.	Punjab & Sind Bank
9.	Punjab National Bank
10.	State Bank of India
11.	UCO Bank
12.	Union Bank of India

List of Scheduled Private Sector Banks

Sr.No.	Name of the Bank
1.	Axis Bank Ltd.
2.	Bandhan Bank Ltd.
3.	CSB Bank Ltd.
4.	City Union Bank Ltd.
5.	DCB Bank Ltd.
6.	Dhanlaxmi Bank Ltd.
7.	Federal Bank Ltd.
8.	HDFC Bank Ltd
9.	ICICI Bank Ltd.
10	IndusInd Bank Ltd

List of Scheduled Small Finance Banks

Sr.No.	Name of the Bank
1.	Au Small Finance Bank Limited
2.	Capital Small Finance Bank Limited
3.	Equitas Small Finance Bank Limited
4.	Suryoday Small Finance Bank Limited
5.	Ujjivan Small Finance Bank Limited
6.	Utkarsh Small Finance Bank Limited
7.	ESAF Small Finance Bank Limited

List of Scheduled Payments Banks

Sr.No.	Name of the Bank
1.	India Post Payments Bank Limited
2.	Fino Payments Bank Limited
3.	Paytm Payments Bank Limited
4.	Airtel Payments Bank Limited

List of Scheduled Regional Rural Banks

Sr.No.	Name of the RRB
1.	Andhra Pragathi Grameena Bank
2.	Andhra Pradesh Grameena Vikas Bank
3.	Arunachal Pradesh Rural Bank
4.	Aryavart Bank
	m Gramin Vikash Bank
	iya Gramin Vikas Bank
	da Gujarat Gramin Bank
	da Rajasthan Kshetriya Gramin Bank
	da UP Bank
	anya Godavari Grameena Bank
	ttisgarh Rajya Gramin Bank
	hin Bihar Gramin Bank
	uai Dehati Bank
	chal Pradesh Gramin Bank
	Grameen Bank
	hand Rajya Gramin Bank

List of Scheduled Foreign banks in India

Sl.No	Name of bank
1.	AB Bank Ltd.
2.	American Express Banking Corporation
3.	Australia and New Zealand Banking Group Ltd.
4.	Barclays Bank Plc.
5.	Bank of America
6.	Bank of Bahrain & Kuwait BSC
7.	Bank of Ceylon
8.	Bank of China
9.	Bank of Nova Scotia
10.	BNP Paribas
11.	Citibank N.A.
12.	Cooperatieve Rabobank U.A.

Non-Scheduled banks are those which are not included in the Second Schedule of the RBI Act, 1934.

The scheduled banks comprise (a) scheduled commercial banks and (b) scheduled cooperative banks.

The Scheduled Commercial Banks (SCBs) are categorised into 6 different groups according to their ownership and/or nature of operation:

1. Nationalized Banks (Public sector)
2. State Bank of India and its associates

3. Regional Rural Banks (RRBs)
4. Foreign banks
5. Private sector, Payment Banks, Small Finance Banks

The State Bank of India and its associates are recognized as a separate category of SCBs, because of the distinct statutes (the SBI Act 1955 and SBI Subsidiary Banks Act 1959) that govern them. Nationalized banks and SBI & its associates together form the Public Sector Banks group. The IDBI has been included in the nationalized banks group since December 2004.

Difference Between Public and Private Sector Banks

Public Sector Banks: These are the banks where majority stake is held by the Government of India. Some of the Public Sector Banks are State Bank of India (largest), Punjab National Bank (second largest), Bank of Baroda (third), Canara Bank (fourth), Union Bank of India (fifth) etc.

Private Sector Banks: These are the banks where majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Some examples of Private Sector Banks are Axis Bank, Bandhan Bank, HDFC Bank, Kotak Mahindra Bank etc. Two new private sector banks are Bandhan Bank and IDFC Bank.

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3. Foreign Banks

Foreign banks are registered and have their headquarters in a foreign country but operate their branches in India. Examples of foreign banks in India are, HSBC Bank, Citibank, Standard Chartered Bank etc.

The foreign banks are allowed to operate in India either:

- through branch presence, or
- they can set up a Wholly Owned Subsidiary (WOS) with near national treatment.

The foreign banks have to choose one of the above 2 modes of presence and shall be governed by the principle of single mode of presence.

Wholly Owned Subsidiary (WOS)

The initial minimum paid-up voting equity capital for a WOS shall be Rs 500 Crores.

Setting up of WOS by a foreign bank in India should have the approval of the home country regulator/supervisor. A foreign bank applying for setting up a WOS in India must satisfy RBI that it is subject to adequate prudential supervision as per internationally accepted standards, which includes consolidated supervision in its home country.

The factors taken into account while considering applications for setting up WOS in India would include the following:

- Economic and political relations with the country of incorporation of the parent bank,
- Reciprocity with home country of the parent bank,
- Financial soundness,
- Ownership pattern,
- International and home country ranking of the parent bank by a reputed agency,
- Home country/parent bank rating by a rating agency of international repute such as Moody Investors Service, Standard & Poor’s and Fitch Ratings,
- International presence of the bank,
- Adequate risk management and internal control systems.

4. Payment and Small Finance Banks

Small Finance Banks (SFBs) and Payments Banks (PBs) are new entrants to the banking system. They come under category of differentiated banks.

Let us discuss them one by one.

4. Payment and Small Finance Banks

In September 2013, the Reserve Bank of India constituted a committee headed by Dr Nachiket Mor to study 'Comprehensive financial services for small businesses and low income households'. The objective of the Committee was to propose measures for achieving financial inclusion and increased access to financial services. The Committee submitted its report to RBI in January 2014. One of the key suggestions of the committee was to introduce specialised banks or ‘payments bank’ to cater to the lower income groups and small businesses.

A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple words, it can carry out most banking operations but can’t advance loans or issue credit cards. It can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.

Features

Important Features of Payments Banks are:

- Rs 100 Crore paid up capital as minimum requirement.
- For the first 5 years, the stake of the promoter should remain at least 40%.
- Foreign shareholding will be allowed in these banks as per the rules for FDI in private banks in India.
- The Bank cannot form subsidiaries to undertake non-banking activities.
- Initially, the deposits will be capped at Rs 1 lakh per customer, but it may be raised by the RBI based on the performance of the bank.
- Payment Banks are not permitted to lend to any person including their directors.
- 25% of its branches must be in the unbanked rural area.
- The bank must use the term "payments bank" in its name to differentiate it from other types of bank.
- The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.
- The minimum interest rate, as specified by RBI, is 4 percent simple interest.
- Payments banks can issue ATM and/or debit cards but cannot issue credit cards.
- Payments banks can transfer payments through channels like payment bank branches, ATMs, BCs etc.
- Internet banking services can be extended by a payment bank which includes mechanisms approved by RBI such as NEFT/IMPS/RTGS.
- Payments banks can provide basic financial services like access to mutual fund products, insurance products, pension products, foreign exchange services subject to the conditions set by RBI.

In August 2021, SEBI allowed payments banks to act as investment bankers. An investment banker is primarily concerned with raising capital for corporations, governments, or other entities.

Payment Banks in India

In 2015, the Reserve Bank of India gave "in-principle" licences to 11 entities to launch payments banks, out of which few have surrendered the licence. As of Jan 2024, there are 6 active payment banks as given below:

1. Paytm Payments Bank
2. Airtel Payments Bank
3. India Post Payments Bank, Department of Posts
4. FINO Payments Bank, FINO PayTech Limited
5. National Securities Depository Limited, NSDL Payments Bank
6. Jio Payments Bank, Reliance Industries Limited

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4. Payment and Small Finance Banks

The purpose of the Small Finance Banks is to provide a whole suite of basic banking products such as deposits and supply of credit, but in a limited area of operation. The objective for these Small Banks is to increase financial inclusion by provision of savings vehicles to under-served and unserved sections of the population, supply of credit to small farmers, micro and small industries, and other unorganised sector entities through high-technology-low-cost operations.

Features

Salient Features of Small Finance Banks (SFB) are:

- Minimum paid-up equity capital to be Rs. 200 Crores.
- SFBs can accept deposits (savings, current, fixed deposits & recurring deposits).
- SFBs can undertake lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- SFBs are not allowed to lend to big businesses or industries.
- Resident individuals/professionals with 10 years of experience in banking and financial sector can apply for SFB license.
- Existing NBFCs, MFIs, and LABs owned and operated by residents can opt for conversion into small finance banks.
- SFBs can provide financial services like mutual funds, insurance products, pension products etc. but with the prior approval of RBI.
- SFBs can transform into a full-fledged banking unit after conforming to the norms set by RBI.
- SFBs should have 25% branches set up in unbanked/underbanked areas.
- Minimum initial contribution of the promoter to the paid-up capital shall be 40% and can be reduced to 26% in 12 years from commencement.
- The Small Finance Banks will be subject to all prudential norms and regulations of RBI as applicable to other commercial banks.
- SFBs have to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as per RBI norms.

SFBs in India

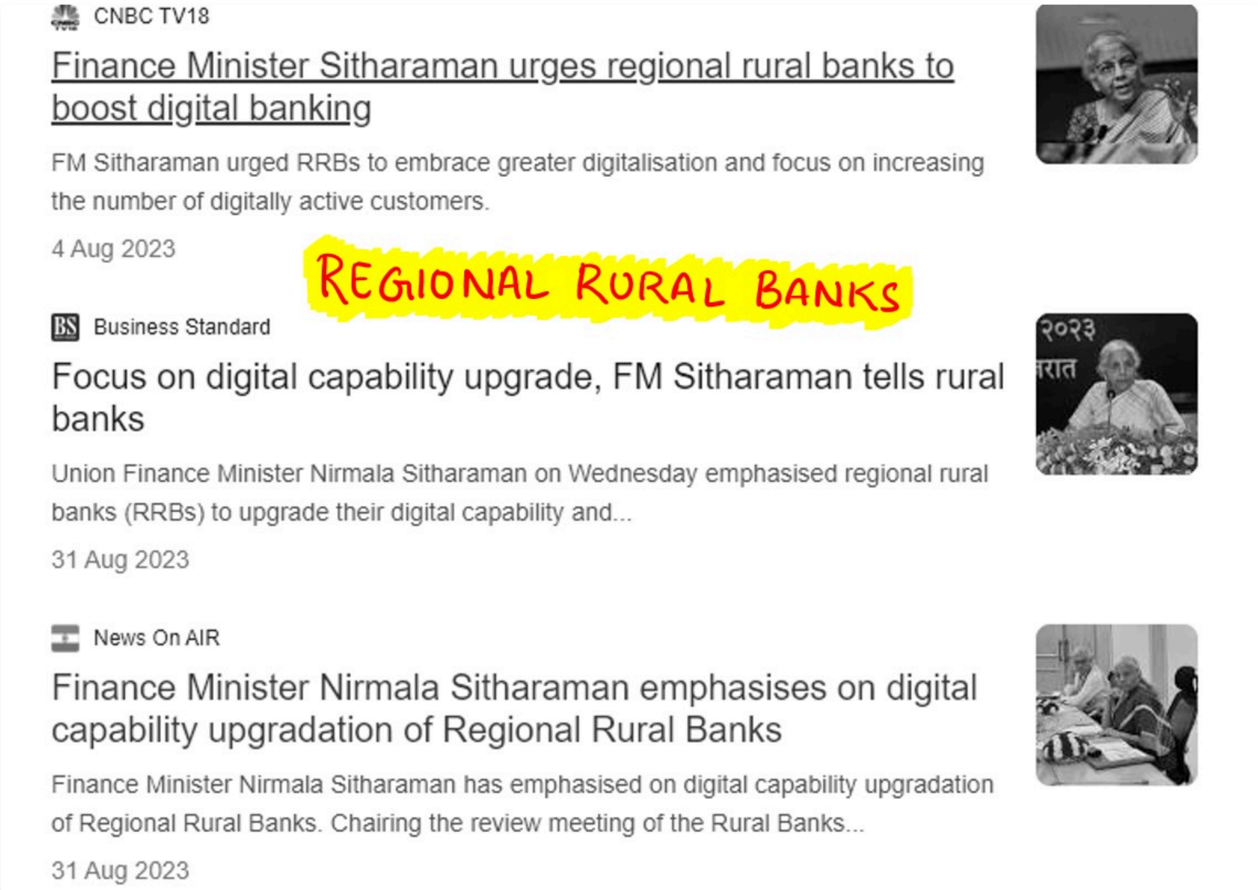
In September 2015, RBI granted in-principle approval to 10 entities to set up Small Finance Banks. As of now, the following are active SFBs:

1. Capital Small Finance Bank Limited
2. FINCARE Small Finance Bank Limited
3. Equitas Small Finance Bank Limited
4. ESAF Small Finance Bank Limited
5. Suryoday Small Finance Bank Limited
6. Ujjivan Small Finance Bank Limited

7. Utkarsh Small Finance Bank Limited
8. North East Small Finance Bank Limited
9. Jana Small Finance Bank Limited
10. Au Small Finance Bank Limited
11. Shivalik Mercantile Cooperative Bank

In December 2019, the RBI issued guidelines for ‘on-tap’ licensing (apply anytime, rather than waiting for RBI to invite applications) of Small Finance Banks and doubled the minimum capital requirement to Rs 200 crore from Rs 100 crore. Payments banks which have completed 5 years of operations are also eligible for conversion to Small Finance Banks after complying with regulatory requirements.

5. Regional Rural Banks (RRBs)



CNBC TV18

Finance Minister Sitharaman urges regional rural banks to boost digital banking

FM Sitharaman urged RRBs to embrace greater digitalisation and focus on increasing the number of digitally active customers.

4 Aug 2023

REGIONAL RURAL BANKS

Business Standard

Focus on digital capability upgrade, FM Sitharaman tells rural banks

Union Finance Minister Nirmala Sitharaman on Wednesday emphasised regional rural banks (RRBs) to upgrade their digital capability and...

31 Aug 2023

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Finance Minister Nirmala Sitharaman emphasises on digital capability upgradation of Regional Rural Banks

Finance Minister Nirmala Sitharaman has emphasised on digital capability upgradation of Regional Rural Banks. Chairing the review meeting of the Rural Banks...

31 Aug 2023

The Narsimham Committee conceptualised the creation of Regional Rural Banks (RRBs) in 1975 as a new set of regionally oriented rural banks. Subsequently, the RRBs were set up through the promulgation of the RRB Act 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. The Prathama Bank is the first Regional Rural Bank in India located in the city Moradabad in Uttar Pradesh.

The financial viability of RRBs has engaged the attention of the policy makers from time to time. A number of committees have come out with different suggestions to address the financial non-viability of RRBs, as given below:

- Working Group on RRBs (Kelkar Committee) in 1984,
- Agricultural Credit Review Committee (Khusro Committee) in 1989,
- Committee on Restructuring of RRBs (Bhandari Committee) in 1994,
- Committee on Revamping of RRBs (Basu Committee) in 1996,
- Expert Group on RRBs (Thingalaya Committee) in 1997,
- Expert Committee on Rural Credit (Vyas Committee) in 2001,
- Committee on RRBs (Chalapathy Rao Committee) in 2003,
- Group of CMDs of Select Public Sector Banks (Purwar Committee) in 2004.

A Committee under the Chairmanship of A.V Sardesai revisited the issue of restructuring the RRBs in 2005. The Sardesai committee held that 'to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders'.

In 2025, the Department of Financial Services notified amalgamation of 26 Regional Rural Banks (RRBs) on the principles of "One State One RRB". The amalgamation was done by the Central Government in exercise of the powers conferred under Regional Rural Banks Act, 1976. This is the fourth phase of amalgamation and post amalgamation, there will be 28 RRBs (down from 43 earlier) in 26 states and 2 UTs. Note that, the first phase of amalgamation (FY 2006 to FY 2010) was based on recommendations of the Dr. Vyas Committee with focus on merging RRBs under the same sponsor bank within a state.

6. Local Area Banks

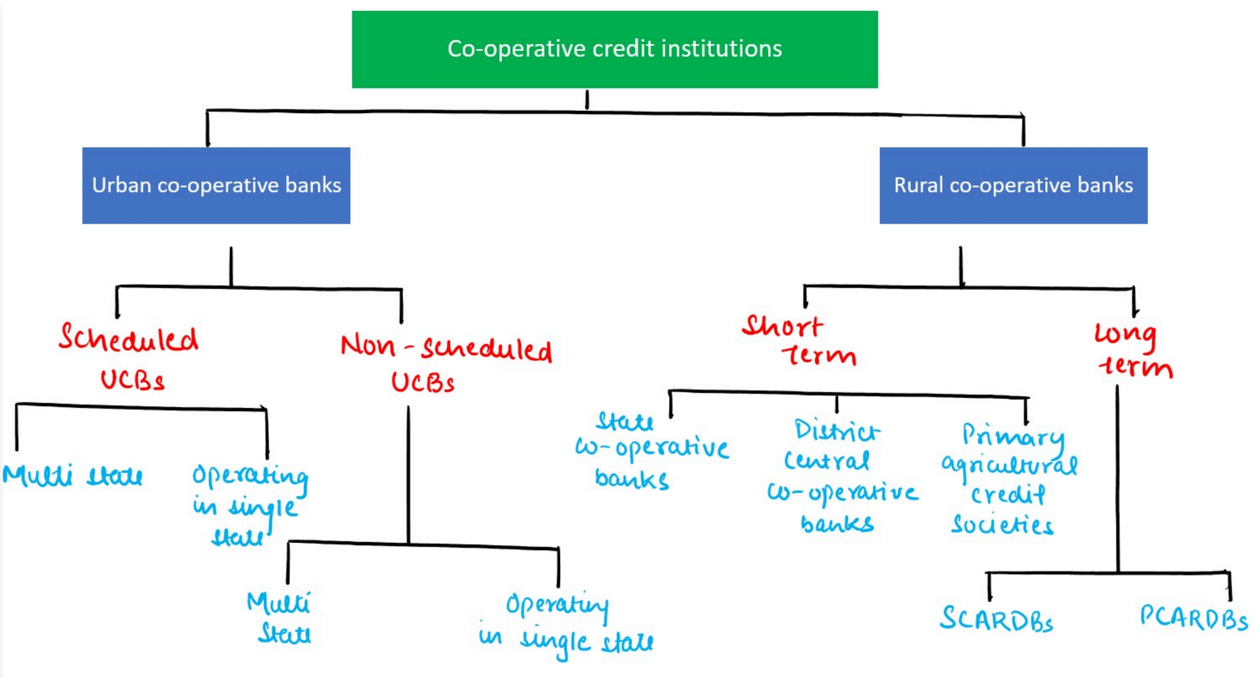
The Local Area Bank Scheme was introduced in August 1996. The objective was setting up of new private local banks (scheduled commercial banks) with jurisdiction over 2 to 5 contiguous districts. This would enable the mobilization of rural savings by local institutions and make them available for investments in the local areas. The Local Area Banks (LABs) were expected to bridge the gaps in credit availability and strengthen the institutional credit framework in the rural and semi-urban areas.

The list of Local Area banks is given below:

1. Coastal Local Area Bank Ltd
2. Krishna Bhima Samruddhi LAB Ltd
3. Subhadra Local Bank Ltd

7. Cooperative Banks

The co-operative credit structure in India can be broadly divided into 2 types, viz., **Urban Co-operatives** that cater to the financial needs of the customers in urban and semi-urban areas and **Rural Co-operatives** that is primarily mandated to ensure flow of credit to agriculture sector in rural areas.



The key Characteristics of Co-operative Institutions are:

- They have restricted area of operation,
- The Board of Directors is elected by shareholders in a democratic manner,
- The borrowing from these institutions is restricted only to its members,
- There is share linking to borrowing, viz., a part of the amount borrowed will be contributed to the share capital of the institution,
- Members can caste only one vote irrespective of the number of shares held,
- The shares of these institutions cannot be listed and traded.

The Co-operative societies appear at Entry 32 in the State List under the Seventh Schedule to the Constitution of India. Hence, Co-operative Societies in India are a State subject. The Co-operative Credit Societies which are licensed to carry out banking activities function as a co-operative bank and are eligible to accept deposits from the public.

Urban Cooperative Banks and Rural Cooperative Banks are discussed next.

7. Cooperative Banks

Though the Banking Regulations Act came into force in 1949, the banking laws were made applicable to co-operative societies only in March 1966 through an amendment to the Banking Regulations Act, 1949. The Banking Regulations Act, 1949 defines Urban Co-operative Banks as a cooperative society, other than a primary agricultural credit society and satisfying the following conditions -

- the primary object or principal business of which is the transaction of banking business,
- the paid-up share capital and reserves of which are not less than Rs 1 lakh,
- the bye-laws of which do not permit admission of any other co-operative society as a member.

Urban Co-operative Banks (UCBs) are primarily registered as co-operative societies under the provisions of either the State Co-operative Societies Act of the State concerned or the Multi State Co-operative Societies Act, 2002 if the area of operation of the bank extends beyond the boundaries of one State. These banks are licenced by RBI to carry on banking business. Till sometime back, they were under the dual control of RBI and the Registrar of Co-operative Societies. The Uni-State UCBs were regulated by the Registrar of Co-operative Societies (RCS) of the respective State, whereas Multi-State UCBs were regulated by the Central Registrar of Co-operative Societies (CRCS).

In 2020, this dual control was amended. The Punjab and Maharashtra Cooperative (PMC) Bank scam in 2019 was the trigger point for the Government to amend Banking Regulation Act 1949, to bring in more efficiency in the functioning of cooperative banks in the country. As per this amendment, the Urban Co-operative Banks (UCBs) and multi-state cooperative banks, are brought under supervisory powers of Reserve Bank of India (RBI). Thus, now there is no more 'dual control'.

The Punjab and Maharashtra Cooperative (PMC) Bank scam in 2019 was the trigger point for the Government to amend Banking Regulation Act 1949, to bring in more efficiency in the functioning of cooperative banks in the country.

In 2024, the Ministry of Cooperation constituted the National Urban Cooperative Finance and Development Corporation Limited (NUCFDC), an Umbrella Organisation (UO) for UCBs.

Assistance to UCBs

RBI aims to help Urban Cooperative Banks (UCBs) offer services similar to commercial banks. This is through the following measures:

- UCBs are permitted to open specialized branches and currency chests.
- Allowed to operate on-site, off-site, and mobile ATMs.
- Permitted to undertake intra-day short selling in government securities.
- Can enter ready forward contracts in corporate debt securities.
- Given access to Centralised Payment Systems like RTGS, NEFT, NDS-OM.
- Allowed to open Current Account and SGL accounts with RBI.
- Can sell insurance products and mutual fund units.
- Permitted to act as PAN Service Agents.
- Can provide Point of Presence (POP) services for PFRDA.

- Can engage Business Correspondents (BCs) and Business Facilitators (BFs).
- Allowed to offer mobile banking and internet banking.
- Can provide trading facilities to Demat account holders.
- Permitted to issue prepaid instruments (PPIs).

In May 2020, a Bench of the Supreme Court held that cooperative banks can use the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) for recovery of debts from its defaulters and can seize and sell their assets to recover dues.

To ensure that UCBs function on sound lines and their methods of operation are consistent with statutory provisions and are not detrimental to the interests of depositors, they are subject to:

- **On-site inspection**- The statutory inspections conducted under Section 35 of the BR Act, 1949 (AACS), follows the CAMELS pattern to assess the Capital Adequacy (C), Asset Quality (A), Management (M), Earnings (E), Liquidity (L) and Systems & Control (S) of the UCBs.
- **Off-site surveillance**- The RBI has supplemented the system of periodic on-site inspections with off-site surveillance (OSS) through a set of periodical prudential returns that will be submitted by UCBs to RBI.

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7. Cooperative Banks

Rural credit co-operatives came into existence essentially as an institutional mechanism to provide credit to farmers at affordable cost and address the twin issues of rural indebtedness and poverty.

The **Long-Term Co-operative Credit Structure** has the State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the apex level and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. These institutions were conceived with the objective of meeting long-term credit needs in agriculture and they are under the regulatory purview of National Bank for Agriculture and Rural Development (NABARD).

The **Short Term Co-operative Credit Structure** (STCCS) of the country primarily meets the crop and working capital requirements of farmers and rural artisans. The pyramid of STCCS is primarily 3-tier and is federal in nature within a State. The apex level is the State Co-operative Bank (StCB), at the district level there are District Central Co-operative banks (DCCBs) and at the village level, there are Primary Agricultural Credit Societies (PACS). In some state, the structure is two-tiered.

The PACS are regulated and monitored by the respective State Registrar of Cooperative Societies. While regulation of State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) vests with RBI, their supervision is carried out by National Bank for Agriculture and Rural Development (NABARD). The regulation of StCBs and DCCBs by RBI are similar to those of UCBs.

At present, India’s co-operative banking sector comprises of State Cooperative Banks (18 Scheduled and 14 Non-Scheduled State Cooperative Banks), Urban Cooperative Banks (54 Scheduled and 1528 Non-Scheduled Urban Cooperative Banks), and District Central Cooperative Banks (366).

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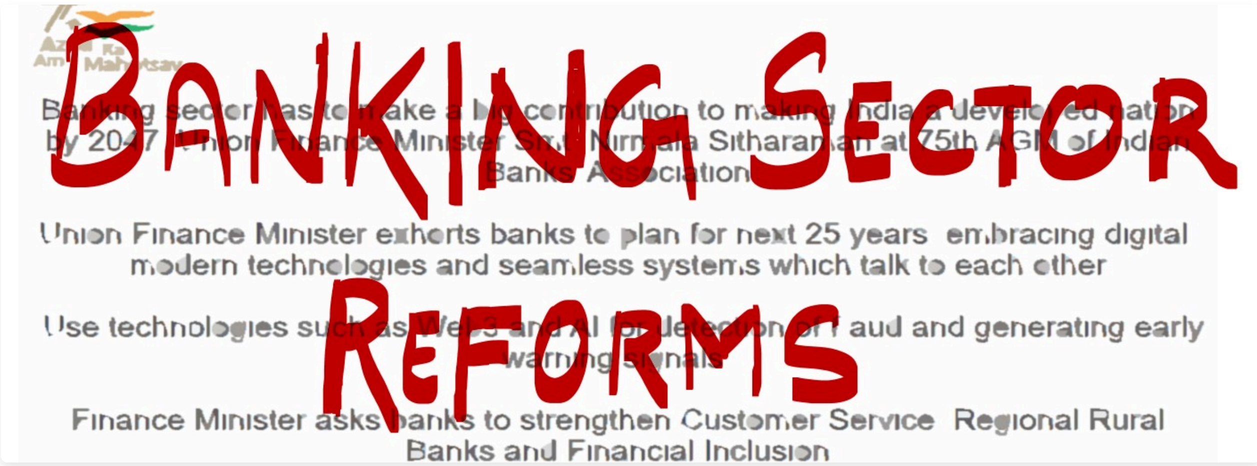
1. Banking Sector Reforms



Two expert Committees were set up under the Chairmanship of M. Narasimham for reforms in the Banking Sector. The First Committee submitted its report in 1991 and Second in 1998. These recommendations not only helped unleash the potential of banking in India, they are also recognised as a factor towards minimising the impact of global financial crisis starting in 2007-08.

Background

Some of other committees, which contributed to Banking Sector reforms, are given below.

Year	Name of the Committee	Focus Area
1955	Karve Committee;	Village and Small-Scale Industries Committee
1966	R. K. Hajari Committee	Industrial Licencing
1969	Dr. D. R.Gadgil Study Group	Lead Banking Scheme (LBS)
1974	Basel Committee on Banking Supervision (BCBS)	Amendment of Basel II framework, introduction of Basel III norms (Capital Adequacy Norms)
1974	P. L. Tandon Committee	Guidelines for commercial banks for follow-up & supervision of bank credit
1975	R. K. Talwar Committee	Customer Service
1975	James Raj Committee	Functioning of Public Sector Banks
1978	M. L. Dantwala Committee	Review the working of RRBs
1978	K Madhav Das Committee	Urban Cooperative Banks
1978	Tambe Committee	Term Loans to Small Scale Industries
1979	K. B. Chore Committee	Review of the cash credit system
1982	Dr. Y. B. Damle Committee	Introducing MICR/OCR Technology for Cheque Processing
1982	Sukhmoy Chakravarty Committee	To review working of the monetary system
1984	Dr. C Rangarajan Committee	Committee on Mechanisation in the Banking Industry
1984	S. M. Kelkar Committee	Performance of Regional Rural Banks in India
1984	G. S. Dahotre Committee	Bank Credit for hire purchase and Leasing Companies
1987	T.N.A Iyer Committee	Communication Network for Banks and SWIFT implementation

Year	Name of the Committee	Focus Area
1987	M. Vaghul Committee	Money Market in India
1988	Dr. C. Rangarajan Committee	Mechanisation and Computerisation in Banking
1988	Pannier Selvam Committee	Non-Performing Assets of Public Sector Banks
1989	Kalyana Sundram Committee	Factoring Services in India
1989	Dr. P. D. Ojha Committee	To examine operational aspects of Rural lending and service area approach
1989	A. M. Khusro Committee	Agricultural Credit Review
1990	M. N. Goiporia	To improve customer service in Banks
1991	P. R. Nayak	Adequate flow of Institutional Credit for working capital and term finance to SSI sector
1991	M. Narasimhan Committee	Financial Sector Reforms – Establishment of 4 tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and at bottom rural banks engaged in agricultural activities; Phased reduction in SLR, Phased achievement of 8% capital adequacy ratio; deregulation of interest rates; setting up of Asset Reconstruction fund.
1991	J. Raja Chellaiah Committee	Tax Reforms - to examine the then tax structure of the country
1992	A C Shah Committee	Reforms relating to Non-Banking Financial Companies (NBFC) ; Compulsory Registration to Prudential Norms
1992	R. Jankiraman Committee	Irregularities in Securities Transactions
1993	A. Ghosh Committee	Frauds and malpractices in banks, Concurrent Audit
1993	R. N. Malhotra Committee	Insurance Sector Reforms; allowing private sector and foreign promoters to promote insurance companies, vesting of regulatory powers of Government in an independent body
1993	Dr. Omkar Goswami	Industrial Sickness, Restructuring & Reorganization of Sick Units
1993	J. V. Shetty	Consortium-based lending
1993	I.T. Vaz Committee	Review role of RBI in norms for bank lending for working capital purposes
1993	D. R. Mehta Committee	Committee on Integrated Rural Development Programme (IRDP)
1994	M. C. Bhandari Committee	Reconstruction of Regional Rural Banks (RRBs); greater devolution of decision-making powers to the Boards of RRBs.
1994	W. S. Saraf Committee	Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement
1994	O. P. Sodhani Committee	Committee on Foreign Exchange Markets
1995	P. N. Bhagwati Committee	Review of Substantial acquisition of Share & Takeover Regulations
1995	Smt. K. S. Shere Committee	Proposing Legislation On Electronic Funds Transfer and other Electronic Payments
1995	P. R. Khanna Committee	To bring in more transparency in the financial statements of NBFCs.
1995	S. Padmanabhan	Review the System of On-site Supervision over Banks; CACS model (capital adequacy, asset quality, compliance, systems and controls) for foreign banks
1995	Rashid Jilani Committee	Revised method of lending in place of Cash Credit System/ Internal audit system on PSBs
1996	S. K. Kalia Committee	Working group for studying the functioning of Non-Government Organizations (NGOs) and Self Help Groups (SHGs)
1996	K. Kannan Committee	Examine the Maximum Permissible Bank Finance (MPBF) method for assessing the requirements of bank credit for Working Capital
1997	Abid Hussain Committee	Small Scale Industries; Development of Capital Market
1997	S. S Tarapore Committee	Recommend measures for achieving fuller Capital Account Convertibility CAC. Another committee formed in 2006 on same under Tarapore.

Year	Name of the Committee	Focus Area
1997	L. C. Gupta Committee	Develop regulatory framework for derivatives trading
1997	Thingalaya Committee	Restructuring of Regional Rural Boards
1998	M. Narasimhan Committee ; II	Banking Sector Reforms ; Vesting of all regulatory and supervisory functions over rural credit institutions to Board for Financial Regulation and Supervision, Rationalization of RRBs; coordination among RRBs, Cooperative Banks and Rural Branches of Commercial Banks to fill the credit gap in rural areas.
1998	S. L. Kapoor Committee	Credit Guarantee Fund to SSI, Credit Delivery System for SSI
1998	R. V. Gupta Committee	Credit Delivery System for Agriculture
1998	B. D. Narang Committee	Study of Large value frauds (Rs. 1 Crore and above)
1998	S. H. Khan Committee	Harmonization of Role of Financial Institution in Banks
1999	Kumar Mangalam	On Corporate Governance ; Evolution of Code of Corporate Governance
1999	Dr. A Vasudevan	On "Technology Upgradation ; INFINET" in Banking Sector
1999	S.N. Verma Committee	For Restructuring the Commercial Banks
2000	Y. H. Malegam Committee	Structure of UTI to be in line with SEBI (Mutual Fund) Regulations to have (i) a sponsor, (ii) a Trustee Company, and (iii) an Asset Management Company (AMC)
2001	R. J. Kamath Committee	Revised Education Loan Scheme
2001	Dr. N. L. Mitra	Legal Aspects of Bank Frauds
2002	C. B. Bhave Committee	Reducing cost of Demat Operations
2002	N. K. Singh Committee	Boost Foreign Direct Investment into India
2002	Zarir J Cama Committee	Electronic Money
2002	Naresh Chandra Committee	Corporate Governance
2002	M. V. S Chalapathi Rao Panel	Working group to suggest amendments in RRB Act, 1976.
2003	A. S Ganguly Committee	Committee on flow of credit to SSI (SME) Sector
2003	M. H. Kania Committee	Change in certain provisions of SEBI Act - Corporatisation and Demutualisation of Stock Exchanges
2004	V. S. Vyas Committee	Committee on Rural Credit (Agri-credit committee)
2004	Dr. J. J. Irani Committee	On Revision of Company Law, Mergers and Acquisitions, Effective investigation and prosecution for company offences
2004	Justice M. B. Shah Commission	On Black Money
2005	Ashok Lahiri Committee	Encouraging FII flows, checking the vulnerability of capital markets to speculative flows
2005	A.V. Sardesai Committee	Working of RRBs
2006	Deepak Parekh Committee	Financing Infrastructure Sector
2006	Usha Thorat Committee	Financial Sector Plan for North Eastern Region
2007	Raghuram Rajan Committee	Financial Sector Reforms
2010	Meleveetil Damodaran Committee	For Improvement of Customer Services and grievance redressal in Bank
2010	Rakesh Mohan Committee	For Infrastructure Finance
2010	Y. V. Reddy Committee	Rationalisation of Interest Rates on Small Savings

Year	Name of the Committee	Focus Area
2011	Suma Verma Committee	Update and Revise the Banking Ombudsman Scheme, 2006
2012	Dr. C Rangarajan Committee	Committee on Poverty Scale Estimates in the Country
2013	Bimal Jalan Panel	Scrutinize Applications for New Bank Licenses
2013	B Sambamurthy Committee	Examine feasibility and challenges of of Mobile Banking and USSD
2013	Nachiket Mor Committee	For Comprehensive Financial Services for Small Businesses and Low-Income Households
2013	Pulak Kumar Sinha Committee	Study the Feasibility of Aadhaar as an Additional Factor for Authentication of Card Present Transactions
2013	Urjit Patel Committee	Examine the Current Monetary Policy Framework
2014	Aditya Puri Committee	Dissemination of Credit Information- Best practices to be followed by Credit Institutions,
2014	Arvind Mayaram Committee	For giving clear definitions to Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII); rationalization of FDI
2014	Deepak Mohanty Committee	Data and Information Management in the RBI
2014	K.V.Kamath Panel	Financial Architecture for Micro, Small and Medium Enterprises
2014	P J Nayak Committee	Governance of Boards of Bank in India
2015	Deepak Mohanty Committee	Medium term path on Financial Inclusion
2016	N. K. Singh Committee	Review Fiscal Responsibility and Budget Management (FRBM) Act
2016	Rattan P Watal Committee	To boost Digital Payment System in India
2016	Sudharshan Sen Committee	Study Regulatory Issues Relating to Financial Technology and Digital Banking in India
2016	H R Khan Committee	Corporate Bond Market
2017	Dinesh Sharma Committee	Propose new regulation Related to Digital Currencies or Virtual Currencies
2019	Injeti Srinivas Committee	Corporate Social Responsibility
2019	Usha Thorat Committee	Task force on offshore rupee markets
NA	P K Sarkar Committee	Anti-money laundering for banks in India
NA	S S Nadkarni Committee	Assessment of cost of project
NA	Y. B. Demie Working Group	Recommendation of MICR Technology

Some of key reforms in Banking in recent years, are discussed next.

1. Banking Sector Reforms

The guidelines issued in Aug 2016 for licensing of universal banks in private sector stipulated a minimum paid up voting equity capital of Rs 500 Crores. In the past, bank licenses for setting up universal banks were given on a 'Stop and Go' basis. The licensing policy was reviewed and has been replaced with a continuous authorization (on tap mode) policy in 2016, with a view to increase the level of competition and bringing new ideas into the system.

With a view to furthering the cause of financial inclusion using the functional building blocks of payments, deposits and credits, guidelines for licensing of Small Finance Banks and Payments Banks were issued in 2014.

The objectives of setting up of payments banks was to increase the ambit of Financial Inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

The objectives of setting up of small finance banks are to deepen the financial inclusion by (i) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

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1. Banking Sector Reforms

Under rationalized branch authorization guidelines dated 18th May 2017, the term “Branch” has been replaced by “**Banking Outlet**”, which includes both physical (brick and mortar) branches and Business Correspondent (BC) outlets. Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM.

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1. Banking Sector Reforms

Enhanced Access & Service Excellence (EASE) Reforms were launched in January 2018 jointly by the government and PSBs. They were commissioned through the Indian Banks' Association (IBA) and authored by the Boston Consulting Group (BCG). The aim is to foster new-age reforms in PSBs to improve profitability, asset quality, customer service, and digital capabilities.

Various Stages under EASE Reforms Agenda:

EASE 1.0
The EASE 1.0 report showed significant improvement in PSB performance in the resolution of Non-Performing Assets (NPAs) transparently.

EASE 2.0
EASE 2.0 was built on the foundation of EASE 1.0 and introduced new reform Action Points across six themes to make the reforms journey irreversible, strengthen processes and systems, and drive outcomes.

The six themes are: Responsible Banking; Customer Responsiveness; Credit Off-take, PSBs as UdyamiMitra (SIDBI portal for credit management of MSMEs); Financial Inclusion & Digitalisation; Governance and Human Resource (HR).

EASE 3.0
It seeks to enhance ease of banking in all customer experiences, using technology viz. Dial-a-loan and PSBloansin59 minutes.com. Partnerships with FinTechs and E-commerce companies, Credit@click, Tech-enabled agriculture lending, EASE Banking Outlets etc.

EASE 4.0
It commits PSBs to tech-enabled, simplified and collaborative banking to further the agenda of customer-centric digital transformation. The following major themes were proposed under this: 24x7 Banking Focus on North-East Bad Bank. Raising Funds Outside the Banking Sector Leveraging Fintech Sector.

EASE 5.0
PSBs will continue to invest in new-age capabilities and deepen the ongoing reforms to respond to evolving customer needs, changing competition, and the technology environment. Focuses on Digital customer experience, and integrated and inclusive banking, with emphasis on supporting small businesses and agriculture. The initiatives will be across diverse themes: business growth, profitability, risk, customer service, operations, and capability building.

EASE Next
EASE Next lays down a common reform agenda for banks to achieve in FY23. Banks will set up their own bank specific 3-year strategic roadmaps to focus on transformation reforms beyond the EASE 5.0 agenda Introducing EASENext.

The broad themes of EASENext are as under:

1. Digitally enabled customer offerings: PSBs to develop comprehensive digital banking solutions for MSMEs and Agri value chains
2. Big data & analytics: To strengthen big data capabilities and inculcate a culture of data-driven decision making
3. Modern technology capabilities: Focus on strengthening banks' technology capabilities to improve overall customer experience
4. Collaborative banking: It is a theme carried forward from previous editions of EASE i.e. EASE 4.0. This theme focuses on broadening and deepening partnerships and collaborations.
5. Employee development & governance: To develop digital and data-driven processes to assess, groom, and develop employees

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1. Banking Sector Reforms

Prudential norms are the guidelines issued by the banking regulator to ensure safety and soundness of banks. Prominent prudential norms relate to Income Recognition and Asset Classification, Capital Adequacy, Exposures etc.

1. Banking Sector Reforms

The RBI has directed each bank to fix its **Marginal Cost of Funds based Lending Rate,** MCLR, based on changes in its costs, like Operational Costs, Administrative Costs, Statutory Costs, market Risk and Cost of Deposits. The interest rates on deposits have been progressively deregulated providing banks greater flexibility in resource mobilisation. At present, the floating interest rates of banks are linked to their tenor based Marginal Cost of Funds based Lending Rate (MCLR).

1. Banking Sector Reforms

'Know Your Customer/Client KYC is the process of a business verifying the identity of its clients and assessing their suitability along with the potential risk of illegal intentions towards the business relationship. Sound KYC policies and procedures are critical for protecting the safety and soundness of banks and the integrity of banking system in the country. To prevent money laundering through the banking system, the Reserve Bank has issued 'Know Your Customer' (KYC), Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) guidelines. These instructions are based on the provisions of Prevention of Money Laundering (PML) Act, 2002.

1. Banking Sector Reforms

The Government announced Indradhanush plan for revamping Public Sector Banks (PSBs) in August 2015. The plan envisaged, inter alia, infusion of capital in PSBs by the Government to the tune of Rs. 70,000 crore over a period of 4 financial years, to handle high NPAs and the need to meet the provisions of the Basel III norms. Later in 2018, the Government announced decision to further recapitalise PSBs to the tune of Rs. 2,11,000 Crore. Capital infusion is aimed at supplementing the achievement of regulatory capital norms by PSBs through their own efforts and, in addition, based on performance and potential, augmenting their growth capital.

1. Banking Sector Reforms

The Banks Board Bureau (BBB) was set up in 2016 to improve the governance of Public Sector Banks, recommend selection of chiefs of government owned banks and financial institutions and to help banks in developing strategies and capital raising plans. It was recommended by **P. J. Nayak Committee**. It is housed in RBI's Central Office in Mumbai. It is neither constitutional nor statutory body. Sh. Bhanu Pratap Sharma is current Chairman of the BBB.

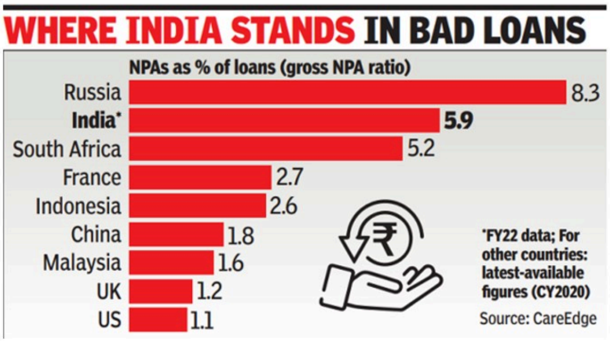
1. Banking Sector Reforms

Credit Information Companies (CIC) provide credit information about individuals and assigns ranks to them based on their past repayment track record. Banks and other financial intuitions can get use this data while offering their financial services to an individual.

Credit Reporting System in India currently consists of 4 credit Information companies:

1. TransUnion CIBIL limited,
2. Experian Credit Information Company of India Private Ltd,
3. Equifax Credit Information Services Private Ltd,
4. CRIF High Mark Credit Information Services Pvt. Ltd.

2. NPA Management



In the course of their business, banks lend and invest in various classes of assets, some of which may turn non-performing either due to the systemic factors such as economic downturn or idiosyncratic factors specific to the borrower. The Banks are required to objectively identify such stressed assets and take corrective action.

According to RBI guidelines, a Non Performing Asset (NPA) shall be a loan or an advance where:

- interest and/or instalment of principal remain overdue for a period of **more than 90 days** in respect of a term loan,
- account remains 'out of order' for a period of **more than 90 days**, in respect of an Overdraft/Cash Credit (OD/CC),
- bill remains overdue for a period of **more than 90 days** in the case of bills purchased and discounted,
- interest and/or instalment of principal remains overdue for **2 harvest seasons** but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- any amount to be received remains overdue for a period of **more than 90 days** in respect of other accounts.

Banks are required to classify Non-Performing Assets in one of the 3 categories according to how long the asset has been non-performing.

1. A **sub-standard asset** is an asset classified as an NPA for less than 12 months.
2. A **doubtful asset** is an asset that has been non-performing for more than 12 months.
3. A **Loss asset** is an asset with losses identified by the bank, auditor, or inspector and have not been fully written off.

Lenders shall identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as Special Mention Accounts (SMA) as per the following categories:

- Principal/Interest payment overdue between 1-30 days: **SMA-0**
- Principal/Interest payment overdue between 31-60 days: **SMA-1**
- Principal/Interest payment overdue between 61-90 days: **SMA-2**

When a borrower takes a new loan to pay off for older loan, it is called **Evergreening**.

There is a strong regulatory framework for handling stressed assets. These are discussed next.

2. NPA Management

The Sick Industrial Companies (Special Provisions) Act (SICA) of 1985 was enacted with the objective of determining the sickness in industrial units, with regards to determining crucial sectors where public money is locked. It contained provisions for detection of sick and potentially sick industrial units.

The said Act of 1985 was further provided with the objective to constitute the Board for Industrial and Financial Reconstruction (BIFR) and also Appellate Authority for Industrial and Financial Reconstruction (AAIFR) with the powers to recommend and supervise the implementation of the rehabilitation plans of the sick industries.

On 1st December 2016, the Central Government dissolved BIFR and AAIFR and referred all proceedings to the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) as per provisions of Insolvency and Bankruptcy Code (IBC), 2016.

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2. NPA Management

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) has been enacted for providing the law pertaining to enforcement of security interests created in favour of the banks and financial institutions. It must be noted that enforcement of security interests depends on the nature of asset on which the security interest has been created by the lenders. For instance, security interest is created on shares of a company by means of creating a pledge on such shares; whereas, hypothecation is created on the physical assets of the company.

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2. NPA Management

In January 2014, the RBI came up with a Framework for Revitalising Distressed Assets. This framework primarily provides 3 ways of tackling the stressed assets – **Rectification, Restructuring and Recovery (3 Rs).** While the first two are meant for the purpose of revival of a stressed borrower, the last one is used when both of these fail to pass the feasibility test.

The **Strategic Debt Restructuring (SDR) scheme** was designed to deal with problem loans where promoters need to be replaced, whereas the Scheme for Sustainable Structuring of Stressed Assets (S4A) was an optional framework for the resolution of large stressed accounts without change of promoters.

Another Scheme was **Corporate Debt Restructuring (CDR)**, which was purely a contractual arrangement between the lender and the corporate. It thrived and met with success given the revised prudential norms on restructuring of advances. However, once prudential norms were withdrawn in 2015, the CDR mechanism also lost its purpose.

Another scheme was 5:25 scheme i.e., **Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries**. As per the 5:25 flexible structuring scheme, the banks were allowed to fix longer amortization period say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every 5 years.

The **Joint Lenders' Forums (JLFs),** mandated that banks adopt measures for early identification to tackle stressed loans, giving them a jumpstart, especially in large and complex cases of corporate debt where creditors differed on a resolution process.

In February 2018, the RBI abolished all schemes including SDR, S4A, CDR, 5:25 scheme. The Joint Lenders Forum, JLF designed to resolve potential bad debts was also disbanded.

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2. NPA Management

The enactment of the Insolvency and Bankruptcy Code, 2016 (IBC) is a watershed development towards improving the credit culture. Prior to the IBC, India had multiple laws that governed various facets of a corporate rescue and/or insolvency process, without having a comprehensive legal framework that envisaged a holistic process applicable to troubled or defaulting companies. The IBC provides for a single window, time-bound process for resolution of an asset with an explicit emphasis on promotion of entrepreneurship, maximisation of value of assets, and balancing the interests of all stakeholders.

Insolvency is a situation when a **company is unable to repay its debt**. If a company defaults by Rs 1 lakh, a creditor (such as banks or suppliers) can initiate the insolvency resolution process. Being a time-bound process to resolve cases within 180 days extendable to 270 days, the IBC has received praise from the World Bank and IMF and has materially contributed to India's 30 place jump in 2018's 'Ease of Doing Business' ranking.

IBC brings about a paradigm shift in the recovery and resolution process by introducing the concept of 'creditor in control' instead of 'debtor in possession'. This encourages value enhancement of the corporate debtor as once this process starts, the board cedes control of the company, and insolvency professionals with the help of advisors start managing the company. Creditors now have guidelines that clarify details till the last mile, including distribution of recovery proceeds.

The **judicial interpretation of the IBC** is done by the National Company Law Tribunal (NCLT), National Company Law Appellate Tribunal (NCLAT) and finally by the Supreme Court (SC) on procedural and substantive matters.

A **Committee of Creditors** is constituted to decide regarding the insolvency resolution. The Committee consists of financial creditors of the insolvent company. Financial creditors include creditors who had given loans to the company. Other creditors such as suppliers and employees to whom the company owes money are called operational creditors. The IBC was amended in 2018 to classify allottees of real estate projects as financial creditors.

The Committee may consider a resolution plan which typically provides for payoff of debt by merger, acquisition, or restructuring of the company, and may require creditors to forgo some amount. If a resolution plan is not accepted by the Committee, the assets of the company are liquidated. In case of liquidation, proceeds from the sale of assets are used to settle the claims as per a specified order.

The **Insolvency and Bankruptcy Board of India**, IBBI is a regulator and was established in 2016 under the Insolvency and Bankruptcy Code, 2016. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. The administrative control of IBBI is with the Ministry of Corporate Affairs.

The IBBI has a chairman, 1 nominated member form RBI and 8 other members nominated by the Government.

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2. NPA Management

In June 2019, the RBI issued a Prudential Framework for Resolution of Stressed Assets, which give lenders **30 days to review a borrower account** before labelling it as a Non-Performing Asset (NPA) in case of default. This framework replaces the earlier circular which mandated lenders to start resolution even if there was 1day default. Also, as per this framework, it is voluntary of banks to go for insolvency procedures compared to the previous norm – banks have to (mandatorily) refer defaults to the NCLT, and resolution should be completed within 180 days.

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2. NPA Management

Project Sashakt was proposed by a panel led by PNB chairman Sunil Mehta. It proposes a 5-pronged strategy to deal with Non-Performing Assets (NPAs). It also proposes the Inter-Creditor Agreement (ICA) framework, which envisages effective communication among lenders and lays down some ground rules for multiple-banking arrangements and consortium lending, which now be taken to boards of all the banks.

Key Features are given below.

- Bad loans of up to ₹ 50 crore will be managed at the bank level, with a deadline of 90 days.
- For bad loans of ₹ 50-500 crore, banks will enter an inter-creditor agreement, authorizing the lead bank to implement a resolution plan in 180 days, or refer the asset to NCLT.
- For loans above ₹ 500 crore, the panel recommended an independent asset management company (AMC), supported by institutional funding through the Alternative Investment Fund (AIF).

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2. NPA Management

The banks and financial institution have experienced much difficulty in recovering their dues. The lack of efficient procedure for recovery of debts has significantly contributed towards the funds being blocked. Thus, the legislature enacted the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 ("DRT Act") for the purpose of establishing tribunals and appellate tribunals for expeditious adjudication and recovery of debts due to banks and financial institutions. It must be noted that the DRT Act provides special rights to banks for the purpose of recovering debts. DRT stands for Debt Recovery Tribunal and DRAT stands for Debt Recovery Appellate Tribunal.

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2. NPA Management

The RBI has initiated to set up a digital **Public Credit Registry (PCR)** to capture details of all borrowers, including willful defaulters and also the pending legal suits in order to check financial delinquencies. The PCR will also include data from entities like market regulator SEBI, the Ministry of Corporate Affairs, Goods and Service Tax Network (GSTN) and the Insolvency and Bankruptcy Board of India (IBBI) to enable the banks and financial institutions to get 360-degree profile of existing and prospective borrowers on a real-time basis.

RBI had constituted a High Level Task Force (**Chair: Mr. Y. M. Deosthalee**) to assess the need and scope of setting up a PCR in India. The task force submitted its report in April 2018.

The credit information infrastructure in India currently comprises of:

- Credit Scores by the Credit Information Companies (CICs)
- Central Repository of Information on Large Credits (CRILC) housed in RBI (covers all loans over Rs 5 Crores)
- Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) under SARFAESI Act 2002.
- Information Utilities (IU) housed in National e-Governance Services Limited (NeSL) under IBC 2016
- Database maintained by the Ministry of Corporate Affairs (MCA)

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2. NPA Management

The Legal Entity Identifier (LEI) is unique global identifier of legal entities participating in financial transactions. These can be individuals, companies or government entities that participate in financial transaction. The identifier is used in reporting to financial regulators and all financial companies and funds are required to have an LEI. The identifier is formatted as a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO).

Legal Entity Identifier India Limited (a Wholly Owned Subsidiary of The Clearing Corporation of India Ltd.) acts as a Local Operating Unit (LOU) for issuing LEIs in India. It has been recognized by the Reserve Bank of India as an "Issuer" of Legal Entity Identifiers under the Payment and Settlement Systems Act 2007 (as amended in 2015).

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2. NPA Management

The Financial Intelligence Unit-India (FIU-IND) was set up under the Department of Revenue, Ministry of Finance to coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes.

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2. NPA Management

The Fugitive Economic Offenders Act 2018 was passed in the year 2018.

A **fugitive economic offender** is any individual against whom warrants for arrest is issued for his involvement in select economic offences involving amount of at least Rs 100 crore or more and has left India so as to avoid criminal prosecution.

The new law allows designated special court to declare a person as fugitive economic offender and to confiscate his property, including 'benami' ones.

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2. NPA Management

The Prompt Corrective Action or PCA is a framework under which banks with weak financial metrics are put under watch by the RBI. The PCA framework deems banks as risky if they slip below certain norms on 4 parameters — Capital Ratios, Asset Quality (NPA), Profitability (Return on Assets) and Leverage (Tier 1 Leverage ratio). It has 3 risk threshold levels (1 being the lowest and 3 being the highest) based on where a bank stands on these ratios.

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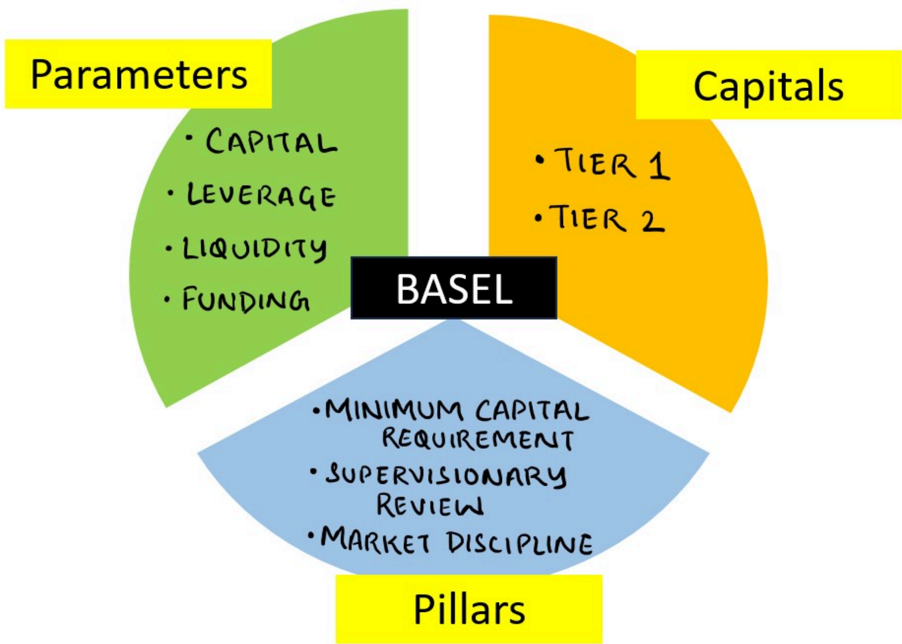
3. Basel Norms



The Basel Norms are banking practices, which have been laid down by the **Basel Committee on Bank Supervision**, BCBS. The BCBS is a committee of banking supervisory authorities that was established by the central bank governors of the Group of 10 countries in 1974. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee frames guidelines and standards in different areas like international standards on capital adequacy, the Core Principles for Effective Banking Supervision and the Concordat on cross-border banking supervision. The BCBS's Secretariat is located at the Bank for International Settlements (BIS) in Basel, Switzerland. Thus, the BCBS may be known as **"Bank of all Central Banks",** of which RBI is one member.

The **Capital Adequacy Ratio (CAR)** is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as Capital-to-Risk weighted Assets Ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured.

1. **Tier-1 capital**, or core capital, consists of equity capital, ordinary share capital, intangible assets and audited revenue reserves. Tier-1 capital is used to absorb losses and does not require a bank to cease operations. Tier-1 capital is the capital that is permanently and easily available to cushion losses suffered by a bank without it being required to stop operating.

2. **Tier-2 capital**, or supplementary capital, comprises unaudited retained earnings, unaudited reserves and general loss reserves. This capital absorbs losses in the event of a company winding up or liquidating. Tier-2 capital is the one that cushions losses in case the bank is winding up, so it provides a lesser degree of protection to depositors and creditors. It is used to absorb losses if a bank loses all its Tier-1 capital.

The **Leverage Ratio**, as defined under Basel-III norms, is Tier-I capital as a percentage of the bank's exposures. Bank's total exposure is defined as the sum of the following exposures: on-balance sheet exposures; derivative exposures; securities financing transaction exposures; and off-balance sheet items. The Leverage Ratio is one the 4 indicators under the RBI's Prompt Corrective Action (PCA) framework. A cut in leverage ratio implies that banks can lend more on the same capital base.

The Basel framework evolved over a period of time since the introduction of Basel I framework in 1988.

The comprehensive Basel II guidelines were issued in 2004. The global financial crisis which witnessed the breakdown of even well capitalised banks, triggered an overhaul of the capital framework and led to the introduction of Basel III in 2008.

The Basel II approach is based on **three pillars**, namely -

1. Minimum regulatory capital requirements (Addressing Credit Risk, Market Risk and Financial Risk),

2. Supervisory review and
3. Market discipline.

The Basel III guidelines focus on 4 banking parameters: capital, leverage, liquidity and funding -

1. Minimum capital requirements for banks is 4.5% of common equity, as a percentage of the bank's risk-weighted assets. (Currently 2% under Basel II).
2. Leverage Ratio is ratio of Tier 1 capital by the average total consolidated assets of a bank. Under this, banks are required to hold a leverage ratio in excess of 3%. It was introduced under Basel-III.
3. Net Stable Funding Ratio (NSFR) requires banks to maintain stable funding above the required amount of stable funding for a period of one year of extended stress.
4. The Liquidity Coverage Ratio requires banks to hold sufficient highly liquid assets that can withstand a 30-day stressed funding scenario as specified by the supervisors.

The Basel III capital regulations (Pillar I of Basel III Norms) were implemented in India with effect from April 2013 and have been fully implemented as on October 2021.

4. Risk Manangement

Prior to the global financial crisis, in most jurisdictions, a rule-based or compliance-based supervisory approach was in place. Banks were supervised under what is known as the **CAMELS model**, an acronym for Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. Later, the RBI constituted a High-Level Steering Committee under the Chairmanship of former Deputy Governor, K C Chakrabarty, in August 2011, to review the supervisory processes for commercial banks. Based on the recommendations of the committee, a **Risk-Based Supervisory (RBS) approach** to supervision was implemented from 2013 onwards in a phased manner. All the scheduled commercial banks in India are now under the RBS framework and the erstwhile CAMELS framework (which was compliance based approach) is no longer used.

To assess the risk of failure, both onsite and offsite risk discovery is carried out.

- The **offsite risk** discovery process involves collection of data, documents, etc., as well as discussions with the management of the banks.
- The **onsite risk** discovery process involves further investigation into identified risk areas including obtaining additional information. In this step, a dedicated team of supervisors conduct onsite inspection of the identified areas/ aspects at the premises of the banking entity.

The **Off-Site Monitoring and Surveillance (OSMOS) system** was set up as a complementary tool to on-site inspection of the regulated entities, viz., banks with the objective of effective supervision. Under OSMOS, various returns are collected at different periodicities, viz., fortnightly, monthly, quarterly, half yearly and annually.

Recognising the need for effective enforcement of supervisory policies, an integral part of the supervisory framework, a separate **Enforcement Department** was created within the Reserve Bank in 2017.

A **Central Fraud Registry (CFR)** has been operationalised with effect from January 20, 2016. The CFR will provide "a searchable centralised database for use by banks", which in turn can alert banks to take necessary steps to develop a sound and robust fraud risk management system.

To prevent financial frauds, the RBI has also put in place **Early Warning System (EWS)**. Under this framework, the concept of a **Red Flagged Account (RFA)** was introduced. An RFA is one where a suspicion of fraudulent activity is thrown up by the presence of one or more early warning signals. Accordingly, banks have to set up an EWS for exposures on or above Rs 5000 Crores.

Various entities actively contribute to the evaluation of risk management, and these will be discussed next.

4. Risk Manangement

In India, the Government in December 2010 set up Financial Stability and Development Council (FSDC) as the apex level forum to strengthen and institutionalize the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development. The Chairman of the Council is the Finance Minister and its members include the heads of financial sector Regulators (RBI, SEBI, PFRDA, IRDA), Finance Secretary and/or Secretary, Department of Economic Affairs, Secretary, Department of Financial Services and Chief Economic Adviser. It also includes the Chairman of the Insolvency and Bankruptcy Board (IBBI).

The Council monitors macro prudential supervision of the economy, including functioning of large financial conglomerates and addresses inter-regulatory coordination and financial sector development issues. It also focuses on financial literacy and financial inclusion.

The RBI set up an operationally independent **Financial Stability Unit (FSU)** in August 2009. The FSU prepares half-yearly financial stability reports, which reflect the collective assessment of the sub-committee of the FSDC on risks to India's financial stability. The other major functions of the FSU include, but not limited to, conduct of macro-prudential surveillance of the financial system on an ongoing basis, carry out periodic systemic stress tests to assess resilience of the banking system and development of models for assessing financial stability.

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4. Risk Manangement

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in 2009 as a successor to the Financial Stability Forum (FSF). The Board includes all G20 major economies, FSF members, and the European Commission. Hosted and funded by the Bank for International Settlements, the board is based in Basel, Switzerland. It was created after the financial meltdown of 2008.

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4. Risk Manangement

The Financial Action Task Force (FATF) is an inter-governmental body decision-making body. It was established in 1989 during the G7 Summit in Paris to develop policies against money laundering. It is a “policy-making body” which works to generate the political will to bring about national legislative and regulatory reforms in money laundering. It has also started dealing with virtual currencies. The FATF Secretariat is located in Paris. India became an Observer at FATF in 2006. Since then, it had been working towards full-fledged membership. On June 25, 2010 India was taken in as the 34th country member of FATF.

The FATF has 2 types of lists:

1. **Black List** - Countries known as Non-Cooperative Countries or Territories (NCCTs) are put in the blacklist. These countries support terror funding and money laundering activities.
2. **Grey List** - The inclusion in this list is not as severe as blacklisted. The Grey list is a warning given to the country that it might come in Black list. If a country is unable to curb mushrooming of terror funding and money laundering; it is shifted from grey list to black list by the FATF.

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4. Risk Manangement

The Financial Sector Legislative Reforms Commission (FSLRC) was set up in 2011, to review and rewrite the legal-institutional architecture of the Indian financial sector. It was set up to review, simplify and rewrite the legislations affecting the financial markets in India, focusing on broad principles. The Commission was chaired by a former Judge of the Supreme Court of India, Justice B. N. Srikrishna.

4. Risk Manangement

Financial Sector Assessment Programme (FSAP) started in 1999, is a quinquennial (every 5 years) exercise jointly conducted by IMF and World Bank in 29 jurisdictions across the world, identified by IMF as having “systemically important” financial sectors. FSAPs are done jointly by the World Bank and IMF staff in developing and emerging market countries, like India, and by the IMF alone in advanced economies. FSAP is a comprehensive and in-depth analysis of a country’s financial sector to assess financial stability and financial sector development. India underwent its first FSAP exercise in 2011-12 and the second FSAP in 2017.

4. Risk Manangement

Banking Ombudsman is a quasi-judicial authority functioning under India’s Banking Ombudsman Scheme 2006. The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services. The Banking Ombudsman Scheme is introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995. Presently the Banking Ombudsman Scheme 2006 (as amended upto 1 July 2017) is in operation.

4. Risk Manangement

The Macro Financial Monitoring Group (MFMG) was setup in 2012 under the Chairmanship of the Chief Economic Adviser to discuss any specific emergent issues and meets regularly in the Department of Economic Affairs with representation from all the Departments of the Ministry of Finance. Representatives from IMF and financial sector Regulators are also usually invited to the meetings.

4. Risk Manangement

The government announced in 2017-18 budget, to set up Computer Emergency Response Team for Financial Sector (CERT-Fin).

1. Financial Markets

A **Financial Market** is a broad marketplace where individuals, businesses, and governments **buy and sell financial instruments** such as shares, bonds, currencies, commodities, and various financial services.
It acts as a **bridge** that connects people who have surplus money (investors or savers) with those who need money (businesses, governments, and borrowers).

In simple words:

👉 **A financial market is a system that ensures smooth flow of money in the economy.**

It includes the market for stocks, bonds, short-term funds, foreign exchange, and even financial services provided by banks and institutions.

Participants in a Financial Market

A financial market involves many participants:

- **Households** (savers)
- **Businesses and Companies** (borrowers)
- **Government** (issues bonds to raise money)
- **Banks and Financial Institutions**
- **Stock Exchanges (NSE, BSE)**
- **Mutual Funds and Insurance Companies**
- **Foreign Investors (FPI/FII)**
- **Regulators like RBI and SEBI**

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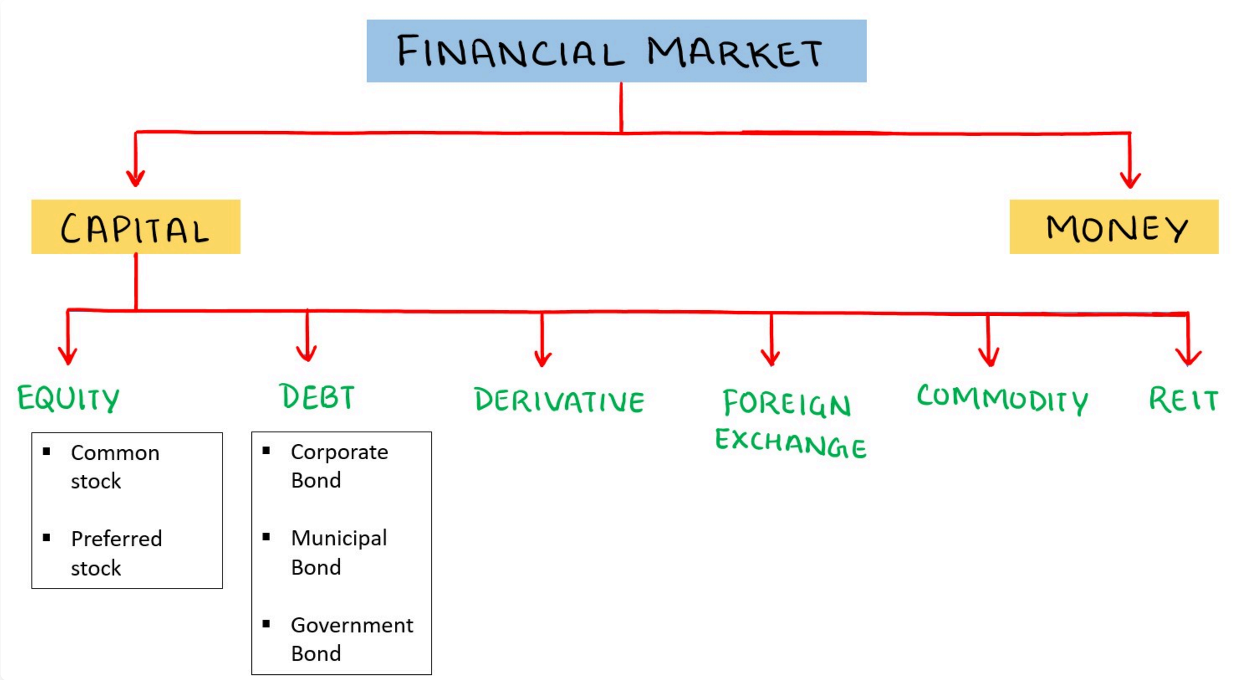
2. Types of Financial Markets



Financial Markets can be broadly classified into Money Market and Capital Markets.

Money Market

The Money Market is a segment of the financial market where short-term, highly liquid financial instruments with low risk are traded. It includes instruments like Treasury bills, commercial paper, and certificates of deposit, serving as a platform for short-term borrowing, lending, and liquidity management by financial institutions.

Capital Markets

The capital market refers to the financial market where long-term financial instruments, such as bonds and stocks, are bought and sold. It provides a platform for businesses and governments to raise funds for investment and expansion by issuing securities to investors. Unlike the money market, which deals with short-term debt securities, the capital market facilitates transactions involving instruments with original maturities exceeding one year.

The capital market can be primarily categorized into Equity Market and Debt Market. However, there are other types of markets too like Derivative market, Foreign Exchange Market, Commodity Market, REIT Market.

Equity Market

It can be further categorized into:
Common Stock Market: Involves the buying and selling of common shares representing ownership in a company.
Preferred Stock Market: Focuses on shares that have preferences over common shares in terms of dividends and liquidation.

Debt Market

The Debt Market can be further categorized into:
Corporate Bond Market: Involves debt securities issued by corporations to raise capital.
Municipal Bond Market: Deals with debt securities issued by state or local governments.
Government Bond Market: Focuses on debt securities issued by national governments.

Derivatives Market

It involves financial contracts derived from the value of underlying assets, including options and futures.

Foreign Exchange (Forex) Market

It deals with the exchange of currencies and the valuation of one currency against another.

Commodity Markets

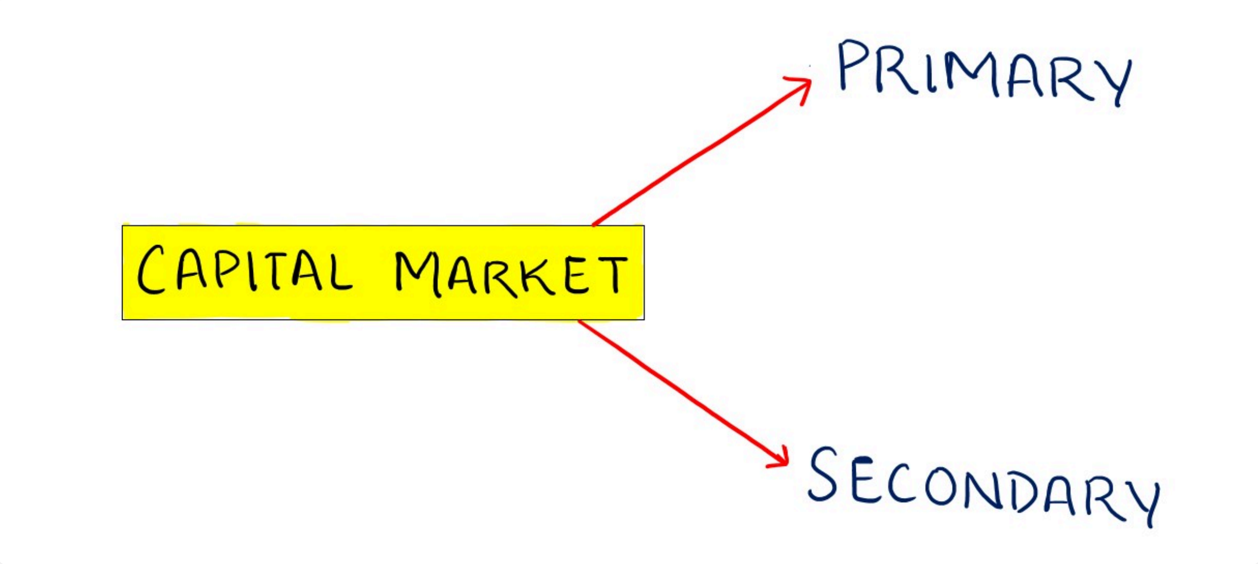
It comprises markets for buying and selling commodities, such as agricultural products, precious metals, and energy resources.

Real Estate Investment Market (REIT)

It involves the buying and selling of securities backed by real estate assets, such as Real Estate Investment Trusts (REITs).

Primary and Secondary Markets

The capital markets can also be divided into Primary and Secondary Markets.



Primary Market

The primary market represents the initial issuance of securities by entities seeking to raise capital. This process involves the sale of new stocks or bonds directly from the issuer to investors. Companies utilize the primary market to embark on initial public offerings (IPOs), allowing them to transform private ownership into public equity. Through IPOs, businesses can access a broader investor base, raising funds for expansion, research and development, or debt repayment.

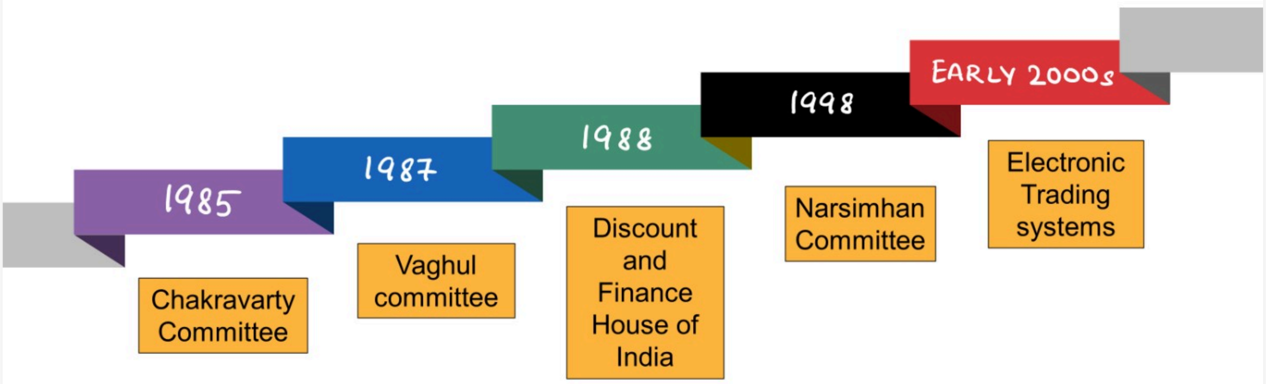
Moreover, the primary market extends beyond IPOs to include additional offerings such as rights issues and private placements. Rights issues grant existing shareholders the opportunity to purchase additional shares at a discounted price, reinforcing their stake in the company. Private placements involve the sale of securities to a select group of institutional investors, often facilitating capital infusion without the extensive regulatory requirements associated with public offerings.

Secondary Market

In contrast, the secondary market involves the trading of existing securities among investors. Once securities are issued in the primary market, they enter the secondary market, allowing investors to buy and sell them among themselves. The secondary market enhances liquidity, providing investors with the flexibility to exit positions and facilitating price discovery based on supply and demand dynamics.

Key components of the secondary market include stock exchanges and over-the-counter (OTC) markets. Stock exchanges provide a centralized platform for buyers and sellers to execute transactions. OTC markets, on the other hand, facilitate direct trades between parties, often involving less standardized or smaller-scale securities.

3. Money Market



The Money Market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that, it is liquid and can be turned into money quickly at low cost and thus, provides an avenue for equilibrating the short-term surplus funds of lenders and the short term deficits of borrowers. These instruments generally have low default risks, maturity under 1 year and high marketability.

Background

The **Chakravarty Committee (1985)** was the first to make comprehensive recommendations for the development of the Indian money market.

This was followed by the **Vaghul Committee (1987)** set up by the RBI to specifically examine various aspects for widening and deepening of the money market.

The **Discount and Finance House of India** (DFHI) was set up in 1988 to impart liquidity to money market instruments and help the development of secondary markets in such instruments.

Based on the recommendations of the **Narasimhan Committee (1998)** and the Reserve Bank's Internal Working Group to examine the Development of Call Money Market (1997), steps were initiated to reform the call money market and make it a pure inter-bank market, in a phased manner, starting in 1999, which was completed in August 2005.

State-of-the-art **electronic trading systems** (viz., NDS-CALL, CROMS, CBLO), straight-through-processing (STP) of transactions, Real Time Gross Settlement (RTGS), and a separate CCP in the Clearing Corporation of India Ltd (CCIL) for guaranteed settlement are among the steps that were taken by the RBI over the years.

Some instruments of the Money Market are discussed next.

3. Money Market

Call, Notice, and Term Money are short-term money market instruments used mainly by banks to manage liquidity.

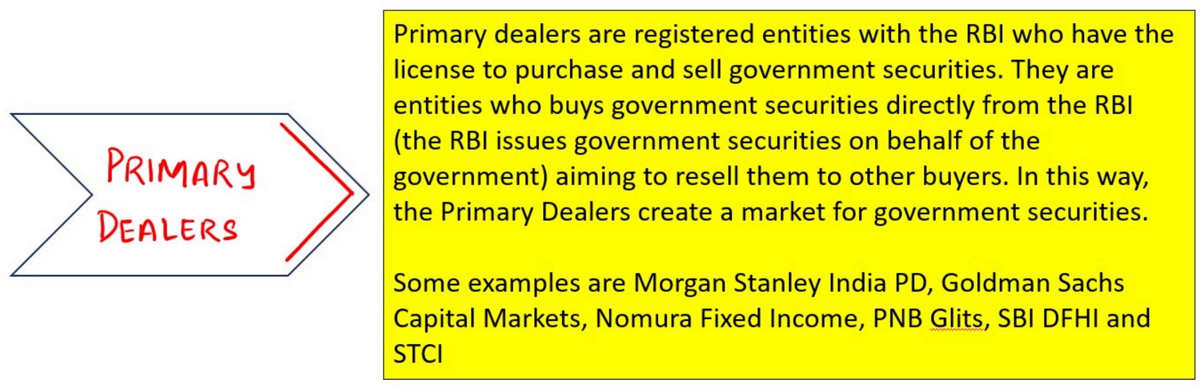
Call Money refers to overnight borrowing for just 1 day, while **Notice Money** involves borrowing for 2 to 14 days with prior notice before repayment.

Term Money covers borrowings for more than 14 days, usually extending up to one year.

Together, these instruments help banks maintain daily cash flow, meet regulatory requirements, and manage short-term to medium-term funding needs.

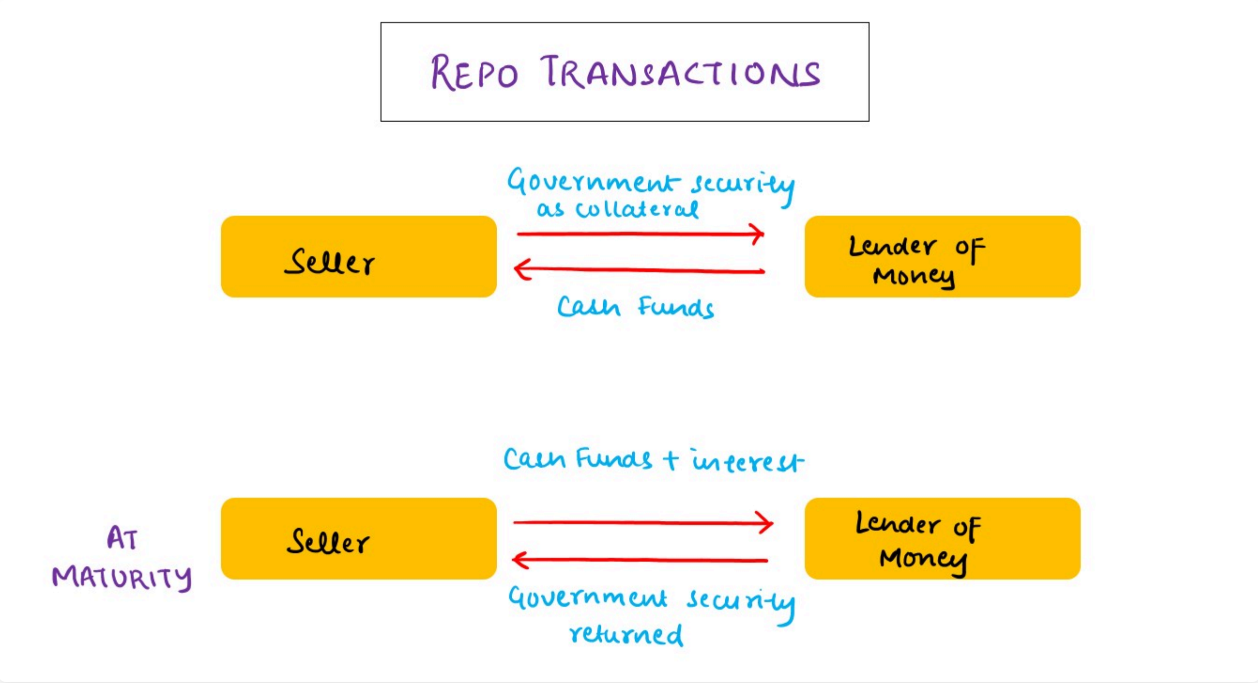
The Call/Notice Money transactions take place either on NDS-Call, a screen–based, negotiated, quote-driven electronic trading system managed by the Clearing Corporation of India (CCIL), or over the counter (OTC).

The following entities are eligible to participate in the Call, Notice and Term Money Markets, both as borrowers and lenders:
(a) Scheduled Commercial Banks (excluding Local Area Banks);
(b) Payment Banks;
(c) Small Finance Banks;
(d) Regional Rural Banks;
(e) State Co-operative Banks, District Central Co-operative Banks and Urban Co-operative Banks (hereinafter Co-operative Banks); and
(f) Primary Dealers.



3. Money Market

Repurchase Agreements (Repos) are short-term borrowing arrangements where one party sells securities—usually government securities—with an agreement to buy them back at a predetermined price on a future date, often the next day. The difference between the sale and repurchase price represents the interest on the loan. Repos help banks and financial institutions manage short-term liquidity efficiently and are widely used by RBI for monetary policy operations.



The securities eligible for repo shall include:
(a) Government securities issued by the Central Government or a State Government.
(b) Listed corporate bonds and debentures.
(c) Commercial Papers (CPs) and Certificate of Deposits (CDs).
(d) Units of Debt ETFs

Repos allow the banks and the financial institutions to borrow money from the RBI for the short-term (by selling Government Securities to the RBI). In **Reverse Repos**, the banks and financial institutions purchase Government securities from the RBI (basically, here the RBI is borrowing from the banks and the financial institutions).

The following are eligible to participate in repo transactions:
(a) Any regulated entity.
(b) Any listed corporate.
(c) Any unlisted company, which has been issued special securities by the Government of India, using only such special securities as collateral.
(d) Any All India Financial Institution (FIs) viz. Exim Bank, NABARD, NHB and Small Industries Development Bank of India (SIDBI), constituted by an Act of Parliament and
(e) Any other entity approved by the Reserve Bank from time to time for this purpose.

3. Money Market

Commercial Paper (CP) means an unsecured money market instrument issued in the form of a promissory note. The CP usually has a maturity period of 7 days to 1 year. This was introduced in 1990 with an objective to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and provide an additional instrument to the investors.

Non-Convertible Debenture (NCD) means a secured money market instrument with an original or initial maturity upto 1 year.

The CP and NCDs may be issued by the following entities subject to the condition that all fund-based facilities availed:

- Companies;
- NBFCs, including Housing Finance Companies (HFCs);
- InvITs and REITs;
- All India Financial Institutions (AIFIs);
- Any other body corporate with a minimum net-worth of Rs 100 crore;
- Co-operative societies and limited liability partnerships with a minimum net-worth of Rs 100 crore

CPs and NCDs are issued in dematerialised form and held with a depository registered with SEBI.

CPs and NCDs are issued in minimum denomination of Rs 5 lakh and in multiples of Rs 5 lakh thereafter.

CPs are issued at a discount to the face value.

NCDs are issued at a discount to the face value or with fixed or floating rate coupon.

Funds raised through CPs and NCDs are ordinarily be used to finance current assets and operating expenses. The end-use of the funds raised through a CP or an NCD shall be disclosed in the offer document.

The minimum credit rating, assigned by a Credit Rating Agency (CRA), for the issuance of CPs and NCDs shall be 'A3' as per rating symbol and definition prescribed by SEBI.

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3. Money Market

Certificate of Deposit (CD) is a negotiable, unsecured money market instrument issued by a bank as a Usance Promissory Note against funds deposited at the bank for a maturity period upto 1 year.

The Certificate of Deposits (CDs) may be issued by:
(i) Scheduled Commercial Banks;
(ii) Regional Rural Banks; and
(iii) Small Finance Banks.

CDs shall be issued only in dematerialised form and held with a depository registered with Securities and Exchange Board of India.

CDs shall be issued in minimum denomination of Rs 5 lakh and in multiples of Rs 5 lakh thereafter.

The tenor of a CD at issuance shall not be less than 7 days and shall not exceed 1 year.

CDs may be issued at a discount to the face value. CDs may also be issued on a fixed / floating rate basis provided the interest rate on the floating rate CD is reset at periodic rests agreed to at the time of issue.

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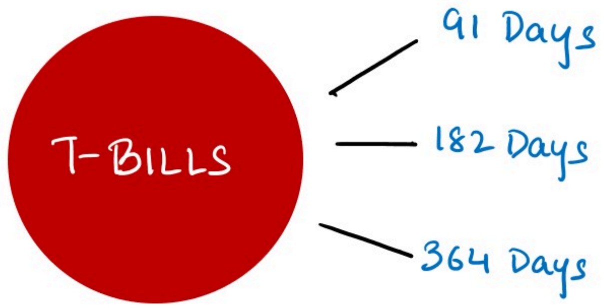
3. Money Market



Treasury bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day.

Treasury bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs 100 (face value) may be issued at say Rs 98.20, that is, at a discount of say, Rs 1.80 and would be redeemed at the face value of Rs 100. The return to the investors is the difference between the maturity value or the face value (that is Rs 100) and the issue price.

The Treasury Bills (T-Bills) are used by the Central Government to fulfill its short-term liquidity requirement upto the period of 364 days. They are also known as **Zero Coupon Bonds** (pays no interest) issued by the RBI on behalf of the Central Government. T-Bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par.

Until 1988, the only kind of Treasury bill that was available was the **91-days T-bill**, issued on tap. **182-days T-bills** were introduced in 1987, and the auction process for T-bills was started. **364 days T-bill** was introduced in April 1992, and in July 1997, the 14-day T-bill was also introduced. RBI had suspended the issue of 182-day T- bills from April 1992, and revived their issuance since May 1999.

182 days T-bills were introduced in November 1986 on auction basis. The 182 days T-bills were replaced by introduction of 364 days T-bills on fortnightly auction basis since April 1992. Subsequently, 91 days T-bills were introduced on auction basis in January 1993. When the Ad-hoc T-bills were discontinued in April 1997, to enable finer cash management of the government and to provide avenue for state governments and some foreign central banks to invest surplus funds, 14-days T-bills were introduced in April 1997. Subsequently, the 14 days T-bills and 182 days T-Bills were discontinued.

At present, only 3 types of T-Bills are sold. 91 days T-Bills are sold on weekly and 182 days-Bills and 364 days T-Bills are sold on fortnightly basis. The 14 days T-bills have been discontinued.

The investors in Treasury bills are Banks, Primary Dealers, State Governments, Provident Funds, Financial Institutions, Insurance Companies, NBFCs, FIIs and NRIs.

3. Money Market

The CBLO was a money market product designed by Clearing Corporation of India Ltd, CCIL. It facilitates borrowing and lending for various tenors, from overnight up to a maximum of 1 year, in a fully collateralized environment backed by Central Government securities and Treasury Bills.

It was discontinued in Nov 2018.

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3. Money Market

A Banker's Acceptance (BA) is a short-term financial instrument that operates in the money market, providing a way for businesses to secure financing for international trade transactions. It is essentially a time draft or bill of exchange that is accepted by a bank on behalf of its customer (the importer or buyer). This acceptance by the bank serves as a payment guarantee to the exporter or seller, and the Banker's Acceptance can be traded in the secondary market as a money market instrument.

The process often begins when an exporter or seller ships goods to an importer or buyer. As part of the trade agreement, the exporter presents a time draft, which is essentially a bill of exchange, to the importer, indicating the amount owed and the maturity date.

To provide assurance of payment to the exporter, the importer's bank may accept the time draft, turning it into a Banker's Acceptance. The bank, by accepting the draft, signifies its commitment to pay the specified amount on the maturity date.

The Banker's Acceptance, now with the bank's acceptance, serves as a payment guarantee to the exporter. This mitigates the credit risk for the seller, making the transaction more secure.

Banker's Acceptances are negotiable instruments, meaning they can be bought and sold in the secondary market before their maturity dates. This feature enhances their liquidity and makes them attractive to investors in the money market.

Importers or holders of Banker's Acceptances may choose to sell them in the secondary market before maturity. The buyer in the secondary market pays a discounted price, and the difference between the face value and the discounted price represents the interest earned or the cost of borrowing.

Investors in the money market, including financial institutions, corporations, and money market funds, often invest in Banker's Acceptances. The short-term nature and the backing of a bank make them attractive for those seeking low-risk, short-term investments.

The active trading of Banker's Acceptances in the secondary market contributes to their high liquidity. This liquidity is crucial in the money market, where participants seek instruments that can be easily bought or sold.

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3. Money Market

Eurodollars are a type of bank deposit denominated in US dollars but held outside the United States and not subject to US banking regulations. Despite their name, most Eurodollars are not necessarily deposited in European banks; rather, the term encompasses any US dollar deposit held in foreign banks or in the foreign branches of US banks.

Eurodollars typically come in two main forms:

1. Eurodollar Time Deposits (Euro TDs)
These are non-negotiable deposits with relatively short maturities, ranging from overnight to a few months. Euro TDs are essentially fixed-term deposits where the depositor agrees to keep the funds deposited for a specific period in exchange for an agreed-upon interest rate. However, unlike traditional time deposits in domestic banks, Euro TDs are not subject to US banking regulations.

2. Eurodollar Certificates of Deposit (Euro CDs)
Unlike Euro TDs, Euro CDs are negotiable instruments, similar to their domestic counterparts. They represent certificates issued by banks, acknowledging a deposit made by the holder for a specified period at a specified interest rate. Euro CDs provide investors with more flexibility as they can be bought and sold in the secondary market before maturity.

For large corporations with access to international money centers, Eurodollars present an important investment option. These corporations often have operations or business dealings in multiple countries and may hold funds in various currencies. By investing in Eurodollars, these corporations can diversify their cash holdings and take advantage of potentially higher interest rates or investment opportunities available in international markets. Additionally, Eurodollars provide a means for companies to manage currency risk by holding funds in US dollars outside the United States, reducing exposure to fluctuations in exchange rates. Overall, Eurodollars offer corporate treasurers and investors greater flexibility and opportunities for managing their cash reserves in the global financial landscape.

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4. Bill of Exchange

A Bill of Exchange is a written, unconditional order by one party (the drawer) directing another party (the drawee) to pay a fixed sum of money to a third party (the payee) on a specified date. It is commonly used in trade and credit transactions. Bills of exchange help businesses manage short-term finance by allowing credit sales and enabling discounting with banks for immediate cash.

The Negotiable Instruments Act, 1881, defines the Bill of Exchange as “an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument”.

There are 5 important parties to a Bill of Exchange:

1. **Drawer:** The drawer is the person who has issued the bill. The drawer is the creditor to whom the money is owned.
2. **Drawee:** The drawee is the person to whom the bill is addressed or against whom the bill is drawn. In other words, the drawee is the debtor who owes money to the drawer, the creditors.
3. **Payee:** The payee is the person to whom the bill is payable. The bill can be drawn payable to the drawee or his Bank.
4. **Endorser:** The endorser of a bill is the person who has placed his name and signature at the back of the bill signifying that he has obtained title to the bill and payment is due to him on his own account or on account of the original payee.
5. **Endorsee:** The endorsee is the person to whom the bill is endorsed. The endorsee can obtain payment from the drawee.

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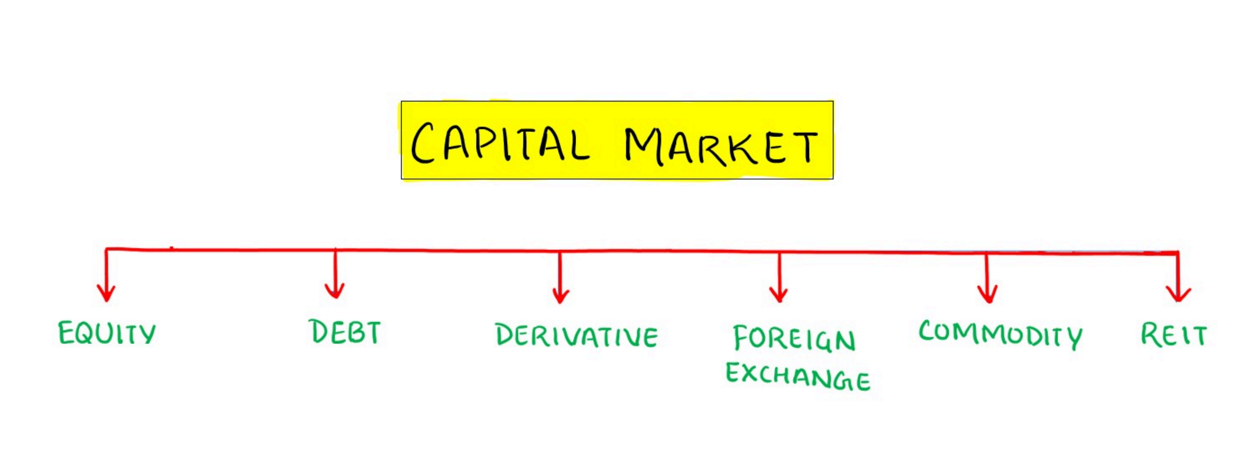
5. Capital Market



The capital market can be primarily classified into two main segments: the Equity Market and the Debt Market. Beyond these, there exist additional market types such as the Derivative Market, Foreign Exchange Market, Commodity Market, and the Real Estate Investment Trust (REIT) Market.

Let us discuss them one by one.

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6. Equity Market

The Equity Market, often referred to as the stock market, is a crucial component of the capital market where financial instruments representing ownership in companies are bought and sold. In this market, investors trade shares or stocks issued by publicly listed companies.

The Equity Market plays a vital role in providing companies with access to capital and offering investors opportunities for capital appreciation and income through dividends.

The primary function of the Equity Market is to facilitate capital formation for companies. Through Initial Public Offerings (IPOs), companies can raise funds by issuing shares to the public.

Once shares are issued, they are traded on stock exchanges in the secondary market. This trading provides liquidity to investors, allowing them to buy or sell shares based on market conditions.

There are 2 types of stocks:

1. Common Stock
Common stocks represent ownership in a company and typically come with voting rights at shareholders' meetings. Investors in common stocks participate in the company's growth and may receive dividends if the company distributes profits.

2. Preferred Stock
Preferred stocks are another form of equity that combines features of both equity and debt. Preferred shareholders receive fixed dividends, and in the event of liquidation, they have priority over common shareholders.

6. Equity Market

Equity shares are the basic units of ownership in a company and represent the shareholders' claim on the company's assets, profits, and future growth. When a person buys equity shares, they become a part-owner of the company and can receive a share of the profits in the form of dividends, although these are not guaranteed.

Equity shareholders also enjoy voting rights, which allow them to participate in key decisions such as electing the board of directors and approving major business activities.

Unlike fixed-income securities, the return on equity shares depends entirely on how well the company performs and how its share price moves in the market. While equity shares carry the highest risk because the value may fluctuate, they also offer the possibility of the highest long-term returns, making them a popular investment choice for wealth creation.

Other commonly used names for Equity Shares are Ordinary Shares, Common Stock and Common Shares.

6. Equity Market

Preference shares are a special category of shares that give investors preferential rights over equity shareholders in matters of dividends and repayment of capital.

Holders of preference shares receive a fixed dividend before any dividend is paid to equity shareholders, making this instrument more stable and less risky compared to ordinary equity.

During liquidation, preference shareholders are repaid their capital before equity shareholders, although they still come after creditors. However, preference shareholders generally do not have voting rights, except in special circumstances like non-payment of dividends or changes affecting their rights.

Because of their fixed return and priority benefits, preference shares are often considered a hybrid instrument—part equity, part debt—providing predictable income along with partial ownership in the company.

6. Equity Market

Sweat Equity Shares are special shares issued by a company to its employees or directors in recognition of their hard work, skills, or contributions—such as providing technical expertise, intellectual property, or value addition. These shares are usually given at a discount or sometimes without any monetary payment. Sweat equity rewards talent and encourages long-term commitment to the company.

For example, a startup cannot afford a high salary for a software engineer who builds a very important part of their product. To appreciate his contribution, the company gives him sweat equity shares instead of money. In this way, he becomes part-owner without paying cash and is rewarded for his skills and effort.

Difference Between ESOP and Sweat Equity Shares

ESOP (Employee Stock Option Plan)

- Employees get the option to buy shares in the future at a fixed price.
- They usually have to pay money to exercise the option.
- Rewards future performance and retention.

Sweat Equity Shares

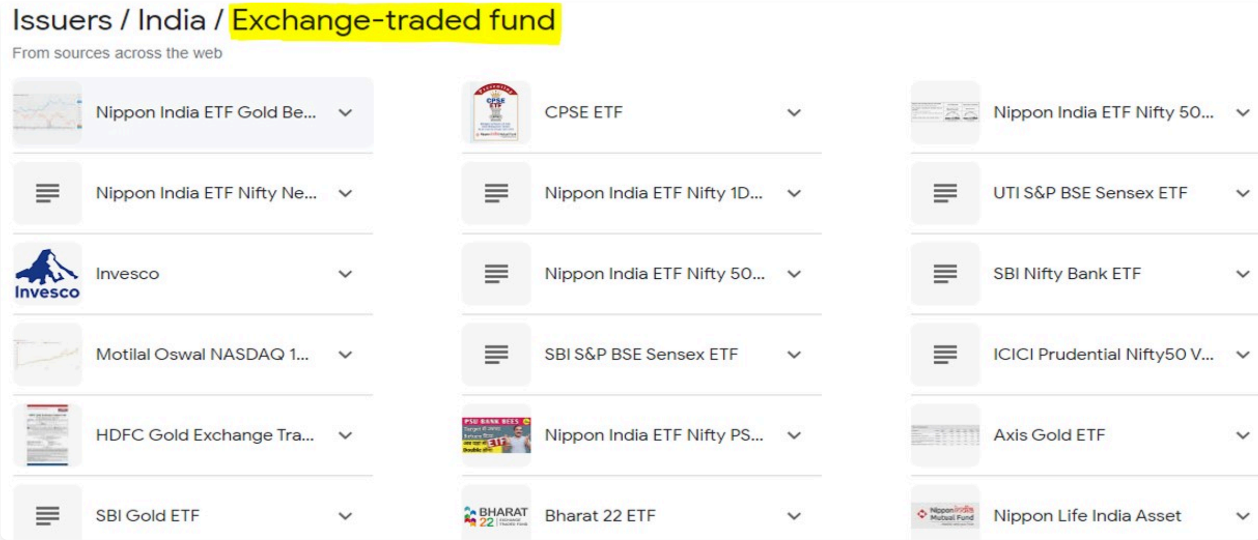
- Shares are given now for past or present contribution.
- Employees usually do not pay money (given at discount or free).
- Rewards skills, expertise, and value addition.

6. Equity Market

Rights Shares are new shares offered by a company to its existing shareholders at a special discounted price, in proportion to their current shareholding. This allows existing investors to maintain their ownership percentage and helps the company raise additional capital. Rights issues are optional—shareholders may accept, ignore, or even sell their rights in the market.

Bonus Shares are free shares given by a company to its existing shareholders by converting its accumulated profits or reserves into share capital. Since no money is paid by shareholders, it is a way of rewarding them and increasing the number of shares they hold. Although the total value of investment remains the same initially, shareholders benefit through increased share quantity and long-term wealth creation.

6. Equity Market



Exchange-Traded Funds (ETFs) are investment funds that are traded on stock exchanges, similar to individual stocks. ETFs are designed to track the performance of a specific index, commodity, bond, or a basket of assets. These funds offer investors diversified exposure to a particular market or sector, and they combine features of both mutual funds and individual stocks.

Popular types of ETFs include equity ETFs that track stock market indices, bond ETFs that follow fixed-income indexes, commodity ETFs that replicate the performance of commodities, and sector-specific ETFs focusing on specific industries or themes.

7. Debt Market

The **Debt Market** is a marketplace where companies, governments, and financial institutions borrow money by issuing debt instruments such as bonds, debentures, and government securities.

Investors who buy these instruments lend their money in return for a fixed interest (coupon) and repayment at maturity. The debt market offers stable, lower-risk investment opportunities compared to the equity market.

It includes short-term instruments like Treasury Bills and long-term instruments like government bonds and corporate debentures. Returns are generally predictable because interest payments and maturity values are fixed.

Why Companies/Governments Issue Debt

They issue debt for several reasons:

- **Raise long-term funds** for expansion, projects, or infrastructure
- **Manage short-term liquidity needs**
- **Avoid dilution of ownership**, unlike equity
- **Borrow at lower cost**, especially for strong companies/governments
- **Refinance old debt** with new, cheaper debt

Governments issue debt (G-Secs or T-Bills) mainly to **finance budget deficits** and fund public development.

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7. Debt Market

A. Government Securities (G-Secs)

• Treasury Bills (91-day, 182-day, 364-day)

Treasury Bills (T-Bills) are short-term government securities issued at a discount and redeemed at face value. They have no interest (zero-coupon) and are used by the government for short-term borrowing. Common maturities are 91, 182, and 364 days, making them very safe and highly liquid.

• Dated Government Securities

These are long-term securities issued by the Government of India with fixed or floating interest rates and maturities ranging from 5 to 40 years. They pay interest (coupon) semi-annually and are considered risk-free. Dated G-Secs form the backbone of the Indian bond market.

• Cash Management Bills

Cash Management Bills (CMBs) are ultra-short-term securities issued by the government to manage temporary cash mismatches. They have maturities less than 91 days and work like T-Bills. They are issued as and when needed and are safe investments.

• State Development Loans (SDLs)

SDLs are bonds issued by state governments to finance state-level development projects. They typically come with a fixed coupon and maturities similar to G-Secs. SDLs carry slightly higher yields than central government bonds due to marginally higher risk.

B. Corporate Debt Instruments

• Corporate Bonds

Corporate bonds are long-term debt securities issued by companies to raise funds for expansion, operations, or new projects. They offer fixed interest and are rated by credit agencies. The risk and return depend on the company's financial strength.

• Debentures (Secured, Unsecured)

Debentures are debt instruments where companies borrow money from investors at a fixed interest rate. Secured debentures are backed by company assets, while unsecured debentures are not. Unsecured debentures carry higher risk and offer higher returns.

• Non-Convertible Debentures (NCDs)

NCDs are debentures that cannot be converted into shares. They offer fixed interest and come in various maturities. NCDs are popular among investors seeking stable, predictable returns and are usually issued through public or private placements.

• Zero-Coupon Bonds

Zero-coupon bonds pay no interest; instead, they are issued at a deep discount and redeemed at face value. The difference between the issue price and maturity value is the investor's return. They are suitable for long-term goals like education or retirement.

• Deep Discount Bonds

Deep discount bonds are long-term bonds issued at a very low price compared to their face value. They provide a large lump-sum gain at maturity and often have very long tenures (10–30 years). They are a type of zero-coupon instrument.

• Convertible Debentures (Partly/Fully)

Convertible debentures can be converted into equity shares after a specified period. Fully convertible instruments convert 100% of the value into shares, while partly convertible convert only a portion. They offer lower interest rates due to conversion benefits.

C. Short-term Instruments

• Commercial Paper (CP)

Commercial Paper is an unsecured, short-term promissory note issued by large companies to meet short-term needs like working capital. Maturity ranges from 7 days to 1 year. It is issued at a discount and is typically used by financially strong firms.

• Certificates of Deposit (CDs)

CDs are time deposits issued by banks and financial institutions for short-term funding. They offer fixed interest and higher safety than CP, with maturities ranging from 7 days to 1 year (banks) and up to 3 years (financial institutions).

• Inter-Corporate Deposits (ICDs)

ICDs are short-term loans given by one company to another, usually for 7 days to 1 year. They carry higher risk because they are unsecured and not regulated by RBI. Companies use ICDs to manage temporary liquidity.

• Call/Notice/Term Money

These are short-term funds borrowed and lent in the money market. Call money is for 1 day, notice money is for 2–14 days, and term money is for more than 14 days. Mainly used by banks to manage daily liquidity and reserve requirements.

D. Special Instruments

• Municipal Bonds

Municipal bonds are issued by urban local bodies like municipalities to finance public infrastructure such as roads, water supply, and transport. They offer tax benefits and are becoming increasingly important in urban development.

• Green Bonds

Green bonds are issued to raise funds exclusively for environment-friendly projects like renewable energy, clean transport, and climate adaptation. They help companies and governments support sustainability goals.

• Inflation-indexed Bonds

These bonds protect investors from inflation by linking returns to inflation indices (such as CPI). Interest or principal is adjusted based on inflation, ensuring real (inflation-adjusted) returns.

• Masala Bonds

Masala Bonds are rupee-denominated bonds issued outside India by Indian companies or entities. Investors pay in foreign currency but bear the exchange rate risk, making it easier for Indian firms to raise global funds.

• Perpetual Bonds

Perpetual bonds have no fixed maturity date and pay interest indefinitely. Banks use them as Additional Tier-1 (AT1) capital. They offer higher interest because investors cannot redeem principal.

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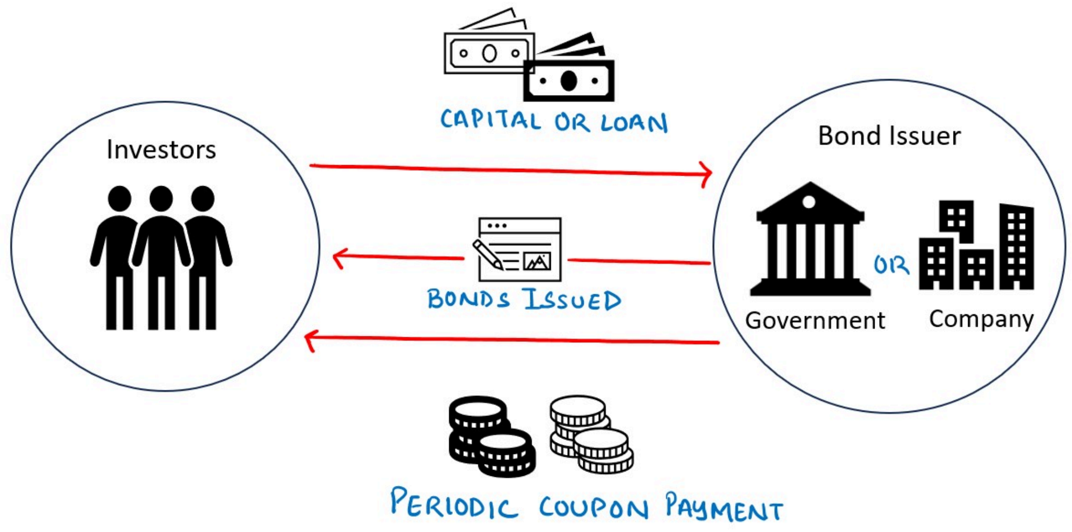
7. Debt Market

Bonds are debt securities issued by governments, municipalities, or corporations to raise capital. When an investor purchases a bond, they are essentially lending money to the issuer in exchange for periodic interest payments and the return of the principal amount at the bond's maturity. Bonds are considered fixed-income securities because they typically pay a predetermined interest rate.



Key Characteristics of Bonds:

Interest Payments: Bondholders receive periodic interest payments, known as coupon payments, at a fixed or variable rate.

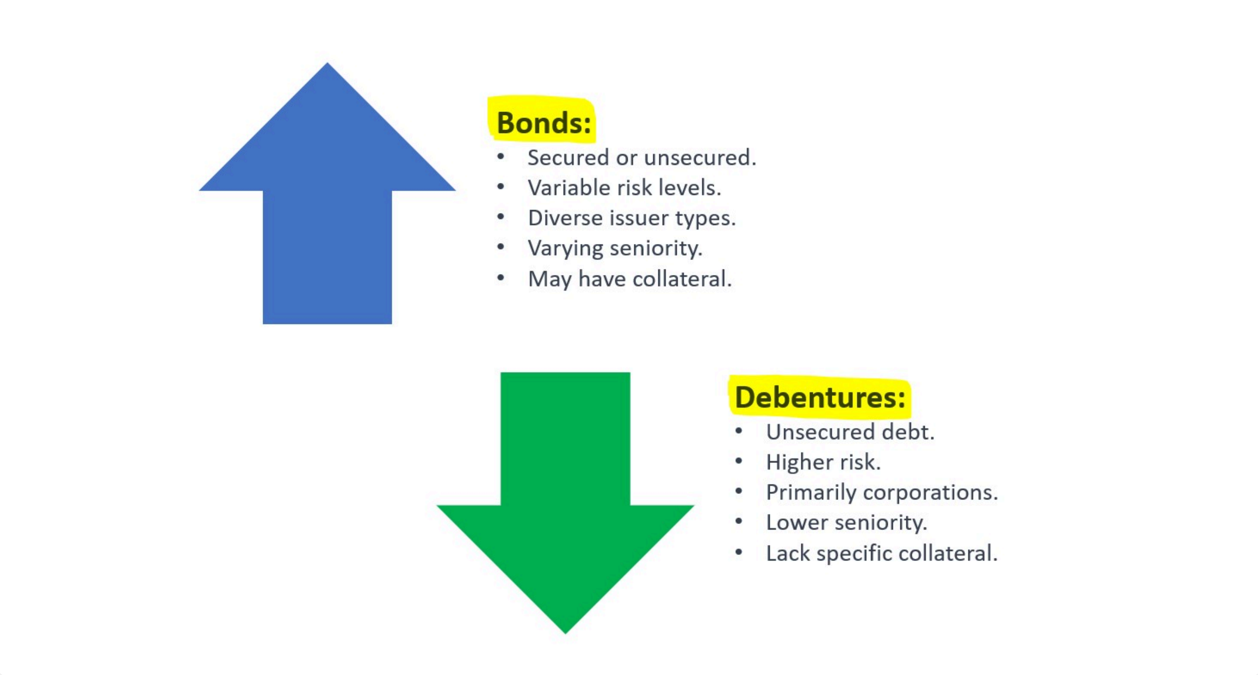
Maturity Date: Bonds have a specified maturity date, at which point the issuer is obligated to repay the principal amount to the bondholders.

Face Value: The face value, or par value, of a bond represents the principal amount that will be repaid at maturity.

Credit Rating: The creditworthiness of the issuer influences the interest rate on the bond. Higher-rated bonds typically offer lower interest rates.

Market Value: Bond prices can fluctuate based on changes in interest rates and the perceived credit risk of the issuer. Bondholders may sell their bonds in the secondary market.

7. Debt Market



Debentures are long-term debt instruments issued by companies to borrow money from the public in return for a fixed rate of interest.

They are usually repayable on a specified date and may be *secured* (backed by company assets) or *unsecured*.

Debenture holders are creditors—not owners—so they do not get voting rights in the company. Debentures provide stable returns, but the risk depends on the company's financial strength and credit rating.

Types of Debentures

1. Secured Debentures

These debentures are backed by specific company assets as security.
If the company fails to repay, investors can claim those assets.
They are safer and offer lower interest than unsecured ones.

2. Unsecured Debentures

These have no asset backing and are supported only by the company's creditworthiness.
They carry higher risk and usually offer higher interest to investors.

3. Registered Debentures

The name and details of the debenture holder are recorded by the company.
They can be transferred only through a formal transfer deed.

4. Bearer Debentures

These are transferable by mere delivery of the certificate and do not contain names.
The person holding the certificate is considered the owner.

5. Convertible Debentures

These debentures can be converted into equity shares after a specified period.
They may be **fully convertible** (100% conversion) or **partly convertible** (partial conversion).
They offer lower interest rates due to conversion benefits.

6. Non-Convertible Debentures (NCDs)

These cannot be converted into equity shares.
They offer higher interest and are often issued through public or private placements.

7. Redeemable Debentures

These debentures are repaid by the company on a fixed maturity date.
They are the most common type of debentures issued in markets.

8. Irredeemable (Perpetual) Debentures

These have no fixed maturity date and are not repaid during the company's lifetime.
They pay interest forever unless the company winds up.

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7. Debt Market

Warrants are financial instruments that exhibit characteristics of both equity and debt, but they are often considered more closely aligned with equity.

A warrant provides the holder with the right, but not the obligation, to convert it into equity shares of the issuing company. This feature aligns with the equity aspect as it represents ownership in the company.

Warrant holders stand to benefit from capital gains if the market price of the company's shares exceeds the exercise price of the warrant. This potential for profit is a characteristic associated with equity investments.

Warrants typically have a fixed exercise price at which the holder can convert them into shares. This fixed price is predetermined and resembles a strike price in options contracts, which is a feature often associated with debt instruments.

Warrants have a specified exercise period during which the holder can convert them into shares. This time limit is a characteristic common to options and warrants, resembling a time-bound aspect often found in debt instruments.

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8. Derivative Market

The Derivative Market is a specialized segment of the financial markets where financial instruments known as derivatives are traded. Derivatives derive their value from an underlying asset, index, rate, or event.

Derivatives allow businesses and investors to manage various types of risks, including price fluctuations, interest rate movements, and currency exchange rate fluctuations.

For example, a futures contract on gold allows an investor to speculate on future gold prices without owning the actual metal. Options on a stock provide the right to buy (call option) or sell (put option) shares at a predetermined price, offering flexibility for hedging or speculative strategies based on the underlying stock's movements.

Instruments of Derivatives

Key Instruments of Derivatives are listed below:

Futures Contracts

Futures are standardized contracts that obligate the buyer to purchase, or the seller to sell, a specified quantity of an underlying asset at a predetermined future date and price. Common underlying assets include commodities, financial instruments, and indices.

Options Contracts

Options provide the buyer with the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price within a specified time frame. Options are used for hedging and speculation.

Swaps

Swaps involve the exchange of cash flows or other financial instruments between two parties over a specified period. Common types include interest rate swaps and currency swaps.

Types of Derivatives

The types of Derivatives are given below:

1. Interest Rate Derivatives

Includes instruments like interest rate swaps and futures contracts that allow market participants to manage interest rate risk.

2. Currency Derivatives

Encompasses currency futures and options, providing a means for businesses and investors to hedge against currency exchange rate fluctuations.

3. Commodity Derivatives

Involves derivatives based on commodities such as agricultural products, energy, and metals. Futures and options on commodity prices are common examples.

4. Equity Derivatives

Includes options and futures contracts based on individual stocks or stock indices. These are widely used for hedging and speculation in the equity market.

Market Participants

Key market participants in Derivatives are:

Hedgers

Businesses and investors who use derivatives to offset the impact of price or interest rate fluctuations on their portfolios or operations.

Speculators

Traders who actively engage in the Derivative Market to profit from anticipated price movements without necessarily seeking to own the underlying assets.

Arbitrageurs

Participants who take advantage of price differentials in different markets or segments to make risk-free profits.

Market Makers

Financial institutions or individuals that facilitate liquidity in the Derivative Market by quoting bid and ask prices and facilitating trades.

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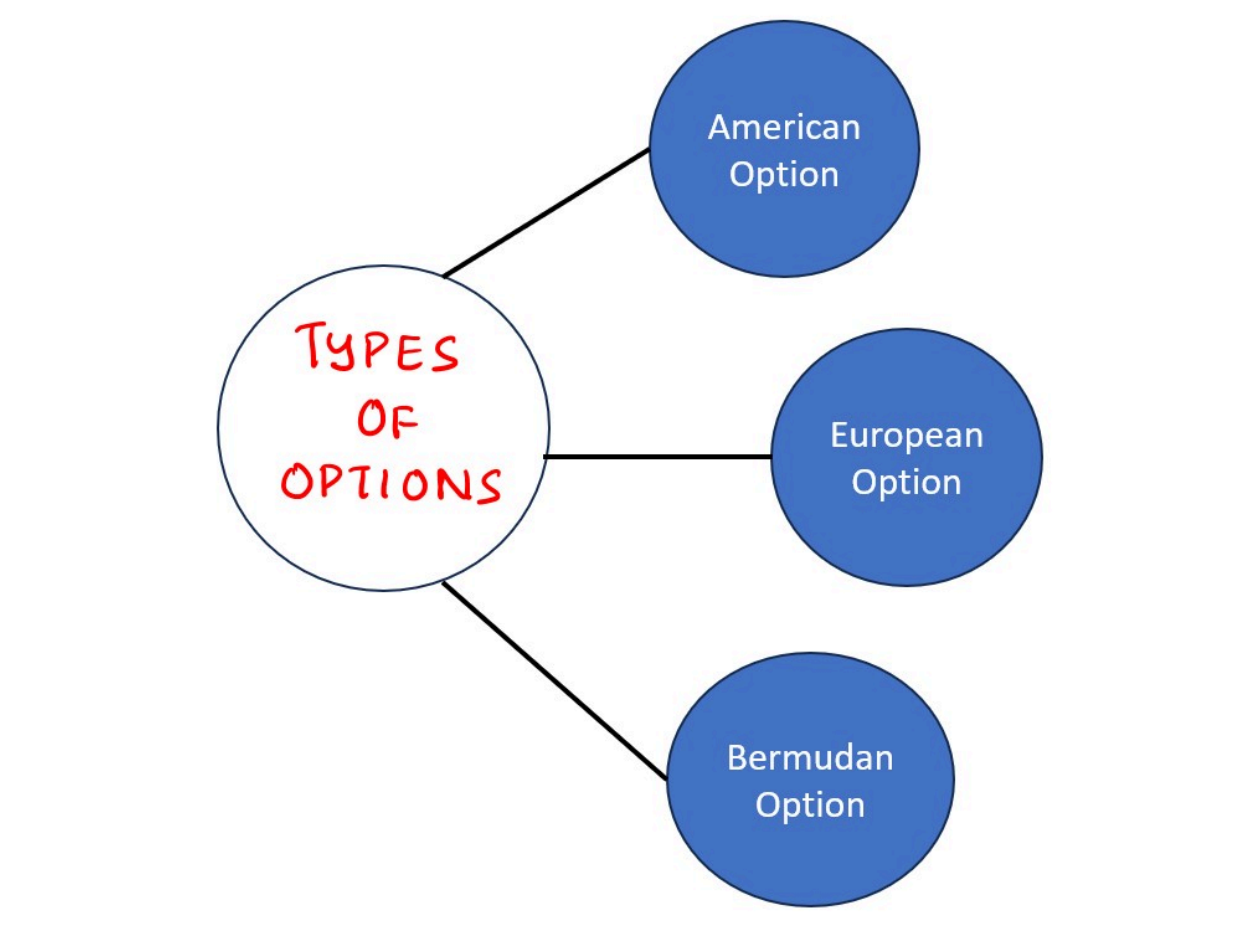
8. Derivative Market



The types of Options are given below:

American Option

An American option is a type of financial derivative that gives the holder the right, but not the obligation, to exercise the option at any time before or on the expiration date. This means the option holder can choose to buy (in the case of a call option) or sell (in the case of a put option) the underlying asset at the agreed-upon strike price at any point until the option's expiration. The flexibility of early exercise distinguishes American options from European options.

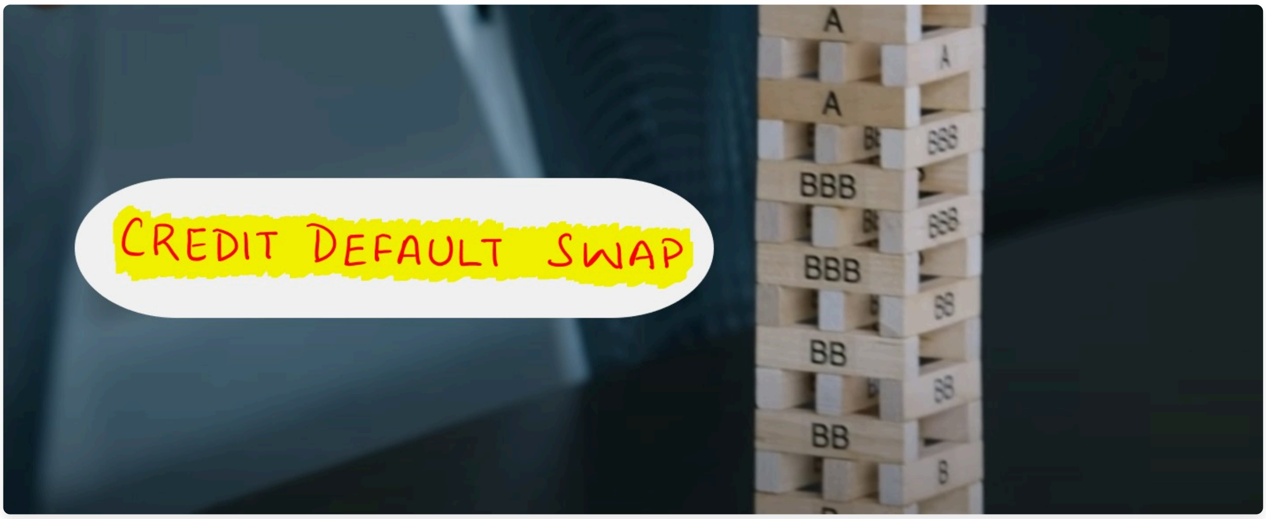
European Option

A European option is a financial contract that allows the holder to exercise the option only at the expiration date, not before. This means the option holder can buy or sell the underlying asset at the agreed-upon strike price only on the specified expiration date. Unlike American options, European options do not allow for early exercise. These options are simpler in terms of decision-making for the holder, but they may have different pricing dynamics compared to their American counterparts.

Bermudan Option

A Bermudan option is a type of financial option that combines features of both American and European options. Similar to a European option, a Bermudan option can only be exercised on specific predetermined dates before or at expiration. However, unlike European options, Bermudan options offer more flexibility by allowing exercise on multiple specified dates rather than just one. This middle ground provides a compromise between the flexibility of American options and the simplicity of European options, making Bermudan options suitable for certain strategic situations.

8. Derivative Market



A Credit Default Swap (CDS) is a financial derivative that functions as a form of insurance against the default of a borrower.

In a CDS, one party (the protection buyer) pays a periodic fee to another party (the protection seller) in exchange for protection against the credit risk associated with a specific debt instrument or reference entity.

If the reference entity experiences a credit event, such as a default, the protection seller compensates the protection buyer for the loss incurred. CDS contracts are commonly used by investors to hedge against credit risk or speculate on changes in creditworthiness.

9. Commodity Market

The **Commodity Market in India** is a marketplace where buyers and sellers trade in **raw materials and primary products** such as gold, silver, crude oil, natural gas, cotton, wheat, sugar, spices, and metals. These commodities are traded in two forms—**spot market** (immediate delivery) and **futures market** (delivery at a future date), enabling price discovery and risk management. The Indian commodity market is regulated by **SEBI**, and trades take place on major exchanges like **MCX** and **NCDEX**.

Types of Commodity Markets

1. Spot Market

Commodities are bought and sold with immediate delivery and payment.
Prices reflect current market demand and supply.

2. Futures Market

Contracts are traded to buy/sell a commodity at a **pre-decided price** at a **future date**.
Helps farmers, manufacturers, and traders manage price risk.

Major Commodity Exchanges in India

1. MCX (Multi Commodity Exchange)

- India's largest commodity derivatives exchange
- Trades in: Gold, Silver, Crude Oil, Natural Gas, Copper, Aluminium, Zinc, etc.

2. NCDEX (National Commodity and Derivatives Exchange)

- Specializes in agricultural commodities
- Trades in: Wheat, Soybean, Chana, Mustard Seed, Spices, etc.

3. ICEX (Indian Commodity Exchange)

- Known for Diamond and Steel contracts

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10. Real Estate Investment Trust

A **Real Estate Investment Trust (REIT)** is a company or trust that owns, operates, or finances income-generating real estate such as commercial buildings, offices, malls, hotels, warehouses, and data centres. Instead of buying property directly, investors can buy **units of a REIT**, just like buying shares of a company. REITs collect rent from tenants and distribute a major portion of this rental income to unit holders as dividends, making them a popular low-risk, passive income investment.

REITs are regulated by **SEBI** in India and must invest at least 80% of their assets in completed, income-generating properties. Indian examples include **Embassy REIT**, **Mindspace REIT**, and **Brookfield REIT**. REITs offer liquidity, diversification, and stable returns, making real estate investment accessible even to small investors.

11. Primary Market

The primary market involves the issuance of new financial instruments, such as stocks and bonds, by entities seeking to raise capital for various purposes. In this market, companies, governments, or other entities raise capital by issuing new securities, and investors purchase these securities directly from the issuer.

The primary market is a crucial source of capital for companies and governments, enabling them to raise funds for various purposes, such as expansion, debt repayment, or research and development.

Pricing in the primary market is typically determined by the issuer, reflecting factors such as the company's valuation, financial health, and prevailing market conditions.

Sub-Types of the Primary Market are listed below:

Public Issue

In a public issue, securities are made available to the general public. Public Issue can be further categorized into:

1. Initial Public Offer (IPO)

An IPO occurs when an unlisted company issues new securities or offers existing ones for sale, marking the first time these securities are made available to the public. This process leads to the listing and trading of the issuer's securities on stock exchanges, allowing the company to transition to a publicly traded status.

2. Further Public Offer (FPO)

An FPO takes place when an already listed company issues new securities to the public or offers existing ones for sale. This enables the company to raise additional capital from the public.

3. Offer for Sale (OFS)

The Offer for Sale is a share sale mechanism similar to the Further Public Offer. It provides a platform for the promoters of an already listed company to sell or reduce their existing shareholdings through an exchange-based bidding process.

Rights Issue

A rights issue involves the sale of additional securities by a company to its existing shareholders. Shareholders are given the right to purchase new shares in proportion to their existing holdings.

Private Placement

In private placements, securities are exclusively offered to a designated group of institutional investors or high-net-worth individuals, a method often chosen by companies for its efficiency and flexibility.

The private placement of shares or convertible securities by a listed issuer can take 3 forms:

1. Preferential Allotment

This involves issuing securities to a specific group of investors, including promoters, strategic investors, employees, and other identified entities.

2. Qualified Institutional Placement (QIP)

QIP refers to the private placement of securities by a listed company to a select group of qualified institutional investors.

3. Institutional Placement Programme (IPP)

IPP entails a further public offer of eligible securities by an eligible seller, with the offer, allocation, and allotment of such securities restricted to Qualified Institutional Buyers.

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11. Primary Market

An **Initial Public Offering (IPO)** is the process by which a private company offers its shares to the public for the first time and becomes a **publicly listed company**.
An IPO helps the company raise funds for expansion, working capital, new projects, debt reduction, or acquisitions.

The IPO process in India is regulated by **SEBI (Securities and Exchange Board of India)**.

⭐ FULL IPO PROCESS (Step-by-Step)

1. Decision to Go Public

The company's Board and shareholders decide to raise capital by issuing shares to the public.
Reasons include expansion plans, debt reduction, better market visibility, or unlocking value.

2. Appointment of Intermediaries

Before starting the IPO, the company appoints several key experts:

- **Merchant Bankers / Lead Managers** (main coordinators of IPO)
- **Legal Advisors**
- **Registrars to the Issue**
- **Bankers to the Issue**
- **Underwriters**
- **Auditors**
- **Advertising & PR Agencies**

The merchant banker plays the most crucial role—valuing the company and managing the IPO end-to-end.

3. Due Diligence & Document Preparation

Merchant bankers conduct detailed checks on:

- Company's financial statements
- Legal records and litigations
- Business model, assets, liabilities
- Corporate governance
- Promoter background

They verify that all information is accurate and compliant with SEBI regulations.

4. Drafting the DRHP (Draft Red Herring Prospectus)

The company and merchant banker prepare the **DRHP**, which includes:

- Company profile

- Financial statements
- Risks involved
- How much money will be raised
- How funds will be used
- Details of promoters and management
- Industry analysis

The DRHP is submitted to SEBI and uploaded publicly for investors to review.

5. SEBI Review and Approval

SEBI reviews the DRHP to ensure transparency and investor protection.

SEBI may:

- Ask for clarifications
- Demand changes
- Seek additional disclosures

Only after SEBI is satisfied does it approve the IPO proposal.

6. Filing the RHP (Red Herring Prospectus)

After SEBI approval, the company files the **RHP**, which includes:

- Final issue size
- Final IPO timeline
- Updated financials
- Price band (if book-building issue)

This RHP is made available to all potential investors.

7. IPO Pricing – Fixed Price or Book-Building

There are two methods of pricing:

a) Fixed Price Issue

Company fixes a single price for the IPO.

b) Book-Building Issue

A **price band** is given (e.g., ₹100–₹120).
Investors bid within this band, and the final **cut-off price** is decided based on demand.

Most Indian IPOs use **book-building**.

8. IPO Roadshows & Marketing

The company conducts **roadshows** across India and internationally to attract investors.
This includes presentations to:

- Institutional investors
- Mutual funds
- Analysts
- HNIs
- Retail investors

Advertisements, media interviews, and digital campaigns are used to build positive market sentiment.

9. Opening of IPO for Bidding

The IPO opens for 3 working days.
Different categories of investors participate:

- **QIBs** (Qualified Institutional Buyers) – 50%
- **NII/HNIs** (High Net Worth Individuals) – 15%
- **Retail Investors** – 35%

Investors apply through ASBA (Application Supported by Blocked Amount), where the amount is blocked in the bank and debited only if shares are allotted.

10. Bid Collection & Price Discovery

Merchant bankers analyze the bids received.
For book-built IPOs:

- Oversubscription leads to strong demand
- Demand at each price level decides the final cut-off price

The price with maximum demand becomes the **final issue price**.

11. Allotment of Shares

Based on subscription:

- If undersubscribed → full allotment
- If oversubscribed → lottery system for retail investors
- Proportionate allotment for QIBs and HNIs

Unsuccessful applicants get their blocked amount released.

12. Listing on Stock Exchanges (NSE/BSE)

After allotment, the shares are credited to investors' demat accounts.

Then the company gets listed on NSE and BSE.
Listing day involves:

- **Opening price** (usually higher or lower than issue price)
- **Trading begins**
- Market reacts based on demand and sentiment

A successful listing often shows a **listing gain**.

11. Primary Market

A Follow-on Public Offer (FPO) is a process through which a company that is already listed on the stock exchange issues additional new shares to the public to raise more capital.

Unlike an IPO, which is the first-time offer, an FPO happens after the company has already gone public. Companies use FPOs to fund expansion, reduce debt, or improve their financial position, and the new shares increase the company's total share capital (equity dilution).

11. Primary Market

Qualified Institutional Placement (QIP) is a method through which a listed company raises capital by issuing new shares only to Qualified Institutional Buyers (QIBs) such as mutual funds, banks, insurance companies, and FIIs/FPIs.

It is faster, cheaper, and less regulatory-heavy compared to an IPO or FPO because it avoids lengthy approvals. QIP helps companies raise funds quickly for expansion, debt reduction, or working capital without offering shares to the general public.

11. Primary Market

Private Placement is a method of raising capital where a company issues securities (shares, debentures, or bonds) to a select group of investors—such as institutional investors, banks, mutual funds, or high-net-worth individuals—instead of offering them to the general public. It is faster, less expensive, and involves fewer regulatory requirements compared to a public issue. Private placements are commonly used by companies to raise funds quickly without going through the lengthy IPO or FPO process.

12. Secondary Market

The Secondary Market is a crucial segment of the capital market where existing securities, previously issued in the primary market, are bought and sold among investors. Unlike the primary market, where securities are initially issued, the secondary market facilitates the trading of these securities between investors without the involvement of the issuing company.

Prices in the secondary market are determined by market forces such as supply and demand, investor sentiment, and overall market conditions.

Secondary markets provide liquidity to investors by offering a platform to buy or sell securities at prevailing market prices. This liquidity is crucial for investors looking to exit or enter positions.

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12. Secondary Market

Offer for Sale (OFS) is a transparent method introduced by SEBI through which *existing shareholders*—mainly promoters, large institutional investors, or the government—sell their *pre-owned shares* to the public using the stock exchange platform.

In an OFS, the company itself does not issue new shares, so there is no dilution of equity and the company does not receive any funds; only the selling shareholder gets the sale proceeds.

This mechanism is commonly used to reduce promoter shareholding to meet SEBI's minimum public shareholding requirement of 25%, or for government disinvestment in public sector companies.

The process is quick, cost-effective, and allows retail as well as institutional investors to participate easily.

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13. Government Securities Market

A Government Security (G-Sec) is a tradeable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation.

Such securities are short term (usually called treasury bills (T-Bills), with original maturities of less than 1 year) or long term (usually called Government bonds or dated securities with original maturity of 1 year or more).

In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs).

G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments.

G-Secs are issued through auctions conducted by RBI. Auctions are conducted on the electronic platform called the e-Kuber, the Core Banking Solution (CBS) platform of RBI. The Core Banking Software/System (CBS) refers to a centralized software system established by a bank for running its operations. Two prominent CBS, used by banks in India, are Finacle (Infosys), BaNCS (TCS).

Treasury bill or T-bill, which is a money market instrument, is also a type of Government Security. For example, a 91 day Treasury bill of ₹100 (face value) may be issued at say, ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100. The return to the investors is the difference between the maturity value or the face value (that is ₹100) and the issue price.

In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as **Cash Management Bills (CMBs)**, to meet the temporary mismatches in the cash flow of the Government of India. The CMBs have the generic character of T-bills but are issued for maturities less than 91 days.

The **Dated G-Secs** are securities which carry a fixed or floating coupon (interest rate) which is paid on the face value, on half-yearly basis. Generally, the tenor of dated securities ranges from 5 years to 40 years. The Public Debt Office (PDO) of the Reserve Bank of India acts as the registry/depository of G-Secs and deals with the issue, interest payment and repayment of principal at maturity. Most of the dated securities are fixed coupon securities. The nomenclature of a typical dated fixed coupon G-Sec contains the following features - coupon, name of the issuer, maturity year. For example, 7.49% GS 2017.

In April 2020, the RBI introduced a separate channel called **Fully Accessible Route (FAR)** to enable non-residents to invest in specified Government of India dated securities. Under this route, non-resident investors can invest in specified government securities without any investment ceilings. These securities attract no foreign portfolio investor (FPI) limits. FPI limit in all other G-secs is around 6 %. Domestic investors can also invest in these. It was earlier announced in Union budget 2020-21.

Some of the prominent instruments are discussed next.

13. Government Securities Market

Some of the prominent instruments are:

Fixed Rate Bonds

These are bonds on which the coupon rate is fixed for the entire life (i.e. till maturity) of the bond. Most Government bonds in India are issued as fixed rate bonds. For example, 8.24% GS 2018 was issued on April 22, 2008 for a tenor of 10 years maturing on April 22, 2018. Coupon on this security will be paid half-yearly at 4.12% (half yearly payment being half of the annual coupon of 8.24%) of the face value on October 22 and April 22 of each year.

Floating Rate Bonds (FRB)

FRBs are securities which do not have a fixed coupon rate. The coupon is re-set at pre-announced intervals (say, every 6 months or 1 year) by adding a spread over a base rate.

Zero Coupon Bonds

Zero coupon bonds are bonds with no coupon payments. However, like T- Bills, they are issued at a discount and redeemed at face value. The Government of India had issued such securities in the nineties. It has not issued zero coupon bonds after that.

Special Securities

Under the market borrowing programme, the Government of India also issues, from time to time, special securities to entities like Oil Marketing Companies, Fertilizer Companies, the Food Corporation of India, etc. (popularly called oil bonds, fertiliser bonds and food bonds respectively) as compensation to these companies in lieu of cash subsidies. These securities are usually long dated securities and carry marginally higher coupon (spread of about 20-25 bps) over the yield of the dated securities of comparable maturity.

Separate Trading of Registered Interest and Principal of Securities (STRIPS)

These are the securities created by way of separating the cash flows associated with a regular G-Sec i.e. each semi-annual coupon payment and the final principal payment to be received from the issuer, into separate securities. They are essentially Zero-Coupon Bonds (ZCBs). However, they are created out of existing securities only and unlike other securities, are not issued through auctions.

Sovereign Gold Bonds (SGBs)

SGBs are unique instruments, prices of which are linked to commodity price, viz. Gold. SGBs are denominated in multiples of gram(s) of gold with a basic unit of 1 gram. Sovereign Gold Bond Scheme was launched by Govt. in November 2015, under Gold Monetisation Scheme.

State Development Loans (SDLs)

State Governments also raise loans from the market which are called SDLs. The SDLs are dated securities issued through normal auction similar to the auctions conducted for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date. State Governments have also issued special securities under Ujjwal DISCOM Assurance Yojna (UDAY) Scheme for Operational and Financial Turnaround of Power Distribution Companies (DISCOMs).