



Pillar#1C: SEBI-Share Market

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15 PILLAR#1C: SEBI-SHARE MARKET

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

Year	2014	2015	2016	2017	2018	2019	2020	2021
MCQs	1 MCQ	0	2	0	1	1	3	1



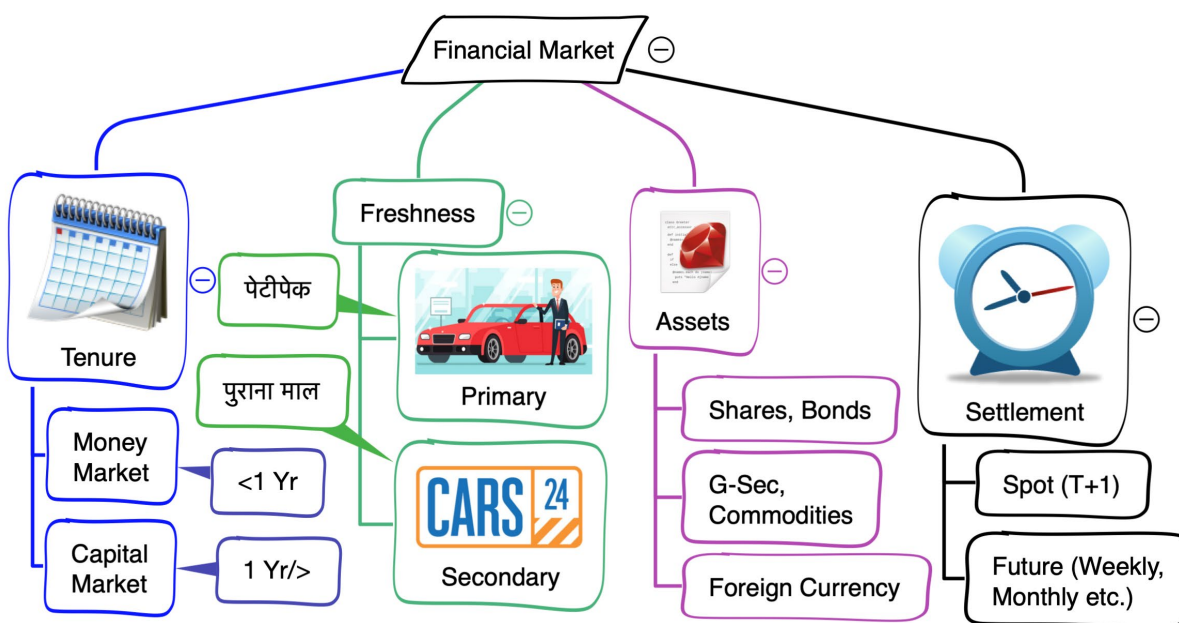
These Qs mostly tested very basic foundation level understanding of share market. So, we are not here to become Investment Bankers / Mutual Fund managers 🎓👉👈📅 थोड़ा-पढ़ो-आगे-बढ़ो

15.1 📁 SECURITIES (प्रतिभूति)

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

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

15.2 📁 🛒 FINANCIAL / SECURITIES MARKET: MEANING AND TYPES



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

Classifi.	Market Subtypes
Tenure: (अवधि)	<ol style="list-style-type: none"> 🕒 Money Market (<1 year maturity) मुद्रा बाजार 📅 Capital Market (1 year/> maturity) पूंजी बाजार

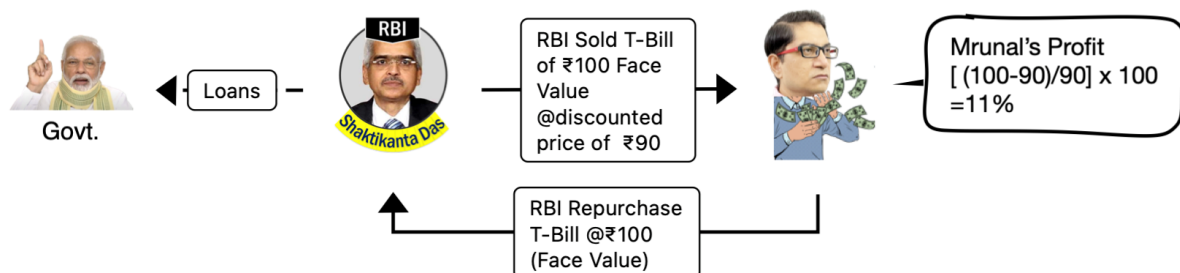


Classifi.	Market Subtypes
Freshness प्राथमिक एवं द्वितीयक बाजार	<ol style="list-style-type: none"> Primary Market (where new securities are issued for the first time). Helps a company / govt to connect with the investor. It has no separate physical existence but classified like this, for economic analysis.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

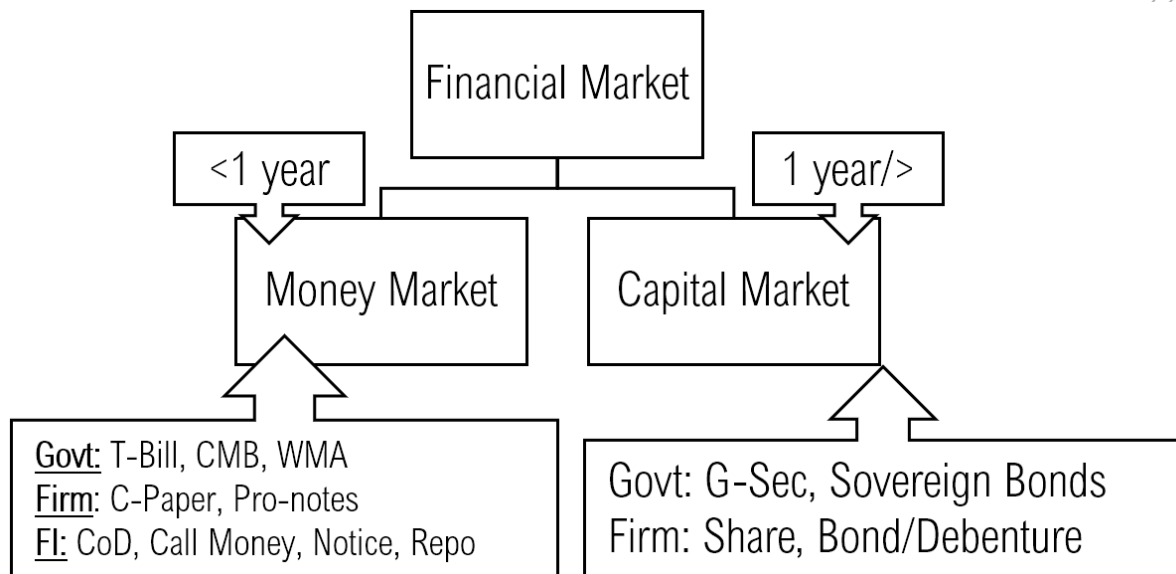
15.3 DEBT INSTRUMENTS (ऋण उपकरण)

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

15.3.1 Short term debt instruments (लघु अवधि ऋण उपकरण)



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



15.3.2 Short term debt instruments → by Government

1. State govt's treasury bills (T-bill). But stopped since 2001.
2. Union govt's treasury bills (T-bill: 14, 91, 182 and 364 days) & Cash Management bills (CMB: upto 90 days, started in 2009).
3. WMA (ways and means advances): given below

15.3.3 Short term debt instruments → by Govt → WMA

⇒ When Govt faces short term mismatch in receipt (income) and payment (Expenditure)

⇒ RBI Lends money on short term (3 months). Not counted in fiscal deficit figure. (More in Pillar2D: FRBM)

⇒ Corona-crisis: mismatch in cashflow because सरकार की आमदनी और खर्च में अंतर बढ़ गया क्योंकि

- Govt Income: Sales GST, Govt gave extension in tax payment deadlines
- Expenses: free LPG, food, mask etc.

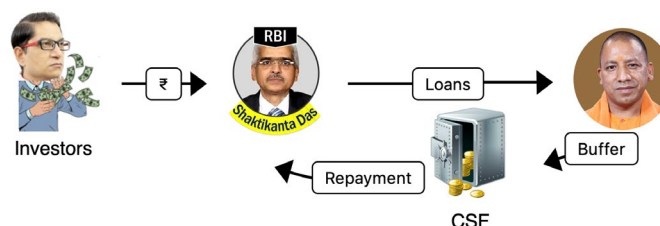
⇒ So, ATMANIRBHAR Bharat → RBI WMA limits by 60% than before to help the Union (1.20lcr) and State Governments (₹51,560cr collectively).

⇒ If upto above amount of ₹₹ borrowed = its WMA: loan interest = repo%

⇒ If beyond above amount borrowed then called 'Overdraft': loan interest repo+2%

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

15.3.4 Consolidated Sinking Fund (CSF) for State Govts' repayment



⇒ Started in 1999. It has >₹1.25 lakh crore by 2019. (समेकित घाटा निपटान निधि)

⇒ Annually, State Govt has to contribute money equal to 1-3% of its outstanding market loans to



this fund kept with RBI. (राज्य ने जितना कर्जा उठाया है उसके सामने इस निधि में थोड़ा पैसा जमा करना है)

⇒ CSF is a fund outside consolidated fund of the State and public account of the State. (Ref Pillar2)

⇒ CSF meant to be used for only 1 purpose= repayment/redemption of loans taken by the State Government. (बकाया ऋण चुकाने के लिए ही इस निधि का उपयोग होगा)

⇒ 2020-May: RBI relaxed technical norms related CSF till to help the State Govts. (तकनीकी नियमों में कुछ छूट दी)

What about GST cess release and end-to-end market borrowing by Union/State?

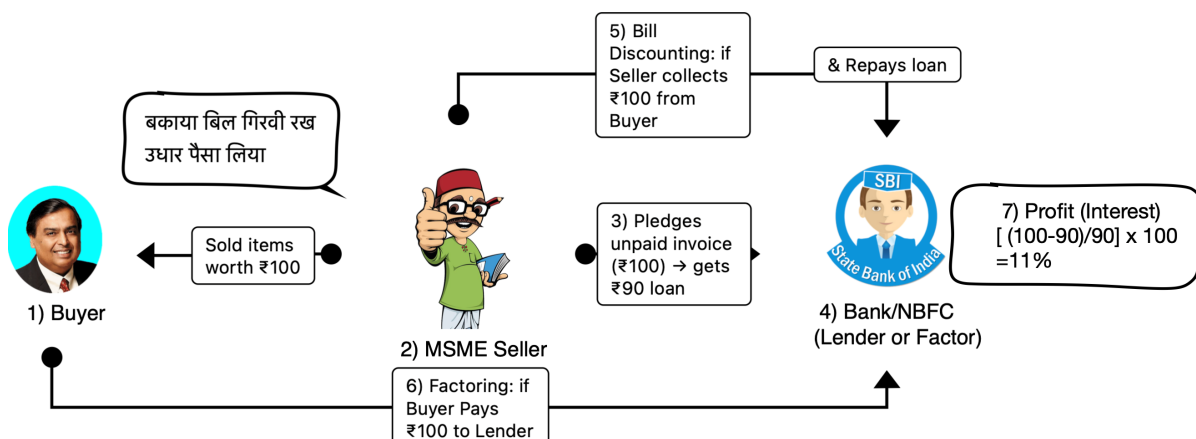
(Ans Pillar#2: Taxation:GST.)

15.3.5 Short term debt instruments → by borrowers other than Govt

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

Borrower	Short term debt instrument (लघु अवधि के ऋण पत्र)
Company	<ul style="list-style-type: none"> Bill of Exchange, Hundi, Commercial Papers, Promissory Notes. Side note: Currency Note is a 'Promissory Note' issued by RBI Governor however, he's not bound to pay any interest. He just promises to exchange it with other currency notes & coins of equal face value. (More in Pillar#1A1)
Merchant to bank	Commercial Bill.
Banks / NBFC	Certificate of Deposits (जमा प्रमाण पत्र).
Call Money	It's the interest rate when Financial Intermediaries (Banks/NonBanks) borrow for ONE DAY among themselves.
Notice Money	Same as above but for 2 to 14 days .
CBLO	Collateralized Borrowing and Lending Obligation. Clearing Corporation of India Ltd (CCIL) helps Financial Intermediaries (FI) to get short term loans through this instrument.
Repo	Repo and Reverse Repo= Ref: Pillar#1A2: Monetary Policy handout.

15.4 DEBT → SHORT TERM → FACTORING & TREDs





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

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

15.4.1 Factoring Regulation (Amendment) Act, 2021


to amend the Factoring Regulation Act, 2011

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

15.4.2 : TReDS platform to connect factoring-players.

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

15.5 DEBT → INTEREST RATE BENCHMARKS: LIBOR, MIBOR, MIFOR

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

How will above things affect Indian economy in 500 ways? NOTIMP even though theHindu and Indian Express writing 800 words column it. Just look at previous

MCQs# 📺 थोड़ा-पढ़ो-आगे-बढ़ो

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

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

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

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

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

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

📺 ? In Indian economy, non-financial debt includes which of the following ? (Prelims-2020 SetB- Q84)

- 1) Housing loans owed by households
- 2) Amounts outstanding on credit cards
- 3) Treasury bills

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

📺 ? Which of the following phrases defines the nature of the ‘Hundi’ generally referred to in the sources of the post-Harsha period? (UPSC-Prelims-2020)

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



Find correct statement(s) (UPSC-Prelims-2020)

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

Codes: [a] 1 and 2 only

[b] 4 only

[c] 1 and 3 only

[d] 2, 3 and 4 only

15.6 LONG TERM DEBT INSTRUMENTS (दीर्घ-अवधि ऋण-उपकरण)

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

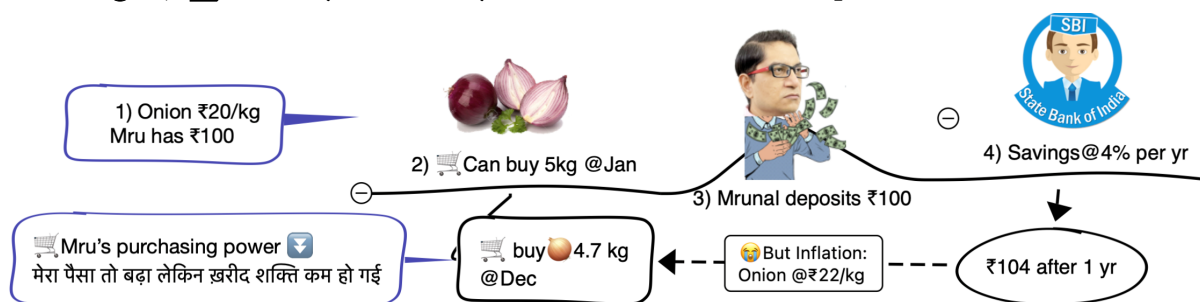
15.6.1 Colonial era Govt. to borrow money

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

15.6.2 Modern day Government to borrow money

- ⇒ **Government securities, Dated securities, Sovereign bonds** (संप्रभु बांड), *Kisan Vikas Patra etc.* (more in Pillar 1D: Financial inclusion lecture)
- ⇒ Also called **Gilt Edged securities** (उच्च / अग्रिम दर्जे की प्रतिभूतिया) because repayment is assured by Government. (But then, they give lower interest rate because of low risk to the investor).
- ⇒ Global Credit Rating Agencies gives 'rating' to sovereign bonds. "AAA" is the best 😊 and highest given to US Treasury Bonds. India's rating is ~"BAA" = moderate risk of default 😬.
- ⇒ World's top three credit rating agencies- Fitch, Moody's and Standard & Poor have pro-US/EU allegiance. Critics allege these 3 agencies do not give adequate upgradation to the Govt bonds of India, China, Russia despite the economic growth. भारत में अच्छी-खासी आर्थिक वृद्धि के बावजूद भी यह पक्षपाती विदेशी संस्थान भारत को खराब रेटिंग देते हैं

15.6.3 Bonds by Modern day Govt. to curb Gold Consumption





⇒ When Real Interest is negative, purchasing power \downarrow despite \uparrow in money quantity in bank account. Then people prefer to park money in gold/real estate- which is not very beneficial to economy. So..

15.6.3.1 🍷📦📅 31 Inflation Indexed Bonds (IIB-मुद्रास्फीति सूचकांकित बांड)

⇒ RBI launched in 1997, 2013, 2018 to provide positive Real interest rate to household, thereby reducing the Gold consumption & Current account Deficit (CAD) & weakening of rupee against dollar (else expensive crude oil → petrol, diesel inflation. (More in 📖 Pillar#3)).

⇒ e.g. Inflation Indexed National Savings Securities-Cumulative (IINSS-C) with Interest Rate = CPI + 1.5% [and Principal also protected against inflation.] अगर महंगाई दर बढ़ेगा तो आपको ज्यादा ब्याज दर दिया जाएगा और मूलधन भी ज्यादा वापस करेंगे- ताकि जनता का सोने में निवेश करना का पागलपन थोड़ा कम हो।

15.6.3.2 🏆📦📅 31 Sovereign Gold Bond (2015: संप्रभु स्वर्ण बांड)

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

- Annual interest 2.5-2.75% (depending on which year's 'batch' you bought.)
- Tenure: after 8 years you get the amount equivalent to prevailing gold prices at that time. हर साल नियत व्याज, परिपक्वता समय पर बाजार में यदि सोने का दाम बढ़ा होगा तो आपको मूलधन से भी ज्यादा ₹ वापस दिए जाएंगे.
- **Eligible investor categories:** Indian resident individuals, Hindu Undivided Families (HUFs), trusts, universities and charitable institutions. सिर्फ यह लोग या संस्थान ही खरीद सकते हैं
- **How much can you buy?** Minimum 1 gm to max upto 20kg depending on investor's category.
- **From where to buy?** While RBI 'sells' it but customers buy it via following outlets: banks (only selected types of banks), post offices, selected stock exchanges (NSE and BSE) and a few other institutions.
- 🧐 **Benefit / challenges ?** reduce the import-demand for physical gold and shift a part of the domestic savings -- used for the purchase of gold -- into financial savings. (More in 📖 Pillar#3A along with Gold Monetization Scheme.)

15.6.4 🍷📦📅 31 Long term debt instruments by Companies

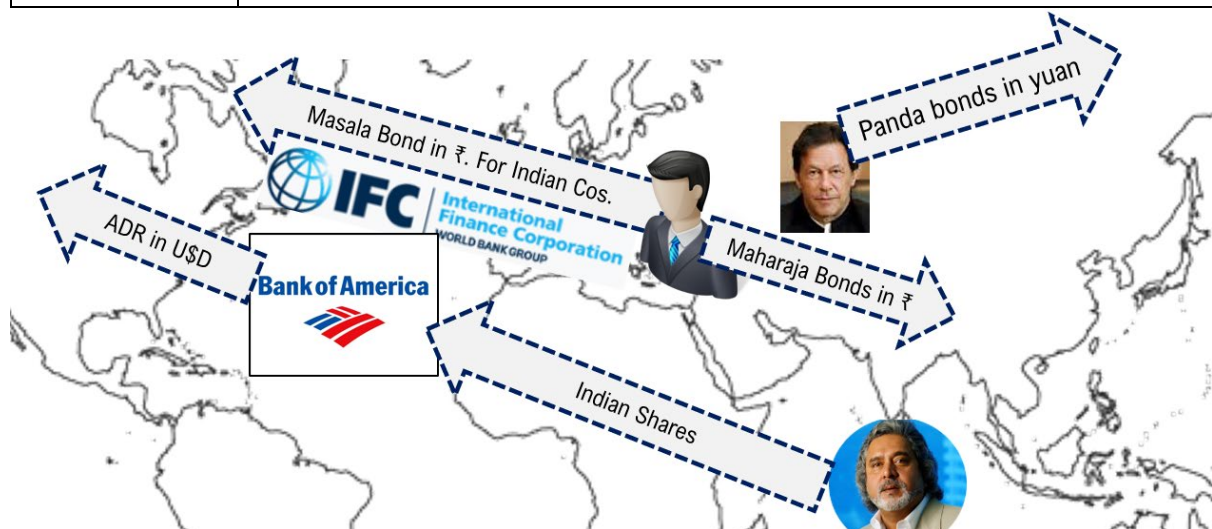
- 1) **Bonds** (British Term), **Debentures** (American Term): Internal difference not important.
- 2) If the company has high risk of default on repayment, the Credit Rating Company will mark it as Junk Bonds ("BB to D" Grade) e.g. IL&FS. Such company will have to offer a very high interest rate when issuing bonds next time. ज्यादा जोखिम पूर्ण कंपनी ने निवेशक को लुभाने के लिए ज्यादा ब्याज देना होगा
- 3) **Redeemable Bonds** (मोच्च): will repay regular interest and will return principal on maturity.
- 4) **Irredeemable Bonds** (अमोच्च): will pay only interest but no principal returned. Sometimes issued by PSB to meet BASEL-capital requirements. Although in reality they offer 'redemption' after 5-10 years when holder has 'option' to redeem principal & exit. (Ref: Pillar1B2=Yes Bank AT1 Bonds)



- 5) **Non-convertible Bond/Debenture** = can't be converted into shares.
- 6) **Hybrid instruments**: Issued as “Bond” but can be converted into Share. E.g. Optionally Fully Convertible Debentures (OFCD).

15.6.5 31 Long Term Debt Instruments: Other issuers

Issuer	Objective? उद्देश्य?
ULB	<p>⇒ Urban Local Bodies Issue Municipal bonds to borrow money from public.</p> <p>⇒ Ahmedabad was 1st to launch Municipal bonds (1998). 2020-Lucknow 9th city in India & 1st in North India.</p>
BRICS Bond	<p>- 2014- BRICS Nations had setup the New Development Bank (NDB, HQ: Shanghai, China). Later it launched BRICS Bonds to mobilize money for its infrastructure loans. Denomination: US Dollars</p>
World Bank	<p>- 2018: launched world's first Blockchain Offered New Debt Instrument called Bond-i. Sold in Australia using Ethereum blockchain technology. Tenure: 2 years @~2% interest. Denomination: Australian Dollars, hence also called “Kangaroo Bond”.</p>
Evergrande Crisis	<p>- Evergrande is a Chinese real estate developer company. Facing trouble repaying its bonds. Foreign investors panicked, resulting in crisis in Chinese and global financial markets. HOW? NOTIMP.</p>



15.6.6 31 Long Term Debt Instruments: Masala, Maharaja, Panda Bond

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

- ⇒ 2015: RBI allowed Indian entities to launch such Masala Bonds.
- ⇒ 2017: National Highways Authority of India (NHAI) also issued Masala Bonds in London Stock Exchange to mobilize money for Indian Highway projects.
- ⇒ 2019: Kerala became the first State of India to issue Masala Bonds. Its Kerala Infrastructure Investment Fund Board (KIIFB) issued Masala Bond at the London Stock Exchange.
- Denomination: ₹ ₹ Total Size: ₹ 21.5 billion. Tenure: 5 years. Masala Bonds are usually issued by

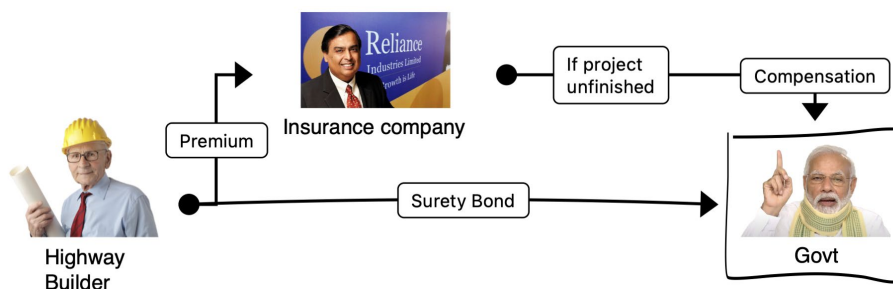


institutions with AAA rating. Since KIIFB has BB rating, hence offered higher interest rate: ~9.7% (वरना कोई खरीदता नहीं)

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

Issuer →	Borrowing from →	In currency →	Is called
Non-Chinese →	China →	Renminbi (=yuan)	Panda Bonds
Non-Australian	Australia	Australian dollar	Kangaroo Bonds
Non-Indian	India	Rupee	Maharaja Bonds
(Indian or a non-Indian on behalf of Indians)	Outside India	Rupee	Masala Bonds
Non-Taiwanese entity	Taiwan	OTHER than Taiwan dollar (इसके अलावावाली मुद्रा)	Formosa Bond

15.6.7 31 Long Term Debt Instruments: Special purpose: Surety Bonds











- ⇒ **Party#1** Road contractor pays fees/premium to **party#2** insurance company. Insurance company gives him a surety bond.
- ⇒ Road contractor gives this surety bond to **party#3** Highway Ministry.
- ⇒ if the road contractor is not finishing project within prescribed time-limit/quality-limit → Insurance company will pay ₹₹ to Highway Ministry.
- ⇒ Earlier, Insurance companies were not allowed to issue surety bonds in India. So contractors had to submit 'Bank Guarantees' to Govt. But then Budget-2022 said we'll allow Surety Bonds. IRDAI will regulate this.



Sub-types of Surety Bonds: Bid Bonds, Performance Bonds, Advance Payment Bonds and Retention Money Bonds. But we will not study them OR their internal difference.




15.6.8 Long Term Debt Instruments: Special purpose Bonds- Misc.

    (proposed) Consol Bonds for Corona-revival	<p>⇒ US Govt (1870s) and British Govt (1917) had issued Consol bond.</p> <p>⇒ Consol is short form for 'consolidated annuities'.</p> <p>⇒ Consol bonds have no maturity date. They are perpetual bonds that paid 4-5% interest rate, for an infinite time period. In theory they don't repay the principal amount back to investor. Thus, they're Irredeemable Bonds (अमोच्च).</p> <p>⇒ However, in reality, the Govt may redeem(/buyback) the bonds after certain years, by paying principal to the investor. कुछ वर्षों बाद सरकार पुनः खरीद लेगी</p> <p>⇒ Some economists suggesting Indian govt should issue Consol Bonds for Post-corona economic revival. (अर्थव्यवस्था को पुर्नजीवित करने के लिए)</p>
 (Proposed) Elephant Bonds for black money	<p>⇒ 2019-May: Commerce ministry's Dr. Surjit S. Bhalla Committee 'to improve India's share in global trade' suggested 'Elephant Bonds'. Tenure: 25-years.</p> <p>⇒ People declaring Black Money will be required to invest x%. → ₹ ₹ to be used only for infrastructure projects. जिनके पास काला धन किन्तु सजा से बचना है तो वे इसमें निवेश करें और पैसा बुनियादी अवसंरचना निर्माण में उपयोग होगा</p>
 Green bonds (हरित बांड) पर्यावरण संरक्षण और स्वच्छ ऊर्जा संबंधी	<p>For renewable energy, pollution control, environment friendly projects.</p> <ul style="list-style-type: none"> - World's first Green Bond launched by World Bank (2007) - India's first Green Bond launched by Yes Bank (2015) - BRICS-New Development Bank issued Yuan- green Bonds (2016) - Indian Renewable Energy Development Agency (IREDA) launched India's first Masala Green Bond at London Stock Exchange (2018). <p>⇒ 2021: Ghaziabad Municipal Corporation (Uttar Pradesh), issued first-ever Green Municipal bond in India. (भारत का सर्वप्रथम हरित नगर निगम बॉन्ड)</p> <p>⇒ 2021: India's first ever euro currency- denominated green bonds by Power Finance Corporation (PFC, an NBFC company under Power Ministry).</p>
 Blue Bond (नील बांड)	<p>A sub-type of green bond, where money borrowed for climate resilient water / marine / fisheries projects. E.g. 2018- Seychelles issued world's first 'Blue Bond,' to expand its marine protected areas and fisheries sector. (समुद्री संरक्षित क्षेत्र और मत्स्य क्षेत्र)</p>
ESG Bonds	<p>Money is invested in bonds of companies having good track record of Environment, Social and Governance (ESG) बॉण्ड निवेश उन कंपनियों में जो पर्यावरण, समाज और शासन की में अच्छा काम कर रहे हैं</p>
 Catastrophe Bond (आपदा)	<p>⇒ Govt / Insurance company issues such bond. Investor is promised with high annual interest rate. But, if a natural disaster happens, his principal will not be returned.</p> <p>⇒ If disaster doesn't happen then principal will be returned.</p> <p>⇒ अच्छा ब्याज देंगे किंतु आपदा हुई तो मूलधन वापस नहीं करेंगे क्योंकि वह सारा मूलधन आपदा प्रबंधन में इस्तेमाल करेंगे</p>




 Social Impact Bonds (सामाजिक प्रभाव बांड)	<p>2019-Feb: SIDBI issued ₹ 300 cr. worth Women's Livelihood Bonds (महिला आजीविका बॉन्ड) with the help of World Bank, UN Women org etc.</p> <p>⇒ These bonds will be offered to High Net worth Individuals (HNI), Impact Investors (rich people interested in 'indirect' social service) etc. They'll earn 3% annual interest rate for tenure of 5 years.</p> <p>⇒ Money thus collected → SIDBI → Micro Finance Institutes (MFI) → loaned to individual women entrepreneurs in food processing, agriculture, services etc.</p> <p>2021: Skill Impact Bond: By National Skill Development Corporation (NSDC) with help of global partners from UK, Dubai etc. \$14.4 million for skilling 50,000 Indian youth job</p>
 Sukuk Bond/Islamic Bond	<p>It is a sharia-compliant bond instruments used in Islamic finance. Was in News because Pakistan Govt issued such bonds. How it works? In which currency is it issued? How it's different than ordinary bonds? 🖱️ NOTIMP4Exam after looking at old papers.</p>

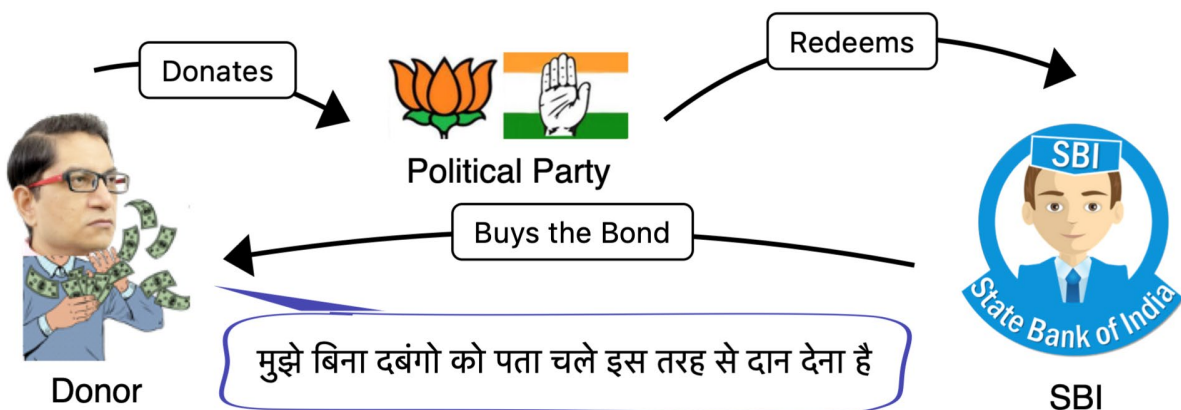
 **?** Find correct statement about 'IFC Masala Bonds' (UPSC-Pre-2016)

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

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

 **?** Which one of the following is a viable alternative to term-loans for raising debt finance by large publicly traded firms? (UPSC-IEnggS-2018) (a) Shares (b) Debentures (c) Asset loans (d) Gold loans

15.6.9    Electoral bonds (चुनावी बांड, 2017)



⇒ Announce in Budget 2017 → Notified by Dept. of Economic Affairs, Finance Ministry (आर्थिक मामलों का विभाग). Only SBI can issue at present, and in multiples of Rs.1,000, Rs.10,000, Rs.1,00,000, Rs.10,00,000 and Rs.1,00,00,000.

⇒ **When?** For ten days at the start of each quarter. (January, April, July and October). However, during Lok Sabha election year, can sell for another 30 days.



- ⇒ **Who can buy?** Only an Indian Citizen or Company registered in India → deposit money in their bank account → use that ₹ to buy Electoral Bond, after giving certain KYC-documents. So, Electoral Bond can't be bought **anonymously** or directly with **cash**.
- ⇒ Electoral Bonds can be donated only to a political party registered under **Representation of the People Act 1951 (RPA: लोक-प्रतिनिधित्व अधिनियम)** and which has secured 1% /> votes polled in last Lok Sabha or Vidhan Sabha elections.
- ⇒ **31] Validity (वैधता अवधि)?** Only 15 days from date of purchase. Within that time, buyer must donate, and political party must deposit in its SBI (current) bank account. No interest payable.
- ⇒ **Characteristics of electoral bonds?** (विशेषताएँ)
- Paper / Physical format (not DEMAT / electronic format).
 - **Bearer** instrument (Donor or Recipient's name not mentioned),
 - **Promissory Note** (promises to transfer money in bank account)
 - **Interest Free** banking instrument (zero interest payable to anyone).
 - Can't sell it to third party, can't pledge it for loans. (गिरवी नहीं रख सकते)
- ⇒ **😊 Benefits of electoral bonds?**
- Transparency in political funding. (राजनीतिक चंदे में पारदर्शिता)
 - Reducing influence of cash and black money in election, (काले धन का प्रभाव)
 - Confidentiality to donor- he can give to any political party without his wife, staff, CA, Lawyers, journalists, local goons etc. knowing the name of recipient political party. (दाता को गोपनीयता)

15.6.10 📌📦📊: Bond Yield, Yield Inversion, Negative Yield

Ref Pillar#1A2: RBI's Monetary Policy → Operation Twist

15.7 📌📦 EQUITY INSTRUMENTS (इक्विटी)

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

Keywords	Features
Ordinary shares साधारण शेयर:	have voting power in the meetings of shareholders. Last claim during liquidation.
Preferential Shares अधिमान्य शेयर:	During liquidation, these investors will be given money before the ordinary shareholders. Further subtypes: (i) with voting power (ii) without voting power.
Sweet Equity	Shares sold @discount to directors & employees for their value addition to company [Amount is regulated under Companies Act]
📌📦 Sweat Equity इसका कुछ काम नहीं परीक्षा में	<p>⇒ Sweet (मीठा) Equity= Explained above</p> <p>⇒ Sweat (पसीना) equity Is a separate thing. you can do a Google search for itself but not important for the scope of exam, Because everything given in the Investopedia is not important for the scope of exam.</p>



	# 📌 थोड़ा-पढ़ो-आगे-बढ़ो
ESOP कंपनी के कर्मचारी को तनखाह के अलावा शेयर्स भी दिए जाएं	Employee Stock Option Plan: Shares may be given free to employees to increase their loyalty/motivation for company. Ref: (More in 📖 Pillar#1B2- PSB reforms) PS: ES-2020 used the term Employee Stock Option Plan. So, I've written. Some website mention Employee Stock Ownership Plan- how these two (ownership/option) are similar or different? 🧐 ANS NOT IMP.
Penny stocks फालतू कंपनी का	Shares whose market price remain excessively low compared to its face value. Such pathetic companies give zero or little dividend.
Blue Chip stocks दमदार कंपनी का	Shares of a nationally recognized, well-established and financially sound company with a history of generating good dividend.
Venture Capital Funds	VCF are professional firms helping startup companies with seed capital. (could be debt / equity / hybrid) (स्टार्टअप कंपनियों को शुरुआती पूंजी दिलवाते हैं)
Angel Investors एंजल निवेशक	Rich person helping startup companies out of his hobby, passion, profit motive or time pass. e.g Ratan Tata in Urban Ladder app. (could be debt / equity / hybrid). <i>Related topic: 📖 Pillar#2: Angel Tax in Budget/blackmoney</i>
Corporate Strategic Investor	Invests in startup company with goal of acquiring the company or its technology at later date. स्टार्टअप कंपनी में निवेश करता है ताकि भविष्य में उसकी टेक्नोलॉजी पर कब्जा कर सके
RGESS Started in 2012	Rajiv Gandhi Equity Savings Scheme= Govt gives income tax benefit to people who invest in the share market for the first time. Discontinued by Budget-2017 मध्यमवर्ग का नया निवेशक पहली बार शेयर बाजार में निवेश करें तो आयकर में राहत
Share Pledging	When promoter of a company e.g. Mukesh A. of Reliance or Subhash Chandra of Zeegroup pledges his shares as collateral to borrow loans from a bank / NBFC. जब कंपनी का संस्थापक अपने शेयर गिरवी रखे पैसा उधार लेता है

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

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

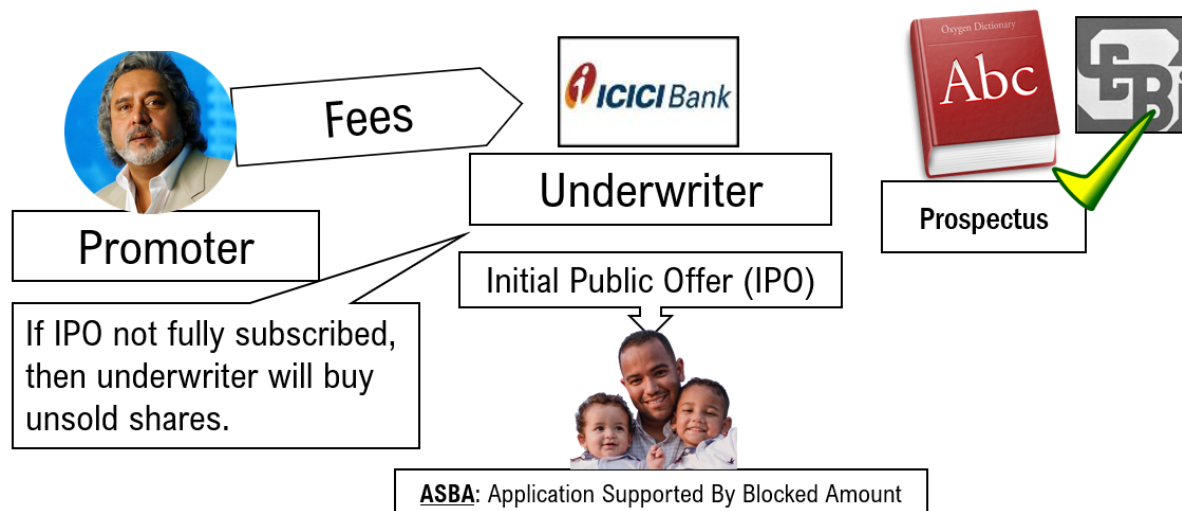
📌 ? An individual investor who invests in the e-project usually during an early stage is (UPSC-IES-2020) A) corporate strategic investor B) founder capital
C) angel investor D) venture capital



15.8 METHODS OF ISSUING SHARES

Share have printed price on the certificate called **Face Value or Par Value** (सममूल्य). If they're sold at higher price than face value, it's called "**Premium Value**" - that usually happens when investor is confident of getting high dividend/return on his investment.

Related keyword: Price Earnings Ratio (P/E Ratio)- what it means NOTIMP.



Initial public offer (IPO) प्रारंभिक लोग निर्गम	⇒ Company hires an underwriter (usually, a merchant bank, investment bank) for a fee. ⇒ Underwriter drafts Red Herring Prospectus for SEBI approval. ⇒ Then, Underwriter invites application from public & sells them shares at face value or higher. If less people subscribe → then underwriter will buy the unsold shares by himself. Sidenote: SEBI's Innovators Growth Platform Framework = It is a set of easy/relaxed rules to help Startup companies to launch their IPO/Shares. (शेयर बाजार में स्टार्टअप कंपनी के शेयर जारी करने के लिए सेबी ने नियमों में कुछ रियायतें दी है)
Follow on public offer (FPO) अनुसरण...	⇒ If company had already issued IPO-shares previously, and now again issuing more shares to obtain more capital → it is called FPO. ⇒ Rights issue (अधिकार निर्गम): Company issues additional shares but gives first right to existing shareholders to buy them, if they refuse then offered to outsiders.
Other methods / terms	Offer for sale / Private placement / Qualified institutional placement (QIP) / Issuing bonus shares / share splitting / share swap / share buyback / PE Ratio etc. = NOT IMP. However, to satiate your curiosity you may self-study them from Investopedia, but that's not the best use of your time!

15.8.1 IPOs- Big sized IPOs in recent years

⇒ **2019:** Saudi Arabia's public sector oil company **Aramco** issued IPO worth >\$25 billion. It was listed at Riyadh's Tadawul Stock Exchange.



- ⇒ **2020: Jack Ma**, founder of China's e-commerce company Alibaba. He started "ANT" company to provide Financial services such as loans, insurance, Mobile payment (App 'Alipay') 2020-Oct/Nov: **ANT IPO** launched to mobilize over \$30 billion from (i) Hong Kong Stock Exchange and (ii) Shanghai exchanges. Hence known as '**dual listing**'. It attracted subscription bids over \$3 trillion. This is bigger than India GDP! 🤖 **Controversy?** Founder Jack Ma criticised Chinese sharemarket regulator, then regulator suspended his IPO/shares.
- ⇒ 📄📄ES20 & 📄📄ES21 : No of IPO-issuing Companies have 📉: 134 (2017) → 103 (2018) → 49 (2019) Which indicates problems like protectionism (=trade war/nations imposing heavy tax on imported items to protect local industries (📄 Ref: Pillar3), NPA (bad loans 📄 Ref Pillar1B2), slowdown in consumer demand by Corona= preventing some of the companies from expanding further.
- ⇒ 2021: Sharemarket revival → many new IPOs launched e.g. Zomato, Paytm (Company Name One97- Founder Vijay Shekhar Sharma), Nykaa Fashion E-commerce (Founer Falguni Nayar became richest self-made woman billionaire of India).

15.8.2 🏢📁 IPOs → LIC & FDI in LIC?

Refer to 📄 Pillar#1D1: Insurance Sector

15.8.3 🏢📁👤 IPO → Special Purpose Acquisition Company (SPAC)

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

15.8.4 🏢📁🌐 ADR/GDR: Shares in *Videshi* locker



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






- A non-American company wants to mobilize money from American share market but does not want to go through the lengthy & complex process of registration with the American sharemarket regulator.
- Then such non-American company gives its shares to an American bank.



- Based on those (non-American) shares, the American bank will issue American Depositary Receipts (ADR: अमरीकी निपेक्षागार रसीद) & sell them to American investors. **Denomination:** USD.
- **Global Depositary Receipt (GDR):** Same as above, but when single bank issues receipts for investors in multiple countries. **Denomination:** usually USD or Euro.

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

15.8.5 ATMANIRBHAR reforms in ADR/GDR/BharatDR

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

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



15.8.6 Initial Coin Offering (ICO)



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

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

15.9 ☒ STOCK EXCHANGES / SECONDARY MARKET: MEANING & EXAMPLES



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

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


15.9.1 ☒ Social Stock Exchange

- ⇒ It is a market for buying/selling shares/bonds/mutual fund for projects/organizations related to hunger/malnutrition, poverty, gender equality, LGBT welfare, rural sports, Slum Area Development, affordable housing. Etc.
- ⇒ **Budget-2019:** we'll set up a **Social Stock Exchange** under SEBI's regulation. It'll help social enterprises and voluntary organizations to raise capital as share/bond/mutual funds for eradicating hunger, malnutrition, poverty, gender equality, LGBTQIA+ communities, rural sports, slum area development, affordable housing



⇒ Then SEBI setup **Ishaat Hussain panel** to study it. Then SEBI setup **Harsh Bhanwala panel** to study is further. They've given reports, but mostly technical recommendations like "Minimum 'X' cr capital, Minimum 'Y' lakh investment etc. अभी अलग अलग समितियों ने सिफारिशें दिए हैं.


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

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

15.9.3 DEMAT Account



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

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

15.9.4 (:) DEMAT & ASBA Reforms


- ⇒ Scamster Rupal Panchal (2005) opened multiple **fake DEMAT accounts** to increase the chances of getting share allocations in **IPO**. Then she'd sell such shares in stock-exchange for higher prices.
- ⇒ Subsequently, SEBI made PAN Card (issued by Income Tax Dept) compulsory for opening DEMAT Accounts. SEBI also introduced **ASBA (Application Supported by Blocked Amount)**- it allows the underwriter to block the amount in IPO-investor-applicant's bank account, but only



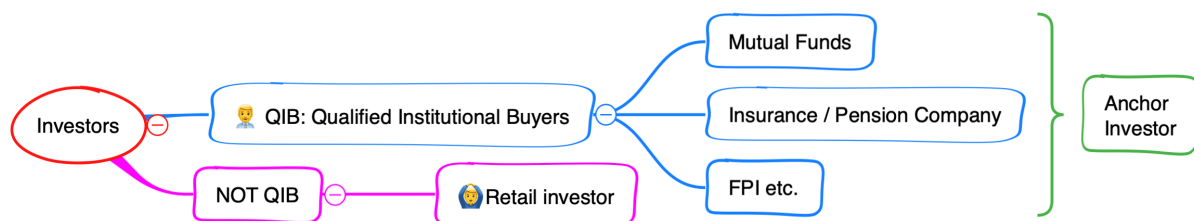
IF shares allotted to the applicant, his bank money will be deducted. ASBA-Benefits:



- (1) only serious investors with sufficient bank balance can apply.
- (2) investor continues to earn bank interest on his blocked amount until the process of IPO-share allotment is over.

15.9.4.1 ISIN Number

- ⇒ International Securities Identification Number (ISIN) is a Unique 12 characters, consisting of both letters and numbers. प्रतिभूतियों का अंतरराष्ट्रीय पहचान संख्यांक
- ⇒ It's a serial code to identify securities e.g. Reliance Industries Limited Shares ISIN: INE002A01018; Infosys Shares: INE009A01021.
- ⇒ Prevents mistakes in buying/selling shares/bonds of companies with similar sounding names. Facilitates the digital transactions through DEMAT account. ताकि मिलते जुलते नाम वाली कंपनियों में गलती ना हो
- ⇒ RBI issues ISIN for G-sec/T-bill. NSDL issues ISIN for securities other than G-Sec/T-bill.
- ⇒  **Budget-2019:** technical reforms in ISIN. HOW? NOTIMP.

15.9.5 Types of Investors: Depending on Buying Capacity





1.  **Qualified Institutional Buyers (QIB अर्हता प्राप्त संस्थागत निवेशक):** Investors with expertise and financial muscle to make large investments in capital markets. E.g. Mutual Funds, Insurance Company, Foreign Venture Capital Funds etc. SEBI has separate registration norms for them.
 - a. **Anchor investors:** They're sub-type of QIBs who are offered shares before IPO-launch. This gives confidence to other investors to subscribe the given IPO.
2.  **Retail investor:** An individual investor who is not a QIB. (आम/खुदरा निवेशक)
Underwriter will keep quota for each category of investors, as per SEBI norms.

15.9.6 Types of Investors: Depending on Buying Behaviour



1. **Jobbers (आढ़ती):** Full time engaged in buying / selling securities using money from their own pockets. (Whereas brokers / commission agents buy/sell using money/shares of their clients).





2. **STAG (Male Deer):** He buys newly issued securities **from primary market** & sells them in secondary market for quick profit. प्राथमिक बाजार से खरीद के द्वितीयक बाजार में मोटे मुनाफे पर बेचने की इच्छा रखता
3. 🐮 **Bull (तेजड़िया)**: Optimistic speculator who hopes share prices will rise , so purchases (to sell them later at much higher price). Just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise.
4. 🐻 **Bear (मंदड़िया)** – A pessimistic speculator who fears prices will fall , so, he sells. A bear usually presses its victim down to ground. Similarly, bear speculator tends to force down the prices of securities.
5. 🕒 **Day trading / Intra-day trading:** Individuals buy and sell shares over the Internet over a period of a single day's trading, with the speculative intention of profiting from small price fluctuations.

Further subtypes with various animal / bird names can be found on Investopedia but with poor cost : benefit in exam. # 🐼 थोड़ा-पढ़ो-आगे-बढ़ो

15.10 SENSEX & OTHER NOTABLE INDICES (उल्लेखनीय संकेतक/ सूचकांक)

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

 SENSEX – when does it go up	 Goes down when
🔗 RBI's soft /easy monetary policy → cheap loan & credit cards → consumers to spend more → more profit to company → more dividend : investor thinks “ <i>better I buy more shares to get more dividend</i> ”: Bullish	💧 Tight monetary policy (More in 📄 Pillar#1A2) संकुचन वादी मौद्रिक नीति के दौरान सेंसेक्स नीचे गिरेगा
Peace, Economic boom / prosperity, Political Stability (शांति, आर्थिक समृद्धि, राजनीतिक स्थिरता)	⚔️ War, recession, political instability → Bearish market. (युद्ध, मंदी, राजनीतिक अस्थिरता)
When govt. hikes foreign direct investment limits	When govt reduces FDI limit
Merger-Acquisition, New product launched, Environmental clearance given to factory	CEO/MD arrest/FIR, Courts slapping fine, media exposing scandal... (कोई कांड हो जाए)

15.10.1 🐼 MSCI Emerging Market (EM) index

- ⇒ MSCI is a New York based company that publishes various type of stock index indicators.
- ⇒ Its MSCI Emerging Market (EM) index tracks equity (share) performance of 1400+ companies in 25 emerging market countries including India.



- ⇒ 2022: Russian companies removed from this index (due to Ukraine war) → MSCI weightage given to India → Western/foreign investors may bring more money towards Indian share market in future.
- ⇒ ES22 has also given big descriptions about how much weight is given to Indian companies in this index & how rivers of milk and honey are flowing but I am not finding such technical details very useful from exam point of view.

15.10.2 Force Majeure (अभेद्य शक्ति)



Figure 4: Corona के चलते बिजनेस प्रोजेक्ट पूरा नहीं किया, तो क्या जेल में भेज दोगे, या फांसी पे लटका दोगे? कुछ नहीं उखाड़ सकते मेरा!

- ⇒ **French word** for 'superior force'. It refers to unexpected external circumstances (अप्रत्याशित बाहरी परिस्थितियाँ) that prevent a party to a contract from meeting their obligations. e.g. *Acts of God* (natural disasters, epidemics), war, terror attacks.
- ⇒ In such cases, courts may not punish party for dishonoring contract. (करारनामे के दायित्व को न निभाना)
- ⇒ E.g. **Corona (COVID-19) Virus** → Singapore Govt put restrictions on entry of Chinese → Singapore construction firms facing labour crunch (श्रमिकों की कमी) → invoked 'Force Majeure' to clients, "we can't finish building your homes/offices in time." Coronavirus: >55million people infected across the world (as of 2020-Oct).
- ⇒ Restriction on global travel and trade. Investors fear that companies will not generate much profit. Many contracts/ payments will be stuck by Force Majeure. So, large scale withdrawal / exit of share investors from stock exchanges across the world. Even the BSE SENSEX fell by 1400+ points in a single day in 2020-June Month. However in later months, share market has significantly.

15.11 SHAREMARKET: 2020- IMPACT OF CORONA







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

- ⇒ Nifty50 & BSE SENSEX both have greatly increased
- ⇒ Stock Exchange Volatility declined , esp after March-2020, as measured by "India VIX index" of NSE. (अस्थिरता कम हुई है)
- ⇒ Share Prices of Pharma, IT companies , But Airline/Luxury goods/fashion
- ⇒ Biz of Mutual Funds (धंधे में बरकत)
- ⇒ Incoming Foreign Portfolio Investment (FPI) has [270 billion\$] (More in Pillar#3A)
- 2020- Initial months of lockdown, due panic among investors, Force Majeure but then because (शुरु-शुरु के महीनों में गिरावट किंतु बाद में बहुत तेजी आई क्योंकि...)**




1. Cheap Loans / Expansionary Monetary Policy → Some of that money may have entered the



share market through to large investors. (विस्तार वादी मौद्रिक नीति)

2. 'work from home' + RBI loan Moratorium- may have encouraged many service sector employees to invest ₹ in the sharemarket. (तालाबंदी के दौरान लोन की किस्त नहीं चुकानी थी तो कुछ ने वह रकम शेयर बाजार में निवेश की होगी)
3. Unprecedented demand and profit for IT and Pharma sector- Encouraged the investors to park their money in such shares at very high price. (तालाबंदी के दौरान सूचना प्रौद्योगिकी और औषधीय कंपनियों में अप्रत्याशित तेजी)
4. Youtubers/Reddit/Social media influencers giving online share trading Tips. Many Apps available.
5. American video game store company GAMESTOP's shares  1625% in 1 year. Such gimmickry will attract more small investors to invest. Associated keyword "short squeeze trading" [ What it means? how it works? Ans. not important]
6. 2021-Aug: Finance Minister in Parliament “*Even though economic growth seem to be slow/down but stock market rising   because, The movement in stock market indices is driven primarily by expectations of future economic growth.*” E.g. Even though hotel business may be slow at present, but in future unlockdown, people will go on vacation trips with more enthusiasm. So, in anticipation of future profit, some investors will start buying hotel shares right now. Then demand for hotel companies shares  → hotel companies share prices  (शेयर बाजार ज्यादा भविष्य में कितना और अधिक मुनाफा होगा उस अपेक्षा/संदेहबाजी से बढ़ता है उदाहरण - हालांकि अभी तो कोरोना में होटल धंधे में मंदी है, किंतु भविष्य में बहुत लोग वेकेशन में होटल में जाएंगे तब हमें बहुत मुनाफा होगा ये सोचकर कुछ निवेशक अभी से होटल कंपनियों के शेयर जमा करना शुरू करते हैं तो शेयर की मांग बढ़ती है और दाम बढ़ता है)

15.11.1 Sharemarket- 2022: IPO Bubble Burst: Case of Paytm (फूट गया गुब्बारा)

- ⇒   ES22- 2021: more than 70 IPOs issued worth nearly ₹90,000 crores - this is higher than in any year in last decade. More than 2 crore retail investors have open demat account in 2021.
- ⇒ 2021-Oct: Sensex and Nifty crossed 61,000 and 18,400 respectively on October 18, 2021.
- ⇒ However by 2022-March these stock indices have started to fall because of FPI-pullout-by-Fed Tapering & Russia war.
- ⇒ 2021-Nov: Paytm collected ₹18,300 crore from IPO. (Company's name is One 97 Communications, CEO Vijay Shekhar Sharma. Other partners-China's Alibaba-Ant group (6%), Japan's SoftBank and Warren Buffett's Berkshire Hathaway).
- ⇒ Stag (Male Deer) Investor - buys shares in IPO (initial public offering in the primary market) with hopes of selling it at a very high price on LISTING in Secondary market. Often they get lucky with almost 80-100% profit but their gameplan failed in Paytm. (नर-हिरन निवेशक जो प्राथमिक बाजार में IPO खरीदते और तुरंत उसे द्वितीयक बाजार में मुनाफे में बेचने की फ़िराक़ में होते हैं)
- ⇒ 2021-Nov: Paytm Primary market Price Rs.2150 but but on day1 of listing (in the secondary market), Paytm fell by almost 25%. → by 2022-March fallen to ₹750 (that is >60% loss to investor!). CarTrade, Zomato etc also trading @loss. Reason?
- ⇒  General slowdown in the share market by fed tapering / FPI pullout (Ref:1a2), Russia-Ukraine War.



- ⇒ 😞 high valuation of Paytm IPO (₹2150 per share) but institutional investors (Mutual Fund, Pension Fund etc) not very confident of the growth prospects of Paytm. Once upon a time, Paytm had superiority but faces stiff competition from NPCi's UPI-Bhim, Mobikwick, PayU, PhonePe etc. (ऑनलाइन भुगतान में बहुत सारी कंपनियों के साथ स्पर्धा. पेटीएम का एकाधिकार नहीं है.)
- ⇒ 😞 startup bubble, no free lunches in economy- said Raghuram Rajan. Cashback discount is given to build subscriber base to create hype- ultimately startup founders recovered all the cashback money from Paytm retail investors (who lost 25% on listing day). → this could also negatively affect the future IPOs of Startup Companies (अर्थतंत्र में कोई मुफ्त में भोजन नहीं देता इन सब स्टार्टअप वालों ने कैशबैक/ डिस्काउंट के दम पे पहले ग्राहकों को लुभाया → फिर हमारी कंपनी में बहुत ग्राहक है, ऐसा दिखाके निवेशकों को चूना लगाया)
- ⇒ 😞 Ethical Aspect:- Retail investors with huge greed were blindly applying IPOs hoping to 2x double their money. At some point they were bound to pay for excess greed. (बिना मेहनत के 25 दिन में पैसे डबल करने की लालच रखने वाले आम निवेशकों ने भी अपने नैतिक मूल्यों पर सोच विचार करना चाहिए- की लालच बुरी बला है)

15.11.2 📊📈📉 Share Market: Impact of Bond Yield

- ⇒ Bond yield is the profit you make on Bond investment. (More in 📖 Pillar#1A2: Op-Twist)
- ⇒ If Mr.Bhide buys ₹100 principal bond with 10% interest = his yield = $(₹110 - 100) / ₹100$ investment = 10% but if he sells it to Mr.Jetha at ₹90 then Jetha's yield = $(₹110 - 90) / ₹90$ investment = 22% Profit. Thus bond yield (profit) ⬆️, If you manage to buy bond at a cheaper than the original (face value) price.
- ⇒ 2021-Feb-March: When bond yield ⬆️, some investors sold their shares of the low performing companies → to invest into bonds → sharemarket ⬇️ fell for some days/weeks.

📖📄? MCQ. In the parlance of financial investment, 'Bear' denotes [UPSC-CDS-2012]

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

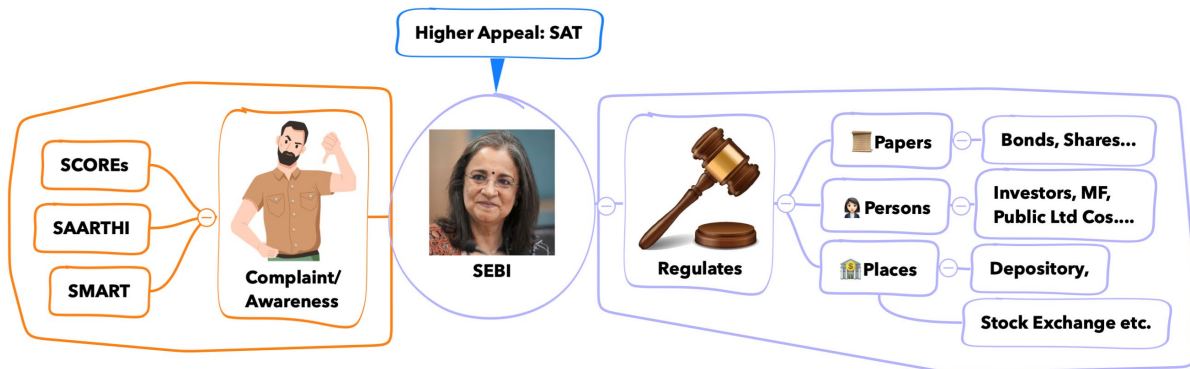
📖📄? MCQ. Which of the following statements is/ are correct? [UPSC-CDS-2012-I]


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

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




15.12 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)




- ⇒ HQ- Mumbai भारतीय प्रतिभूति और विनियम बोर्ड,
- ⇒ (1988) Formed by an executive order → (1992) Became Statutory Body → powers increased through amendments in 1999 & 2014. Now it can order search and seizure, attachment of properties, arrest and detention. (खोज अभियन्त्रण, संपत्तियों की जब्ती/कुर्की, गिरफ्तारी और निरोध)
- ⇒ **SEBI Board Composition:** Chairman + 1 officer from RBI + 2 officers from Union Government + 5 members appointed by Union Government.
- ⇒ **Chairman:** upto 5 years / 65 age. Reappointment possible.
- ⇒ 2022: Madhabi Puri Buch-first woman chairperson in history of SEBI. She replaced Ajay Tyagi (Ex-IAS). Selection was done by Financial Sector Regulatory Appointments Search Committee (FSRASC) headed by the Cabinet Secretary (IAS).
- ⇒ Regulates **Process** of issuing securities (Bonds, Shares, IPO, ETF, ReIT, INVITs, etc.) using the Securities Contracts Regulation Act, 1956 [SCRA: प्रतिभूति संविदा विनियमन]
- ⇒ Regulates **Places** (Depositories, Stock exchanges, Commodity Exchanges etc.)
- ⇒ Regulates **Persons** (Investors, Brokers, Fund Managers, Public Limited companies etc.)
- ⇒ Regulates any Collective Investment Scheme (CIS) of ₹100 cr/> [In the aftermath of SAHARA scam & Chit Fund scams. सामूहिक निवेश योजनाएँ]
- ⇒ **Further appeal:** Securities Appellate Tribunal (SAT) → Supreme Court.
 - Same SAT also hears appeals against the orders passed by Insurance Regulatory Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). (More in  Pillar#1D)
- ⇒ SEBI has “SCORES” online portal for complaint. (निवेशक इधर ऑनलाइन फ़रियाद करे)
- ⇒ SEBI has **Securities Market Trainers (SMARTs)** Program for investor education (निवेशक प्रशिक्षण)
- ⇒ Saarthi app: Sebi’s app for investor awareness. (निवेशकों में जागृति के लिए सेबी का नया एप)

15.12.1 Securities Market Code

- ⇒  Budget-2021: we’ll create a single new law named "Securities Markets Code" by merging older acts 1) SEBI Act, 1992, 2) Depositories Act, 1996, 3) Securities Contracts (Regulation) Act, 1956 4) Government Securities Act, 2007. (पुराने विभिन्न कानूनों का एकीकरण विलीनीकरण करके "प्रतिभूति बाजार संहिता" नामक नया कानून बनेगा)
- ⇒ Benefits? Same as the bullet points written in conclusion of “SEBI Investor Charter.”



15.13 SEBI INVESTOR CHARTER (निवेशक अधिकार पत्र)

- ⇒ (Definition) A citizens' charter (नागरिक अधिकारपत्र) is a document of commitments made by a government agency to the citizens in respect of the services being provided to them. e.g. if "X" problem is not solved in "Y" days then complain to "Z" officer on ABC Phone number / email address etc.
- ⇒ (Origin)  Budget-2021: we'll create an "investor charter" (निवेशक अधिकार पत्र) for financial investors across all financial products (Share, Bond, derivatives, Commodities market etc).
- ⇒ SEBI notified this in 2021-November.
 - This charter applies on Entities/actors e.g. investors, mutual funds, stock brokers, stock exchanges, depositories, underwriters, real estate investment trusts (REITs), infrastructure investment trusts (InvITS), & other collective investment schemes,
 - This charter applies on Events e.g. initial public offerings (IPO), FPO, etc.

15.13.1 SEBI Charter → Investors' rights (निवेशक के अधिकार)

- ⇒ Investors are entitled to fair treatment from SEBI & its regulated entities (E.g. Mutual fund, stock-brokers IPO-underwriters etc). (सेबी और उसके द्वारा नियंत्रित संस्थाओं से निवेशक को न्यायोचित व्यवहार का अधिकार होगा।)
- ⇒ Investors can expect complaint resolution from SEBI's SCORES Portal in a time bound manner (if his complaint not solved by the) (सेबी के ऑनलाइन स्कोर पोर्टल पे समय पर न्याय/ शिकायत निवारण का अधिकार)
- ⇒ SEBI regulated entities (E.g. Mutual fund, stock-brokers IPO-underwriters etc) Will be required to display on their website average time taken to solve complaints internally. (सेबी द्वारा नियंत्रित संस्थाओं ने अपनी वेबसाइट पर दर्शाना होगा कि वे आंतरिक रूप से ग्राहक शिकायत निवारण में कितना समय लेते हैं)

15.13.2 SEBI Charter → Investors' responsibilities (निवेशक की ज़िम्मेदारी है)

- ⇒ Investor must not share critical information such as DEMAT passwords with anyone. (डिमेट खाते का पासवर्ड इत्यादि साझा न करने की ज़िम्मेदारी)
- ⇒ Before making an investment, investors must read and understand offer documents related to a financial instrument (e.g. share, bond, ETF etc), know the risks involved (किसी भी जगह वित्तीय निवेश करने से पहले उससे जुड़े जोखिमों की सारी जानकारी पढ़ने की ज़िम्मेदारी निवेशक की होगी)
- ⇒ Investor must read about various fees/service charges involved in a transaction
- ⇒ Investor must keep track of DEMAT/Bank account statements. if any discrepancy, he must communicate to the concerned authorities. e.g. password hacked & shares transferred without knowledge (निवेशक ने अपनी विभिन्न खातों में हो रहे लेनदेन पर निगरानी रखनी होगी। कोई विसंगति दिखे तो तुरंत संलग्न संस्था को सूचित करने की ज़िम्मेदारी निवेशक की होगी)
- ⇒ Investor preserve all transaction documents that will come in handy when filing complaints. (लेनदेन से जुड़े सभी दस्तावेजों का संग्रहण करना, ताकि शिकायत के दौरान सबूत के रूप में जमा किया जा सके)
- ⇒ While investing, Investor must not make payments in cash, beyond the prescribed limits. Pay through cheque/NEFT etc. (So it helps tracing fraudsters, tax-evaders. REF: 1A1 & 2B for more on cash transaction limits). निवेश करते वक्त तय माला से ज़्यादा में नक़दी भुगतान नहि करना। क्योंकि यदि बैंक खाते द्वारा भुगतान किया जाए तो वित्तीय-धोखेबाज़ों और कर-चोरों को पकड़ने में सुविधा रहे।



15.13.3 📖🔍: 🏠 SEBI's Investor Charter: Criticism/limitation:

- ⇒ 🏠 The charter is treated as reference guide. It has no legal binding / legal rights to investors. (ये केवल एक पथदर्शक है. कानूनी रूप से बाध्य नहीं है)
- ⇒ 🏠 SEBI could not prevent recent scams/disasters in stock markets such as Franklin Templeton Mutual Fund, Karvy Broker DEMAT scam, IL&FS crisis etc. This charter's features not specifically giving confidence on how SEBI will prevent scams in future. (वर्तमान वर्षों में विविध शेयर बाज़ार घोटालों को रोकने में सेबी असफल रहा है। और इस नए अधिकार पत्र के मुद्दे पढ़कर विश्वास संपादन नहीं हो रहा कि भविष्य में ऐसे कांड नहीं होंगे)
- ⇒ 🏠 Retail investors get fooled into investing in bad/weak companies based on 'tips/recommendations' by social media influencers/telegram/Youtubers. But, charter not sufficiently addressing this menace. (सोशल मीडिया में बदमाशों की झूठी सलाहों के चलते कमज़ोर कंपनियों के शेयर-बॉर्ड में भोले निवेशक फँस जाते हैं-कोई सख्त प्रावधान नहि।)

15.13.4 📖🔍: 🏠 SEBI's Investor Charter: Benefit/Conclusion

Appreciable step by SEBI. This will help in a long way in... प्रशंसनीय क़दम

- ✓ Ease of doing business & Ease of doing investment (व्यापार और निवेश में सुगमता होगी)
- ✓ More clarity over rights and responsibilities financial market participants [Individual Investor, Share Broker, Stock Exchange, Depository, Underwriter, Companies etc] अधिकार और ज़िम्मेदारियों में स्पष्टता होगी
- ✓ Deepening of the financial market, Mobilisation of savings to the productive channels of economy. पूंजी बाज़ार की जड़ों को गहरा करने में मदद मिलेगी.

15.13.5 📖🔍: 🏠 SEBI: why protect investors & 🏠 investors participation?

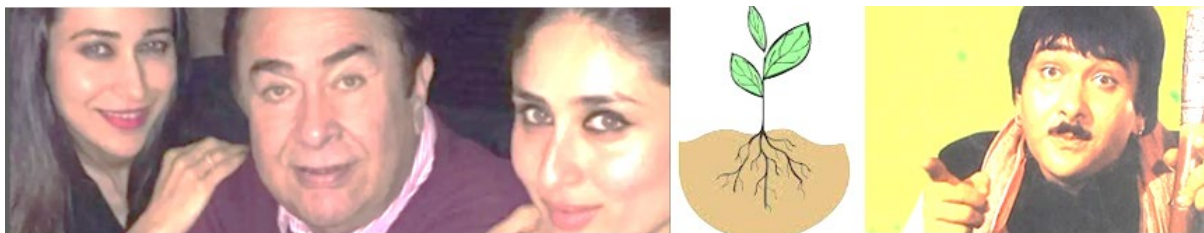


Figure 5: पूंजी बाज़ार की जड़ों को गहरा करना है तो सिर्फ़ अमीरों का नहीं, गरीबों की बचत का पैसा भी जाना चाहिए!

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



15.13.6 📁👤: measures to 📈 retail investors participation- 25% public holding in Govt Companies

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

15.13.7 📁👤👤: SEBI Reforms to boost investors' confidence?



Harshad Mehta

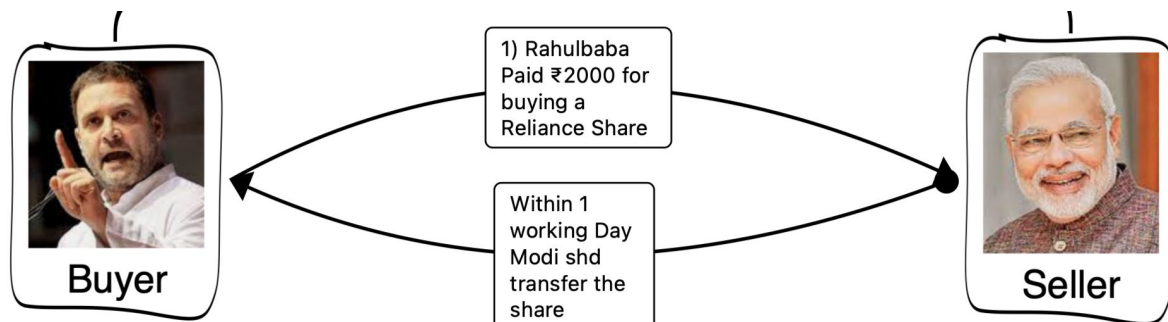


Ketan Parekh



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

15.13.8 📁👤👤 T+1 Settlement instead of T+2



- ⇒ Badla System/Carry forward system: Buying of shares using borrowed money & making promises to carry forward the settlement for upto 72 days. scamsters misused (इसकी टोपी उसके सर पे: सौदा आज करते लेकिन पैसों का भुगतान/शेयर की डिलीवरी ७२ दिनो बाद होती- और इस समय के दौरान वही घपलेबाज उन्ही शेयर बेचने की टोपी दूसरों को पहेनाते रहेता)
- ⇒ so SEBI discontinued Badla System (in 2001) & introduced (T+2) **rolling settlement system** i.e. after trade is conducted, the parties must settle it within two working days (= buyer pays money, seller deliver shares/bonds/securities).
- ⇒ Settlement cycle represents the time period within which the stock exchanges have to settle security transactions. Until now we had T+2 days but from 2022: T+1 started.
- ⇒ T+1 means settlements will have to be cleared within one day of the actual transactions taking



place. (सौदा होने के एक दिन के भीतर ही पार्टिने पैसा चुकाना है और सामने वाली पार्टि ने उसको शेयर की डिलीवरी देनी है)

- ⇒ Benefits? Volatility, Speculation, Faster Release of shares/funds. HOW? NOTIMP. (अस्थिरता, सट्टेबाज़ी)
- ⇒ Foreign investors unhappy due to Time zone difference creating operational challenges for them. (विदेशी निवेशक नाराज़ क्योंकि भारत में जब सुबह होती है तो अमेरिका में रात इसलिए एक दिन के भीतर सौदा समेटना उनके लिए मुश्किल!)

15.13.9 () Dabba-trading, Insider Trading, IPF

- ⇒ **Dabba Trading / Bucketing / Box Trading:** While share trade occurs at stock exchange linked with DEMAT accounts, the Dabba Trades occur in the unofficial books/ledgers of an unscrupulous broker. He may or may not execute those orders in actual DEMAT account. Investor prone to scam, govt deprived of taxes. So, SEBI declared it illegal.
- ⇒ **Insider Trading (भेदिया लेनदेन):** Whenever company launches new products, wins unique patents, or undergoes merger/acquisition- its share prices may . If a person associated with company uses such confidential information for buying/selling shares to make windfall gains. Such insider trading is **illegal**.
- ⇒ SEBI requires Stock exchanges (BSE, NSE etc) and commodity exchanges (NSE, MCX etc) to setup **Investor Protection Fund (IPF: निवेशक सुरक्षा कोष)**. IPF covers investors' 'non-speculative' type of losses. e.g. if the other party is not delivering shares because of some court case. IPF also promotes investor education and awareness.

15.13.10 () Algo Trading & Co-Location

- ⇒ **Algo-Trading** = Some large brokers / companies use algorithmic trading computer programmes to automatically buy / sell securities at a speed and frequency that is impossible for a human trader. This can be misused for manipulating the share prices. (कंप्यूटर अलगोरिदम द्वारा बहुत तेज़ी से ऑर्डर देना)
- ⇒ While SEBI has **not banned** it, but issued technical measures e.g. a single broker / investor can't place more than 100 online orders per second. (संपूर्ण रूप से प्रतिबंधित नहीं लेकिन सेबी ने कुछ सीमाएं लगायी हैं)
- ⇒ **Co-location** = stock exchange allowing the share broker to install their office/computer systems very close to Stock Exchange. Then broker's computers can monitor/buy/sell shares quicker than a computer sitting 500 kilometers away: So, co-location gives added advantage, esp for the Algo-Traders. (स्टॉक एक्सचेंज के एक दम निकट अपना ऑफिस स्थापित करना ताकि कंप्यूटर पर डेटा और तेज़ी से पहुँच सकें कि)
- ⇒ 2021: SEBI fines National Stock Exchange (NSE) For violation of some norms related to co-location.

15.14 () BOND MARKET REFORMS

15.14.1 () Unified Bond Market (एकीकृत बॉन्ड बाजार)

- ⇒ At present (1) Govt bonds' (G-Sec) market (2) private sector / Corporate Bonds market are functioning separately. Because
 - (A) RBI depository for G-Sec/ T-Bill is separate. Where govts, banks, NBFCs and primary dealers can participate, and minimum investment guidelines are high (e.g.



investor's g-sec buying order must be minimum "X" lakh rupees, else RBI rejects application)

- (B) SEBI regulated depositories (For non-Government = private sectors' share/bonds) is separate- where retail investors/common men register & participate.

⇒ Budget-2019 promised reform to connecting these two platforms, to facilitate retail investors' participation in G-sec. (आम जनता भी सरकारी प्रतिभूतियां सीधे ही खरीद सकें)

⇒ 2020: SEBI proposed "**unified bond market**" where both G-sec & Corporate Bonds will be available for buying/selling. This will (1) help govt mobilize public's savings more easily for its welfare schemes (2) Give small/retail investors easier opportunity to invest directly in G-sec. लेकिन ये असल में अभी बनना बाकी है।

15.14.2 G-Sec Trading- Retail investors' RDG @RBI

- RBI launched "Retail Direct Scheme" in 2021.
- Under this scheme, RBI permits "Retail Direct Gilt (RDG) account" for retail investors on its E-Kuber online platform. (आम निवेशक रिज़र्व बैंक में आरडीजी नामक खाता खोल पाएंगे)
- Both Resident Indians & non-resident Indians (NRIs) can open this account. (गैर निवासी भारतीय भी)
- Then Retail investors can directly buy Treasury Bills (T-Bill), G-Secs (of Union Government), State Development Loans (SDL are 'G-secs' of State Govts) and Sovereign Gold Bonds, from RBI directly. (आम निवेशक सीधा रिज़र्व बैंक से इन प्रतिभूतियों को खरीद सकता है.)
- Application fees to open the account = ₹ ZERO
- **Benefit?** 1) Earlier retail investors bought G-sec "indirectly" through mutual funds wherein mutual fund manager (MF) charged commission/fees. Now retail investor can buy directly so does not have to pay such commission/fees to MF managers. (बिचौलियों को दलाली/कमीशन नहीं देना होगा)
- 2) Deepening of G-Sec market through retail participation (बाजार की जड़ों को गहरा करेगा)

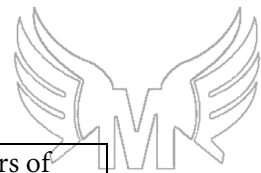
15.14.3 G-Sec Trading: RBI's NDS-OM, OTC

⇒ RBI owns and regulates Negotiated Dealing System (NDS) for trading in G-Sec.

⇒ Clearing Corporation of India Limited (CCIL a company founded by SBI, IDBI, ICICI, LIC etc) maintains this system.

⇒ NDS system for recording the transactions of G-Sec buy-sell. NDS has following components:

Telephonic	i.e. buyer/seller call each other on the telephone, make the deal about buying and selling and then inform the reserve bank's NDS system (<i>ke we've done this deal</i>).
Over-The-Counter (OTC)	Buyer physically walks into the seller's office (or vice versa) and conducts the transaction. Later they report transactions to RBI's NDS System (<i>ke we've done this deal</i>). (ऑफिस में रुबरु मिलके खरीद-बिक्री करेंगे, बाद में रिज़र्व बैंक को सूचित करेंगे कि हमने ये किया था)
NDS-OM	Negotiated Dealing System-Order Matching system (NDS-OM): electronic, computer screen based, anonymous, order driven trading system for dealing in G-sec's secondary market.



	Buyer-seller places orders online without knowing names/phone numbers of each other. (खरीददार और विक्रेता एक दूसरे की असली नाम पहचान नहीं जान पाएंगे)
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🚩🔍 FAQ: Then what is E-Kuber?

- ⇒ Ans. E-Kuber is the core banking solution (CBS: REF Pillar1A1) platform of RBI to digitally handle all operations of RBI e.g. NEFT-RTGS, Repo, MSF, CRR, PSLC certificate trading, G-Sec, Sovereign Gold Bond, Retail Direct Scheme (RDG) etc.
- ⇒ You may think of E-kuber as a Windows Operating system, & NDS as a sub-component/excel-software inside of it that handles G-Sec buying-selling database management/account keeping.

📖🔍 MCQ. Find correct statement(s): (Asked in Prelims-2021)

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

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

15.15 🏠🏢🏡🏠 COMMODITY MARKET, FMC, SEBI MERGER

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

15.15.1 🏠🏢🏡🏠 Commodity Market: Gold exchanges & 📅 Budget-2021

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



15.15.2 🏠🏢🏡🏠 Commodity Market: Electronic Gold Receipts (EGRs)

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

- **Stage1:** Gold companies deposit their gold in the warehouses authorized by Warehousing Development and Regulatory Authority (WDRA, it is a statutory body under Ministry of Consumer Affairs, Food & Public Distribution.)
- **Stage2:** Warehouse manager generates Electronic Gold Receipts (EGRs).
- **Stage3:** EGR are listed on the SEBI regulated electronic gold exchanges. → Buyer can buy the gold electronically and be assured of the quality. Later he may even sell this EGR to another investor or he may go to warehouse to collect physical gold.

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

15.16 🏢 RELATED BODIES WITH SIMILAR SOUNDING NAMES



Figure 6: अभी भी इतने सारे “कांड” क्यों हो रहे हैं, गवर्नर साहब? - वित्तमंती @FSDC meeting.

FSDC (2010) वित्तीय स्थिरता और विकास परिषद	<ul style="list-style-type: none"> - Financial Stability & Development Council: Chairman – Finance Minister. Other members – 1. RBI Governor 2. SEBI chief 3. IRDAI chief 4. PFRDA chief 5. IBBI chief & govt officials - Functions? Supervision of the economy & large financial conglomerates, coordination among the financial regulators, financial literacy and financial inclusion. - Secretariat assistance by: FinMin → Dept. of Economic Affairs (आर्थिक मामलों का विभाग)
FSB (2009) HQ: BASEL	<ul style="list-style-type: none"> - Financial Stability Board is a brainchild of G20. (वित्तीय स्थिरता बोर्ड) - Functions? Financial monitoring at global level, Coordination between national financial regulators bodies. (अलग-अलग देशों के वित्तीय नियंत्रक के बीच तालमेल) - India has 3 seats in FSB: 1) Secretary of Department of Economic Affairs (IAS) 2) Dy. Governor of RBI 3) SEBI chairman
FATF (1989) HQ: Paris	<ul style="list-style-type: none"> - Financial Action Task Force (वित्तीय कार्रवाई कार्यदल) is a brainchild of G7. - India member in 2010. Function? Combating Money laundering and terror finance. (More 📖 Pill#2) (धन शोधन और आतंकी वित्तपोषण से लड़ना)
IOSCO	<ul style="list-style-type: none"> - International Organization of Securities Commissions (IOSCO) is the international body of world's securities regulators. SEBI is a member. - Famous for its IOSCO Guidelines for Investors Protection & risk prevention

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




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

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

15.17 INVESTMENT FUNDS → MUTUAL FUND (MF) FOR AAM-AADMI




Figure 7: *swag* से करेंगे 'middle-class' का 'स्वागत'। Observe colors in logo, meant for attracting ordinary crowd

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

15.17.1 Mutual fund → ESG, Shariya Mutual Funds

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

15.17.2 Mutual fund → SIP, ELSS, ULIP

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




15.17.3 Mutual fund → Mutual fund risk-o-meter

- ⇒ SEBI requires mutual fund company to disclose how much risk is present in their scheme, on a monthly basis, thru a digital dashboard called 'risk-o-meter'. (कितने जोखिम पूर्ण तरीके से निवेश कर रहा है)
- ⇒ It shows 6 categories of risk: low, low to moderate, moderate, moderately high, high, (#)very high risk. (#) SEBI added this new category 'very high risk' in 2020-Oct.
- ⇒ This helps the investor to make decision- which Mutual fund he wants to joins depending on his risk appetite. (उस हिसाब से निवेशक तय करें उसे कौन से सलामती पूर्ण या जोखिमपूर्ण म्यूचुअल फंड में जाना है.)





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

तंगहाल म्यूचुअल फंड की मदद के लिए “बैकस्टॉप” नाम की नई इकाई/संस्था

- Mutual Funds invest clients money in shares and bonds.
- Sometimes due to scam/bad news the bond becomes 'less liquid / illiquid'
- e.g. MF bought bonds of Vodafone or Spicejet, later those companies facing difficulties in Business. Now MF wants to exit/sell-away its bond in secondary market but no other investors willing to buy those bonds due to negative news about Vodafone or Spicejet. So bond has become 'less liquid / illiquid'
- So, SEBI proposed to set up a 'backstop entity/organization'
- Backstop entity will buy Corporate Bonds from such mutual funds to reduce their stress. So, MF can return money to its clients.

🚩  FAQ: How is this similar/different than Bad BANK / RBI's Special Windows for MF/TLTRO? How will Backstop entity cover its own losses? = NOT IMPORTANT because this organization is yet to be established.

15.17.5 (:) Bond Buying Institution in Budget-2021

- ⇒ Secondary market-Provides liquidity to the investor -Since he can sell existing shares/bonds and hand to others → motivation to buy new shares/bonds in primary market → capital to healthy new company.
- ⇒ But in India, the secondary market for bonds is not fully developed. Inadequate number of large players → Difficult to re-sell the bonds at the right prices →  discourages the investors from bonds → Difficult for companies to mobilize ₹ (द्वितीयक बाजार में बांड को बेचने में असुविधा के चलते निवेशक बांड से कतराते हैं)
- ⇒ So,  Budget-2021: Proposed to setup a body/organization to purchase investment grade debt securities. This body will buy bonds both in stressed and normal times.
- ⇒  Benefit? development/Deepening of the Bond market. (बांड बाजार की जड़ों को गहरा करें)
- ⇒  Exact name of the organisation? headquarter? Ans. details yet to be announced.



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



Figure 8: Swag से नहीं करेंगे 'middle-class' का 'स्वागत'। Observe 'premium' logo-designs to attract rich people

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

15.18.1 Investment Funds: Hedge Fund (हेज फण्ड): Related topic “Accredited Investor”

- Rich investors who've annual income ₹2 crore or higher, good knowledge and experience about financial markets, and other technical eligibility conditions. (अमीर निवेशक जिसे काफी अनुभव है वित्तीय बाजारों का)
- SEBI will classify them “Accredited Investor” & allow them to invest in certain complex and risky financial securities with relaxed rules. (मान्यता प्राप्त निवेशक की उपाधि मिलेगी, वह जटिल किस्म की वित्तीय प्रतिभूतियों में निवेश कर पाए उस वास्ते सेबी नियमों को सरल बनाएगी)

What are examples of those complex products, how it will work? NOT IMPORTANT.

15.18.2 Investment Funds → REITs / InvITs: for rich-aadmi

	REITs: Real Estate Investment Trusts -(भू-भवन-संपत्ति निवेश न्यास)	InvITs: Infrastructure Investment Trusts-(अधिसंरचना)
Who can invest?	HNI / institutions: Min. ₹2 lakh ₹50,000 investment	₹10 lakh. ₹1 lakh (SEBI reduced minimum limits in 2019 to attract more investors)
Manager parks the money in?	in real estate projects that are soon to complete. He'll earn income from rent / sale.	In airport, highway, thermal plants, gas grid etc. He'll earn from toll collection at highways, services fees at airports etc.
Example	Blackstone-Embassy group	IRB, India-grid

Benefits of REITs and InvITs-

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



15.18.3 📁 🏦 🏠 Investment Funds → Sovereign Wealth Fund (संप्रभु धन कोष)

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

15.19 📁 🏦 INVESTMENT FUNDS → CPSE-EXCHANGE TRADED FUNDS (ETF: ईटीएफ)

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

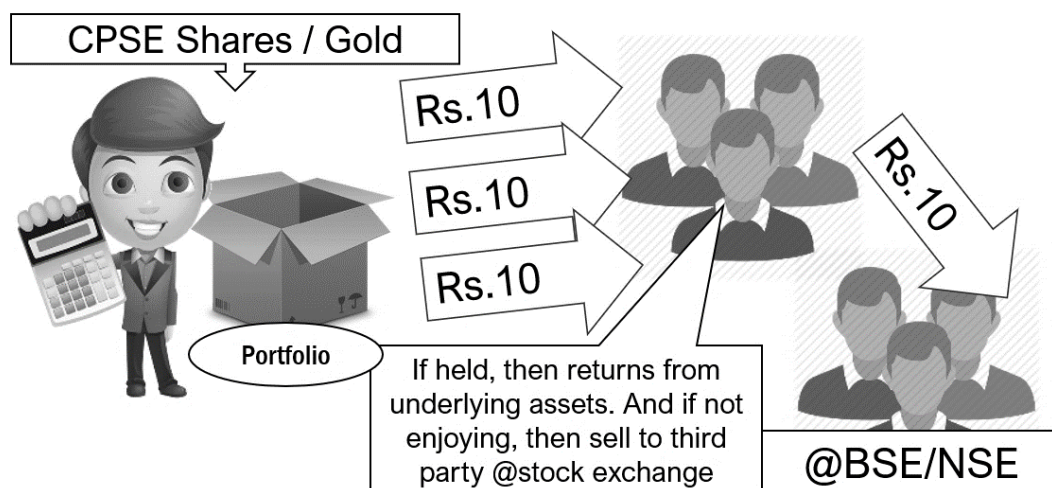


Figure 9: how do exchange traded funds (ETF) work?

- ⇒ **BHARAT-22:** Another CPSE-ETF when Govt wanted to disinvest shares from 22 companies including CPSE, PSBs and UTI using ICICI Prudential as fund manager (2017-18). However,



PSB-NPA problem → poor dividends → BHARAT-22 not giving good returns, so, investors response was initially lukewarm.

⇒ Later govt announced, “We’ll give the ELSS-walla income tax benefits to CPSE-ETF-investors as well” to attract investors.

15.19.1 (👤🔑📁): (🏢📈🤝) Bharat Bond (Debt) ETF (2019-Dec)

⇒ Fund Manager (Edelweiss Asset Management ltd) → He’ll issue Bharat Bond-ETF.

⇒ **Maturity:** 3 yrs and 10 years. **Unit Size:** ₹1000 each. So even middle-class investors buy these Bond-ETFs.

⇒ Fund managers will invest this ₹ into a basket of bonds issued by Central Public Sector Enterprises, Central Public Financial Institutions (CPFIs such as public sector bank and insurance companies) and other Government organizations. ETF will be tradable at the stock exchange.

👍 Bharat bond ETF: Benefits?

- ✓ **For Government companies** = Easier and more efficient to borrow ₹ instead of individually launching their bonds in the market. एक एक सरकारी कंपनी अलग से बांड जारी करती तो शायद निवेशक सब को नहीं मिल पाते
- ✓ **For Investors** = Safety, assured return on bonds, irrespective of Government company’s profit.
- ✓ 📈 retail participation → deepening capital market. (खुदरा निवेशक की मदद से पूंजी बाजार की जड़ों की ओर गहरा करना)
- ✓ 📁 **Budget-2020:** given success of Bharat bond ETF, we are planning to launch another debt-ETF containing G-sec. This will help the retail investors to invest in G-sec.

Misc. : Gold-ETF: Investors give money → manager buys gold for safekeeping and trades it depending on price movements → returns are divided among the unit-holders. In between, the investor may sell his Gold-ETF to third party via Stock Exchange therefore they’re also Exchange Traded Funds. How/why/NOTIMP

15.19.2 (👤🔑📁): (🏢📈🤝) CPSE-ETF vs Mutual Fund

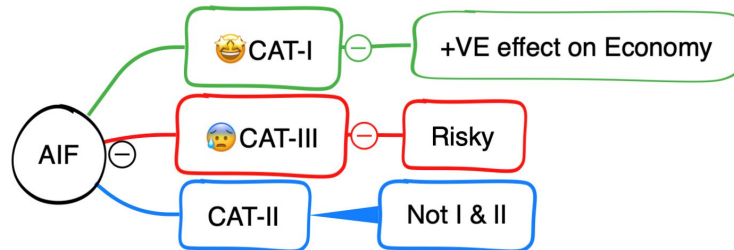
Table 3: Sad that I’ve to spoonfeed this much

Mutual Fund	CPSE-ETF
Objective = invest clients’ money in shares/bonds	Objective different than Mutual Fund (1) help Government for its disinvestment (2) help Government company to borrow money (Bharat-Bond ETF)
fund managers may buy/sell variety of shares and bonds of Government companies and private sector companies for best returns through out the scheme.	He’s not doing that. His objective given above.
a fund manager may also change the composition of the portfolio for example if	His portfolio (list of govt companies’ shares/bonds) is fixed. It’ll not change.



Mutual Fund	CPSE-ETF
Infosys shares are not performing well → he may sell them and fill up the box with Wipro shares for better dividend.	

15.20 INVESTMENT FUNDS → ALTERNATIVE INVESTMENT FUNDS (AIF)



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

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

15.20.1 Govt's AIF for Real Estate Sector (2019)

- ⇒ 2019: Govt to setup an alternative investment fund (AIF Category-II) using ₹ of govt, SBI and LIC. (Total 25,000 cr). [Moral outrage: why not in Cat1? Ans. Send your suggestion to SEBI.]
- ⇒ **AIF Fund manager:** SBI Cap ventures ltd.
- ⇒ **AIF Fund manager** will give ₹ (as Debt finance) to builders with unfinished housing projects → demand for steel, cement, construction workers= economic growth.

15.21 FORWARD / FUTURE CONTRACTS & CALL / PUT OPTION

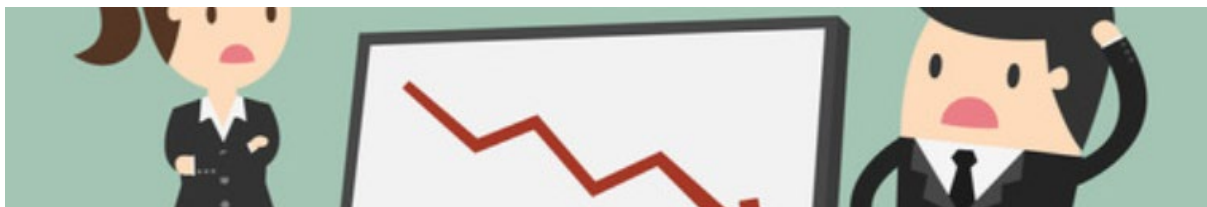


Figure 10: भविष्य में खरीदने का सोदा तो किया, लेकिन दाम गिर जाए, तो खुद को बचाऊँ तो कैसे?

- A Forward / Future contract is a customized contract between two parties where settlement takes on a future date at a price/quantity agreed upon today. E.g. *on 1/5/2021 I shall sell you 100 nos. of Infosys shares at ₹1000 each.*
- In such contracts, there is a risk of other party not honoring commitment if he's getting better



deal elsewhere in the future. So, for protecting (=hedging) themselves, they (=buyer or seller) may buy “Option” from a third party by paying fees. नुकसानी से बचने के लिए बीमा लिया जाए

- Option is a type of insurance for executing the forward/future contract in a manner beneficial to them e.g. I'll sell you for ₹1000 on X date, & you must buy, but if I'm getting another buyer who is willing to pay ₹1500 then I may not sell you & you can't compel me. Such 'insurance options' are further subdivided into **Call Option and Put Option**, their internal difference & real-life mechanism not imp. for UPSC.

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

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

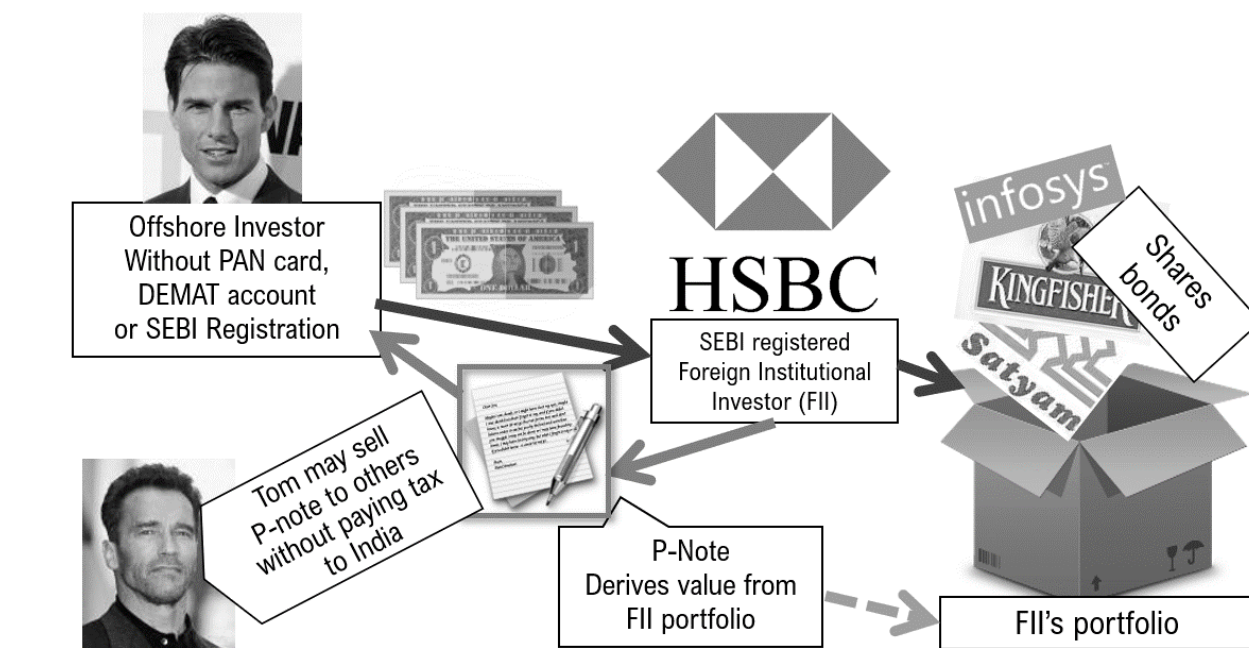
15.22 DERIVATIVES & SWAPS (व्युत्पन्न प्रतिभूतियां और अदला-बदली)

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

15.22.1 : **Bilateral Netting of Qualified Financial Contracts Act 2020**
DELETED from 2022 because outdated/faded topic.

15.23 PARTICIPATORY NOTES (P-NOTES: पार्टिसिपेटरी नोट्स)

- ⇒ A foreigner wishes to **invest** his money in India but does not want to go through the hassles of registering with SEBI, getting PAN card number, opening a DEMAT account etc. So, he will approach a SEBI registered foreign institutional investor (FII) / foreign portfolio investor (FPI) such as Morgan Stanley, Citigroup or Goldman Sachs. He'll pay them & instruct them to purchase particular shares and bonds and store them in their Demat account.
- ⇒ Then FII will give him P-Notes, and he'll receive interest and dividend accordingly.
- ⇒ He may also sell those P-notes to a third party. (किसी अन्य व्यक्ति को भी बेच सकता है)
- ⇒ P-Notes are **Offshore Derivative Instruments** that derive the value from the underlying Indian shares and bonds. (अपतटीय व्युत्पन्न उपकरण)



⇒ Figure 11: बिना SEBI पंजीकरण के भारतीय पूंजी बाजार में निवेश कर, तो कैसे?

P-Notes are harmful for Indian economy because:

⇒ P-note investors are not directly registered with SEBI. Identity of the actual investor, source of funds remain disguised= chances of Tax evasion, money laundering, terror finance (इसके निवेशक ने स्वयं सेबी में पंजीकरण नहीं करवाया वह पैसा किधर से लेकर आया यह सब जानकारी नहीं मिल पाती, कर चोरी, काले धन को वैध बनाना, आतंकी वित्तपोषण)

⇒ If P-Note owner sells his P-Notes to another foreign investor, Government of India may be **deprived of taxes**. (Compared to a scenario where Indian share owner is selling his shares to another Indian investor at profit, then government gets securities transaction tax and capital gains tax on his profit, & he can't dodge it because DEMAT accounts linked with PAN card.

More on PAN card@Pillar#2 → BlackMoney)

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

Table 4: Sad that even for such simple things I've to create such spoonfeeding-tables just to prevent FAQs from weak students

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



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

Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (Pre19-SetA Q67) (a) Certificate of Deposit (b) Commercial Paper (c) Promissory Note (d) Participatory Note

15.23.1 Conclusion: Financial Markets- वित्तीय बाजारों के बारे में निष्कर्ष

- ✓ A well functioning financial market catalyzes the process of economic development. It is therefore essential that such markets operate in a free, fair, competitive and transparent manner. एक सुविकसित वित्तीय बाजार आर्थिक विकास की प्रक्रिया में उद्दीपक का काम करता है। ऐसे बाजार का स्वतंत्र, निष्पक्ष, प्रतिस्पर्धी और पारदर्शी रूप से संचालित होना आवश्यक है।
- ✓ Deepening the financial market helps mobilize the savings of poor households into the productive channels of the economy. पूंजी बाजार को गहरा करने से गरीब परिवारों की बचत को अर्थव्यवस्था के विभिन्न क्षेत्रों को क्रियान्वित करने में मदद मिलती है।
- ✓ Aforementioned initiatives /issues are greatly important in that regard need to be addressed in priority basis. इस संबंध में पूर्वोक्त पहल / मुद्दे बहुत महत्वपूर्ण हैं / उन्हें अग्रताक्रम से संबोधित करना आवश्यक.

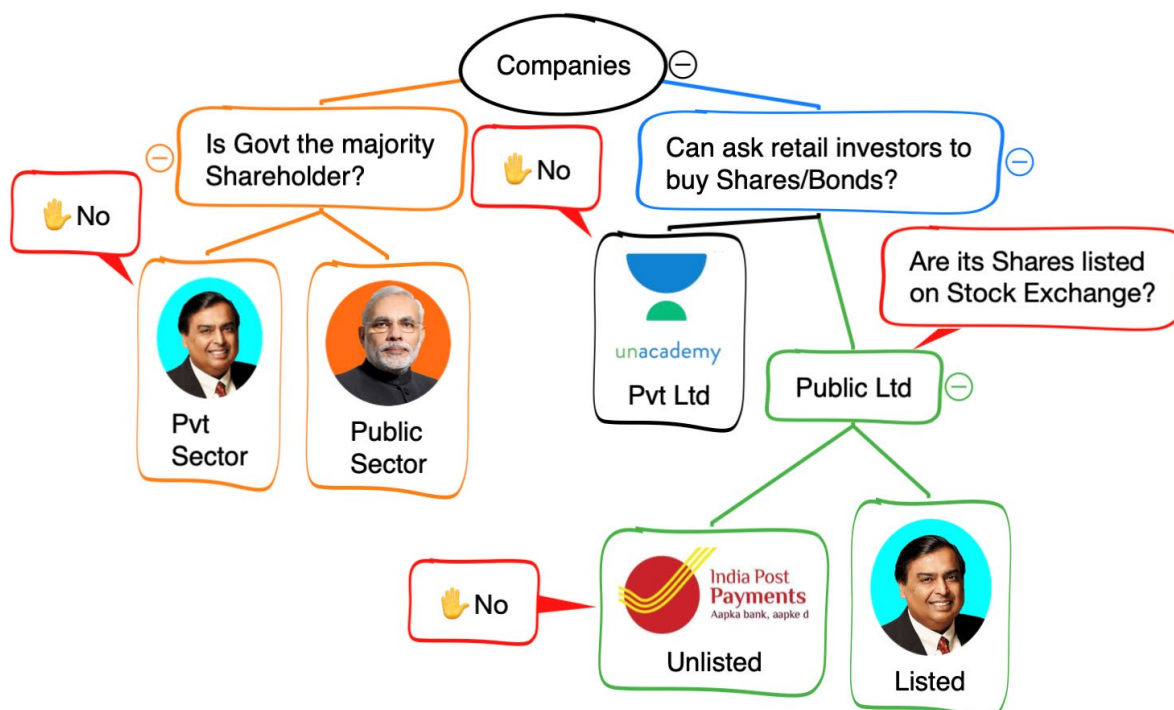
Pillar 1C2: Corporate Governance

15.24 COMPANY TYPES

15.24.1 Company types based on incorporation

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

15.24.2 Company types based on number of members



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



	Private ltd.	Public Limited Company (Companies Act 2013)
Corporate Governance Norms	Norms either not applicable or relaxed. UPSC- CSE≠CA	Companies Act requires them ⇒ to hold specific number of annual meetings of board of directors, norms for quorum, mechanism for e-voting, ⇒ have to appoint Company Secretary, ⇒ Implement mechanism for protecting whistleblowers And so on...

FAQ: How can pvt limited company have shareholding?

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


15.24.3 🏢👤 Company types based on Ownership

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


15.24.4 🏢👤 Company Types: Misc.

Under Companies Act	<p>⇒ One Person Company: special type of private ltd company having only one member. 📅 Budget-2021: One Person Companies (OPCs)- Legal reforms in Companies Act to [1) allow NRIs to easily register OPC in India [2) OPC can be converted to other types of companies any time</p> <p>⇒ Not for Profit Company: e.g. GSTN, NPCi etc. their profit is re-invested in business expansion. They get certain tax benefits & relief in how frequently they've to submit data to MCA. (लाभ-रहित कंपनी, जो कंपनी मुनाफे के लिए नहीं बनाई गई)</p> <p>⇒ Dormant Companies: A) setup to start business in future B) setup to store</p>
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	intellectual property C) not filled annual returns for two consecutive years. (निष्क्रिय/सुप्त कंपनी)
 Under LLP Act 2008 सीमित देयता भागीदारी अधिनियम	⇒ Limited Liability Partnership (LLP) Company is formed by minimum 2 or more partners. ⇒ Individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct. E.g. Vajiram and Ravi IAS Study Centre LLP ⇒ LLP's registration fees, auditing/reporting norms, tax liabilities, winding up process etc. are more flexible than a (public or pvt) ltd. company registered under Companies Act. उनके लिए नियमों में रियायत/आसानी होती है।
Under Indian Partnership Act 1932	⇒ A Partnership firm is formed by minimum 2 or more partners. ⇒ Each partner is liable jointly with all the other partners for losses, wrongful biz. decisions and misconduct.

15.24.5 Corporate Governance → Small Companies given compliance relief


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

15.24.6 Commercial Organizations: Other Types

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

15.24.7 Corporate Governance → LLP settlement Scheme 2020

सरकार में कुछ दस्तावेज जमा कराने होते हैं. अगर नहीं कराए तो इतना दंड भरकर मामला सुलझा लेते हैं / मुकदमा दर्ज नहीं करेंगे

- ⇒ Limited Liability Partnership (LLP) companies are required to submit accounts and ownership related documents to the Ministry of Corporate Affairs.
- ⇒ But many of them did not submit the documents on the deadline → Govt ordered them to pay late fees/penalties, threatened them with prosecuting cases under the LLP Act and cancelling their registration.
- ⇒ LLP settlement Scheme, 2020: "If you submit the required documents between x to y date → Then you will have to pay less penalty and we will give you immunity from prosecution.", said the Government.
- ⇒  Budget-2021: we'll amend LLP Act for further ease of doing biz.

15.25 STATUTORY BODIES IN MINISTRY OF CORPORATE AFFAIRS (MCA)

15.25.1 Competition Commission of India (भारतीय प्रतिस्पर्धा आयोग)

- ⇒ Competition among companies= consumer gets goods and services at the most competitive / affordable prices. कंपनियों के बीच स्पर्धा होगी तभी तो ग्राहक को अच्छी सेवा और किफायती दाम में चीजे मिलेंगी



- ⇒ Therefore, government must prevent cartelization (price fixing or production fixing by a group of Companies), prevent monopoly (single company commanding the production / supply), protect consumers' interests and ensure freedom of trade.
- ⇒ 1970: Monopolies and Restrictive Trade Practices (MRTP) Act.
- ⇒ Later MRTP Act replaced with Competition Act, 2002- which has a statutory regulator Competition Commission of India (CCI: 1 Chairman + 6 Members)
- ⇒ In past, CCI has imposed penalties on cement companies, real estate companies. It is also investigating Airtel, and other telecom companies for alleged cartelization.

15.25.2 Insolvency and Bankruptcy Board of India (IBBI)

This too is a statutory body under the Ministry of Corporate Affairs (MCA). Read previous Pillar#1B-2: NPA-handout for more on IBC Code.

Table 5: Bodies under Companies Act 2013

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

15.25.3 Ministry of Corporate Affairs also associated with:

Chartered Accountants Act 1949	Regulates the CA profession through a Statutory body: Institute of Chartered Accountants of India (ICAI). ICAI also has IPA status under I&B Code.
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Company Secretaries Act, 1980	Statutory Body: Institute of Company Secretaries of India (ICSI). Also has IPA status. REF (More in 📄 Pillar#1B2)
Cost and Works Accountants Act, 1959	Statutory Body: Institute of Cost Accountants of India (ICAI). Also has IPA status. What does it mean? REF (More in 📄 Pillar#1B2)
Legislative Responsibilities of MCA	<p>⇒ 1860: Societies Registration Act- for registration of literary, scientific and charitable societies. E.g. Sahitya Akademi, National School of Drama etc. जो मुनाफे के लिए नहीं लेकिन कला साहित्य विज्ञान के प्रसार के लिए बने</p> <p>⇒ 1932: Partnership Act</p> <p>⇒ Companies Act 1956 → 2013.</p> <p>⇒ 2008: Limited Liability Partnership Act</p>
E-governance initiatives of MCA	<p>⇒ INC-29 online form to registration of new company. Later it was replaced with Simplified Proforma for Incorporating Companies (SPICE) online form.</p> <p>⇒ MCA-21 portal, where companies can file online documents related to Companies Act compliance. MCA21 Version 3.0= this latest Version 3.0 portal will have additional modules for e-scrutiny, e-Adjudication, e-Consultation and Compliance Management.</p>
Officers	Indian Corporate Law service (ICLS) via UPSC CSE-exam

15.26 🧑🧑 CORPORATE GOVERNANCE (कॉर्पोरेट शासन)



Figure 12: तुम मेरे पापा के दोस्त हो? - Cyrus Mistry

It is a way of directing the company to protect the interest of all stakeholders, and ensure three types of compliance: (कंपनी निर्देशित करने का एक तरीका जिससे हितधारकों की रक्षा हो)

Compliance	Example(s)
Legal-Regulatory कानूनी-नियामक	<p>⇒ Company obtaining Legal Entity Identifier (LEI) number as mandated by RBI.</p> <p>⇒ Company setting up 'Internal Complaints Committee' as mandated by Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 / "POSH Act"</p>
Technical तकनीकी	<p>⇒ Companies keeping balance sheets as per the Ind-AS accounting standards.</p> <p>⇒ Automobile company producing car engines as per BHARAT-Stage emission norms.</p>



Moral-Ethical नैतिक-सदाचार-पूर्ण	Gillette scrapping the ad-contract with cricketer Hardik Pandya for his sexist comments against women on Koffee with Karan Show.
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- ⇒ Absence of Corporate Governance leads to fraud, embezzlement (गबन), erosion of investors' confidence. E.g. **Satyam** Computer Scandal (Chairman Ramalinga Raju manipulated account books), Boardroom battles at Tata Group (Cyrus Mistry vs Ratan Tata) and **Infosys** Group (Narayana Murthy vs Vishal Sikka fighting, 2019: whistle-blower complaint about financial irregularities), **ICICI** (Boss Chanda Kochhar gave ₹3000 crore loan to Videocon company without due-diligence, which turned NPA.)
- ⇒ Therefore, Companies Act 2013 mandates companies to impose term limits on directors, appoint independent directors, one person can't become director in more than "X" number of companies, one CA can't audit more than "Y" number of companies, Company has to setup whistle-blower protection (व्हिसलब्लोअर सुरक्षा) mechanism, Company can't give loan to its directors and so forth.
- ⇒ An auditor is authorised personnel that verifies the accuracy of financial records. Their primary objective is to protect businesses from fraud. Companies Act → **Companies Auditor's Report Order (CARO)** = Auditors have to annually submit reports to the Ministry of Corporate Affairs
- ⇒ Companies Act also has provisions for **Related Party Transactions (RPT)** to avoid scam/embezzlement. (More in 📖 Pillar#4: Ease of Doing Biz)

15.26.1 👤👤 Corporate Governance: notable Committees

- ⇒ Notable committees for improving corporate governance in India: Kumar Mangalam Birla (1999), Narayana Murthy (2003), Adi Godrej (2012), Uday Kotak (2017).
- ⇒ Further, SEBI too can issue directives to Public Limited Companies in the interest of investors, beyond what is required under Companies Act. Such as...

Table 6: 🕒 not imp to memorize all provision. just observe pattern. Most of the Deadlines postponed due to Corona

SEBI implemented Uday Kotak committee's suggestions	From 2020-Apr [#]
Split CEO/MD and Chairman. One person can't occupy both positions in his company (e.g. Gautam Adani)	Top 500 listed cos. although now SEBI made it voluntary now. (स्वैच्छिक)
Companies Act requires min.3 directors in Public Listed company, but SEBI mandated to have min. 6 directors	Top-2000 listed cos
Companies Act doesn't prescribe gender of independent director but SEBI mandated atleast one independent woman director.	Top 1,000 listed cos.
one person can serve as director in how many companies? (Companies Act: Max.10), but SEBI required	7

- ⇒ # 🕒 **ATMANIRBHAR** = SEBI deferred many of above guidelines. Dynamically changing info so



we need not chase it @ball-by-ball commentary.

15.26.2 🏢 (🏠 🏢) CSR: Corporate Social Responsibility (कॉर्पोरेट सामाजिक जिम्मेदारी)

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

- ⇒ Mandated under Companies Act 2013: Last 3 years' avg. profit → spend 2% of that on CSR (education, environment, public health, sanitation, disaster management etc.)
- ⇒ Applicable on both public ltd and private ltd. with very huge profit / turnover / network
(🏠 🏢 what's the difference between these terms, what's the exact figure? Ans. UPSC is not Chartered Account exam.)
- ⇒ Ministry of Corporate Affairs (MCA) gives National CSR Awards to companies.

15.26.3 🏠 🏢 🏠 🏢 ATMANI: Corporate Governance → Companies Act relaxed

बहुत सारे अपराधों में अब जेल नहीं होगी केवल जुर्माना, और जुर्माने की रकम भी कम की गयी

- ⇒ Companies Act requires the companies to hold Meeting of the board of directors, and meeting of the shareholders every "x" number of days etc. This norm is relaxed due to corona lockdown. Guidelines also provided for e-voting and video conferencing.
- ⇒ Companies (Amendment) Bill, 2020 → Many offences under Companies Act have been decriminalized i.e. villains can settle by paying fines, & he'll not face arrest/jail.
 - E.g. if Corporate social responsibility reports not submitted to Government on time, delay in holding Annual General Meeting of the shareholders etc.
- ⇒ 📉 Fines/penalties for Small Companies, One person Companies, Start Ups and Producer Companies*.
 - * A Producer Company (PC) is a registered company by a group of farmers/agriculturists. We will learn in 📖 pillar4A: Farmer Producer Company (FPC)

15.26.4 🏢 Conclusion: Corporate Governance- निष्कर्ष

- ⇒ A healthy corporate sector plays an important role in creating jobs, improving exports, and boosting GDP growth rate. एक स्वस्थ कॉर्पोरेट क्षेत्र रोजगार-निर्माण/सृजन, निर्यात और जीडीपी विकास दर को बढ़ाने में महत्वपूर्ण भूमिका निभाता है।
- ⇒ But, lack of corporate governance erodes investors confidence and prevents deepening of the financial market. Thereby it harms economic growth of a country. लेकिन, कॉर्पोरेट शासन की कमी/धांधली- निवेशकों के विश्वास को खत्म करती है, और वित्तीय बाजार को गहरा करने से रोकती है। जिससे देश की आर्थिक वृद्धि को नुकसान पहुँचाता है।
- ⇒ Aforementioned initiatives /issues are greatly important in that regard need to be addressed in priority basis. इस संबंध में पूर्वोक्त पहल / मुद्दे बहुत महत्वपूर्ण हैं / उन्हें अग्रताक्रम से संबोधित करना आवश्यक.

15.26.5 🏠 🏢 Mock Questions for Mains (GSM3/250 Words Each)

- 1) (GSM2-2015) In the light of the Satyam Scandal (2009), discuss the changes brought in corporate governance to ensure transparency, accountability. सत्यम स्कैंडल (2009) पश्चात पारदर्शिता, जवाबदेही सुनिश्चित करने के लिए कॉर्पोरेट प्रशासन में लाए गए बदलावों पर चर्चा करें।
- 2) (GSM3-2015) Craze for gold in Indians have led to a surge in import of gold in recent years and put pressure on balance of payments and external value of rupee. In view of this, examine the merits of



Sovereign Gold Bond Scheme and Inflation Indexed Bonds (IIB). भारतीयों में सोने के लिए सनक के चलते हाल के वर्षों में सोने के आयात में वृद्धि और भुगतान के संतुलन और रुपये के बाहरी मूल्य पर दबाव बढ़ा है। इसे देखते हुए, संप्रभु स्वर्ण बॉन्ड स्कीम और मुद्रास्फीति सूचकांकित बांड की खूबियों की जांच करें। संतुलन और रुपये के बाहरी मूल्य पर दबाव डाला है। इसे देखते हुए, संप्रभु स्वर्ण बॉन्ड स्कीम और मुद्रास्फीति सूचकांकित बांड की खूबियों की जांच करें।

- 3) "Just as good governance is necessary for vibrant Indian democracy, corporate governance is necessary for vibrant Indian economy." elaborate. "जिस प्रकार जीवंत भारतीय लोकतंत्र के लिए सुशासन आवश्यक है, उसी प्रकार जीवंत भारतीय अर्थव्यवस्था के लिए कॉर्पोरेट शासन आवश्यक है।"
- 4) Discuss the significance of deepening the capital market to resolve the Twin Balance sheet Syndrome (TBS) in Indian Economy. दोहरे तुलन पत्र की चुनौती को हल करने के लिए पूंजी बाजार को गहरा करने के महत्व पर चर्चा करें।
- 5) Discuss the significance of the Securities Market Code and Investors Charter in deepening the capital market of India. भारत के पूंजी बाजार को गहरा करने में प्रतिभूति बाजार संहिता और निवेशक अधिकारपत्र के महत्व पर चर्चा करें।
- 6) Why are Indian financial regulators apprehensive about (1) P-Notes (2) Cryptocurrencies? भारतीय वित्तीय नियामक (1) पी-नोट्स (2) क्रिप्टोक्यूरेंसी से आशंकित क्यों हैं?

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