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# SHORT NOTES
# Regulatory Bodies of India

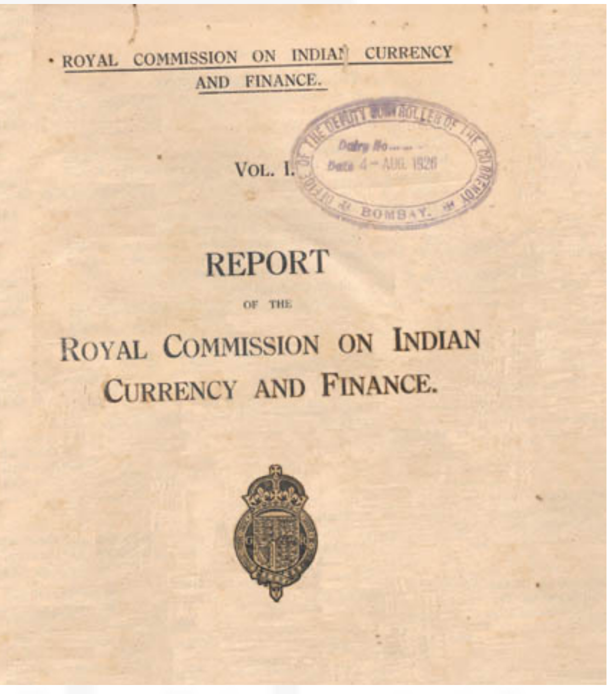
# RESERVE BANK OF INDIA


The Reserve Bank of India is the central bank of India whose primary function is to manage and govern the financial system of the country.

- It is a statutory body established in the year 1935 under the Reserve Bank of India Act, 1934.

## Origin of RBI

The **Reserve Bank of India** was set up based on the recommendations of the **Hilton young commission.**




The Bank was constituted to

- Regulate the issue of banknotes
- Maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage

Starting as a private shareholders' bank, the Reserve Bank was nationalized in 1949

The RBI is often referred to by the name- **Mint Street**

# Organization Structure

**Central Board of Directors**

Governor

↓

Deputy Governors

↓

Executive Directors

↓

Principal Chief General Managers

↓

Chief General Managers

↓

General Managers

↓

Deputy General Managers

↓

Asstt. General Managers

↓

Managers

↓

Asstt. Managers

↓

Support Staff

## Central Board of Directors

- The Central Board of Directors is at the top of the Reserve Bank's organizational structure. Appointed by the government.
- The Governor is the Reserve Bank's chief executive. It supervises and directs the affairs and businesses of RBI
- The Central Government nominates fourteen directors on the central board, including one director each from the four local boards
- The Central Government also nominates 2 government officials as a director representing the government
- The Reserve Bank Governor and a maximum of four Deputy Governors are also ex officio directors on the Central Boar

# Board for Financial Supervision (BFS)

The **Board for Financial Supervision (BFS)** was constituted in **November 1994** as a **committee of Central Board of Directors.**

Its objective is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies

It is **chaired** by RBI Governor, deputy governors are the ex officio members

Some typical functions are:

- **Restructuring of the system of bank inspections**
- **Introduction of off-site surveillance**
- **Restructuring of the system of bank inspections**
- **Strengthening of the role of statutory auditors**
- **Strengthening of the internal defenses of supervised institutions**

## CAMELS Framework

The on-site inspection of banks is carried out on an annual basis.

**C**apital adequacy
**A**ssets
**M**anagement capability
**E**arnings
**L**iquidity
**S**ensitivity

Since 1995, on site inspections are based on CAMELS framework.

- It is an international rating system use to rate financial institutions.

CAMELS → Domestic Banks

CALCS → Foreign Banks

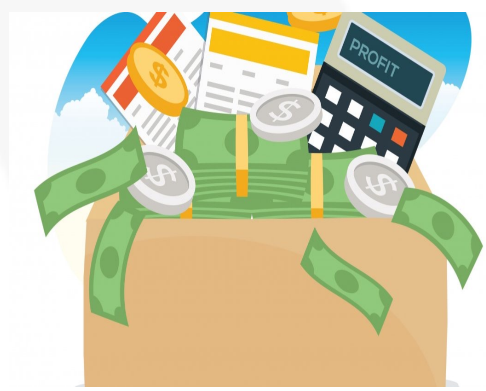
## Capital Adequacy

- Capital adequacy assesses an institution's compliance with regulations on the minimum capital reserve amount
- Regulators establish the rating by assessing the financial institutions' capital position currently and over several years

## Assets

This category assesses the quality of a bank's assets. Asset quality is important, as the value of assets can decrease if they are highly risky.

For example, loans are a type of asset that can become impaired if money is lent to a high-risk individual.




## Management Capability

It measures the ability of an institution's management term to identify and then react to financial assets

The managers capability depends on the-
1. Bank's business strategy
2. Financial performance
3. Internal controls

- **Earnings**

Earnings help to evaluate an institutions' long-term viability.

A bank needs an appropriate return to be able to grow its operations and maintain its competitiveness.

- **Liquidity**

For banks, liquidity is especially important, as the lack of liquid capital can lead to a bank run.

This category of CAMELS examines the interest rate risk and liquidity risk.

- **Sensitivity**

Sensitivity is the last category and measures an institutions' sensitivity to market risks.

It reflects the degree to which earnings are affected by interest rates, exchange rates, and commodity prices, all of which can be expressed by Beta

## Board for Regulations and Supervision of Payment and Settlement Systems (BPSS)

It is a sub-committee of the central Board of the Reserve Bank of India is the highest policy making body on payments systems in the country.

The BPSS lays down the policies for regulations and supervision of payment and settlement systems, sets standards for existing and future systems, authorizes such systems, and lays down criteria for their membership

In India, the payment and settlement systems are regulated by the **Payment and Settlement Systems Act, 2007**

**The Reserve Bank Governor is the Chairman of the BPSS.**

## Subsidiaries of RBI

**The Reserve Bank has the following fully-owned subsidiaries:**

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC)
- Bhartiya Reserve Bank Note Mudran Private Limited (BRBNMPL)
- Reserve Bank Information Technology Private Limited (ReBIT)
- Indian Financial Technology and Allied Services (IFTAS)
- Reserve Bank Innovation Hub (RBIH)

# ❑ Deposit Insurance and Credit Guarantee Corporation (DICGC)

The concept of insuring deposits kept with banks received attention for the first time in the year 1948 after the banking crisis in Bengal


Deposit Insurance Act, 1961 came into force on January 1st, 1962

Deposit Insurance Corporation (DIC)

+

Credit Guarantee Corporation of India (CGIC)

↓

Deposit Insurance and Credit Guarantee Corporation (DICGC) → Came into existence in 1978

The **head office** of the corporation is in **Mumbai**

## Banks covered by Deposit Insurance Scheme

i) **All commercial banks** including the branches of **foreign banks functioning in India, Local Area Banks** and **Regional Rural Banks**

ii) **Co-operative Banks**

## Types of deposit covered

The **DICGC insures** all deposits (such as savings, fixed, current and recurring deposits except the deposits mentioned on the next page-

a) Deposits of Foreign Governments

b) Deposits of Central/State Governments

c) Inter-bank deposits

d) Deposits of the State Land Development Banks with the State Co-operative Bank

e) Any amount due on account of any deposit received outside India

f) Any amount which has been specifically exempted by the corporation with the previous approval of the RBI

## Insurance coverage

Initially the insurance cover was limited to Rs.1500/- per depositor in all the branches of the bank taken together.

DICGC Act also empowers the Corporation to raise this limit with the prior approval of the Central Government. Accordingly, the insurance limit was enhanced from time to time as follows:

- ₹5,000/- with effect from 1st January 1968
- ₹10,000/- with effect from 1st April 1970
- ₹20,000/- with effect from 1st January 1976
- ₹30,000/- with effect from 1st July 1980
- ₹1,00,000/- with effect from 1st May 1993 onwards.
- ₹5,00,000/- with effect from 4th February 2020 onwards.

## ❑ Bharatiya Reserve Bank Note Mudran Private limited (BRBNMPL)

**RBI** established **BRBNMPL on February 3rd, 1995,** as a wholly-owned subsidiary to **augment the production of banks notes in India** to enable bridging **of gap between supply and demand for bank notes in the country.**

The BRBNMPL has been registered as a Private Limited Company under the companies Act 1956 with its Registered and Corporate Office situated at Bengaluru.

The company manages two presses-

1. At Mysore in Karnataka
2. At Salboni in West Bengal

## ❑ Reserve Bank Information Technology Private limited (ReBIT)

Set up by the Reserve Bank of India in 2016, for its IT and cyber security needs and to ensure cyber resilience of Indian Banking.

## ❑ Indian Financial Technology and Allied Services (IFTAS)

**Indian Financial Technology and Allied Services (IFTAS)**, is a wholly owned subsidiary of Reserve Bank of India . It **provides critical infrastructure services to RBI, banks, cooperative societies and other financial institutions**

- The services provided are-

| |
|---|
| a) **Indian Financial Network (INFINET),** a closed user group MPLS network for banking and financial sector |
| b) **Structured Financial Messaging System (SFMS)**, a messaging system facilitating RTGS, NEFT, Government payments and receipts, etc. |
| c) **Indian Banking Community Cloud (IBCC)**, providing CBS and other software applications such as SFMS, mobile banking, etc. as web services. |
| d) **Global Interchange for Financial Transactions (GIFT),** an integrated payment & settlement system based on open source technology stack. |

## ❑ Reserve Bank Innovation Hub (RBIH)

**The Reserve Bank of India (RBI)** set up **the Reserve Bank Innovation Hub (RBIH)** to **promote innovation across the financial sector by leveraging technology and creating an environment which would facilitate and foster innovation.**

# Functions of RBI

The functions of the Reserve Bank can be categorized as follows:

a) Monetary Policy

b) Regulation and supervision of the banking and non-banking financial institutions

c) Regulation of money, forex and government securities markets as also certain financial derivatives

d) Debt and cash management for Central and State Governments Management of foreign exchange reserves

e) Foreign exchange management- current and capital account management banker to banks

f) Banker to the Central and State Governments oversight of the payment and settlement systems currency management

g) Development role

h) Research and Statistics

# Monetary Policy

**Monetary policy** is the macroeconomic policy laid down by the **Central Bank.**

It involves **management of money supply** and **interest rates** and is the demand side economic policy used by the government of a country to **achieve macroeconomic like inflation, consumption, growth and liquidity.**


## ❑ Types of Monetary Policy

Depending on its objectives, **monetary policy** can be **expansionary** or **contradictory-**


## Expansionary Monetary Policy

Expansionary monetary policy increases the money supply in order to lower unemployment, boost private-sector borrowing, consumer spending and stimulate economic growth.

## Contractionary Monetary Policy

Contractionary Monetary Policy slows the rate of growth in the money supply or decrease the money supply in order to control inflation.
It can slow economic growth, increase unemployment and depress borrowing and spending by consumers and businesses

## On which factors did the success monetary policy depends

**Operating Target**: Here RBI decides the primary target of monetary policy and also which monetary policy to used. For instance, inflation targeting

**Monetary Policy Instruments**: Here RBI decides which monetary policy instruments to used to achieve the specified target

**Monetary Policy Transmission**: An important factor that determines the effectiveness of monetary policy is its transmission – a process through which changes in the policy achieve the objectives of controlling inflation and achieving growth.

# Objectives of Monetary Policy

To maintain equilibrium of supply and demand of money

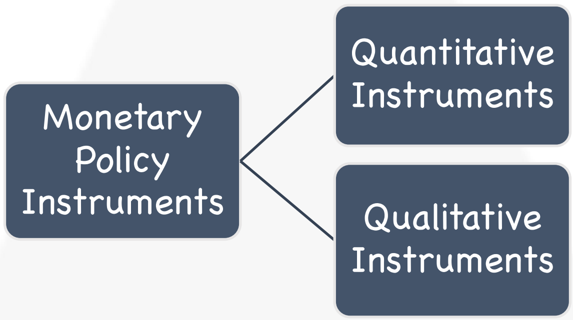
If disequilibrium – deflation or inflation in the economy

Supply > Demand of Money
↓
Too much money chasing few goods
↓
Inflation
↓
Fall in purchasing power of money

Supply < Demand of Money
↓
Shortfall of Money
↓
Deflation
↓
Rise in purchasing power of money

| | |
|---|---|
| Tight/Dear Money Policy | During inflation, if monetary policy tries to reduce money supply in the economy. |
| Easy/Cheap Money Policy | During deflation, if monetary policy tries to increase money supply in the economy. |

## Instruments of Monetary Policy




## ❑ Quantitative Instruments

The quantitative instruments are also known as general tools used by the RBI (Reserve Bank of India) As the name suggests, these instruments are related to the quantity and volume of the money. These instruments are designed to control the total volume/money of the bank credit in the economy.

### 1. General and Indirect Reserve Ratio (CRR, SLR)

CRR and SLR are a certain percentage of net demand and time liabilities and are the basic reserve ratios.

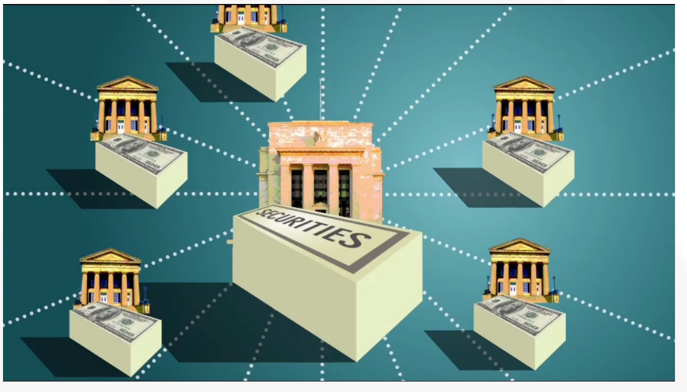

SLR is money kept in terms of liquid assets like cash, gold, RBI approved securities. SLR is maintained so that banks have liquid reserves, which can be used in times of need. SLR applies to all kinds of banks.

CRR is kept in cash. Banks cannot lend or invest this money. CRR applies to all kinds of banks

During inflation, **RBI increases** – **CRR and SLR requirements**

It reduces money supply in the economy, as more money is kept as reserve and less money is lent to public.

## 2. Open Market Operations




**Open market operation** is a method of controlling/ regulating money supply by RBI through purchase or sale of government securities to bank.

**Sale of securities by central bank** reduced the reserves of commercial banks. It adversely affects the bank's ability to create credit and therefore decrease the money supply in the economy

**Purchase of securities by central bank** increases the reserves and raises the bank's ability to give credit.

## 3. Rates (repo, reverse repo)

Liquified Adjustment facility consists of Repo Rate and Reverse Repo Rate-

Repo rate is the rate at which the central bank of a country lends money to commercial banks to meet their short-erm needs.

Reverse repo rate is the exact opposite of repo rate. It is the rate of interest at which commercial banks can deposit their surplus funds with the central bank, for a relatively shorter period of time.

## 5. Marginal Standing Facility

Marginal standing facility wherein banks can borrow from RBI by using SLR QUOTA securities (1% of NDTL), but subject to higher interest rates (repo + 1%)

## 6. Term Repo Rate

The 'term repo' window allows RBI to supply funds from time to time , with banks bidding for the rates at which they will borrow this money.

## 7. Market Stabilization Scheme

Under this scheme, the GOI borrows from the RBI (such borrowing being additional to its normal borrowing requirements) and issues Treasury-Bills/Dated securities that are utilized for absorbing excess liquidity from the market.

The MSS scheme was launched in April 2004 to strengthen the RBI's ability to conduct exchange rate and management.

# ❑ Quantitative Instruments

Qualitative instruments are also known as selective instruments of RBI's monetary policy. These instruments are used to discriminating between various uses of credit; for example, they can be used for favoring export over import or essential over non-essential credit supply. This method has an influence on both borrowers and lenders.

## 1. Loan to Value Ratio/ Margin Requirements

Margin is the difference between the amount of loan and market value of the security offered by the borrower against the loan.

If the margin fixed by the Central Bank is 40%, then commercial banks are allowed to give a loan only up to 60% of the value security. By changing the margin requirements, the Reserve Bank can alter the amount of loans made against securities by the banks.

## 2. Consumer Credit Control/ Down Payment

RBI can reduce-down payment requirements for loans to counter deflation and vice-versa. RBI can also reduce/increase minimum instalments for loans.

## 3. Moral Suasion

This is a combination of persuasion and pressure that Central Bank applies on other banks in order to get them act, in a manner, in line with its policy.

## 4. Direct Control

Selective direction action on banks if they do not comply with requirements.

## 5. Credit Rationing

Credit rationing refers to the situation where lenders limit the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates.

- "Priority Sector Lending" is a type of credit rationing

## Monetary Policy Committee


**About:**

The Monetary Policy Committee is a statutory and institutionalized framework under the Reserve Bank of India, 1934, for maintaining price stability, while keeping in mind the objective of growth.

## Formation

An RBI-appointed committee led by the then Deputy Governor Urjit Patel in 2014 recommended the establishment of the Monetary Policy Committee.
It came into force on 27th June 2016

## Chairman

The Governor of RBI is ex-officio Chairman of the committee.

## Members

The committee comprises six members (including the Chairman)

- Three officials of the RBI
- Three external members nominated by the Government of India

## Decisions

Decisions are taken by majority with the Governor having the casting vote in case of a tie.

## Functions

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

## Meetings

The meetings of the Monetary Policy Committee are held at least 4 times a year (specifically, at least once BIMONTHLY) and it publishes its decisions after each such meeting.

# Monetary Policy Stances

It is a standpoint which basically means an attitude to a particular issue or a point of view or perspective /outlook or approach.

- Various Monetary policy stances are-

| | |
|---|---|
| Hawkish Space | A hawkish stance indicates that the central bank's top priority is to keep the inflation low. During such a phase, the central bank is willing to hike interest rates to curb money supply and thus reduce the demand. |
| Dovish stance | It can be said the opposite f Hawkish. It is a calmer approach as compared to Hawkish. This stance is taken when the economy is not growing, and the government wants to guard against deflation There is a need to stimulate the economy. |
| Accommodative Stance | It means the central bank is prepared to expand the money supply to boost economic growth. The central bank here willing to cut the interest rates. |
| Neutral Stance | A 'neutral stance' suggests that the central bank can either cut rate or increase rate. This stance is typically adopted when the policy priority is equal on both inflation and growth. |

# Functions of RBI

## 1. Issuer of Currency

The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by Ministry of Finance)

### Coins and currency notes

**Coins**

Coins in India are presently being issued in denomination of 50 paise, one rupee, two rupees, five rupees and ten rupees.

Five Rupee Coin

Two Rupee Coin

One Rupee Coin

Fifty Paise

Coins up to 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'.

According to Coinage Act, 1906, the government of India has the sole right to mint coins.

## Currency

Banknotes in India are currently issued in denomination of Rs.10. Rs.20, Rs,50, Rs.100, Rs.200, Rs,500 and Rs,2000. These notes are called banknotes are they are issued by the Reserve Bank of India

The printing of notes in the denomination of Rs.2 and Rs.5 has been discontinued, however such banknotes issued earlier can still be in circulation and these banknotes continue to be legal tender.

## Demonetization

Rs.1000 and Rs.10,000 banknotes were demonetized in 1946, reintroduced as 1000, 5000 and 10,000 banknotes in 1954 and again demonetized in 1978.

- Demonetization of Rs.500 and Rs.1000 notes in 2016.

## How many languages appear in the language panel of Indian Banknotes?c

- There are 15 languages in the panel
- In addition, Hindi and English on both sides of the note.

## Currency Management

To facilitate the distribution of notes and rupee coins across the country, the reserve Bank of India has authorized selected branches of banks to establish currency notes. Currency chests are storehouses where bank notes and rupee coins are stocked on behalf of the Reserve Bank.

Thus, to distribute new currency notes, recycle old notes and keep cash reserves of the banks, currency chests come into play.

## Exchange of Notes

There are two categories of notes which are exchanged between banks and the Reserve Bank-

- **Soiled Notes**
- **Mutilated Notes**

**Soiled Notes**

These are the notes which have become dirty and limp due to excessive use.

**Mutilated Notes**

These are the notes of which some portion is missing, or which are composed of more than two pieces.

## 2. Banker and Debt manager to Government

Since its inception, the Reserve Bank has undertaken the traditional central banking function of managing the government's banking transactions.

The government also deposits its cash balances with the Reserve Bank of India.

As a banker to the government, the Reserve Bank receives and pays money on behalf of the various governments departments.

## Conflict of Interest in RBI managing government debt

There is a severe conflict of interest between setting the short-term interest rate (i.e., the task of monetary policy) and selling bonds for the government.

If the Central Bank tries to be an effective debt manager, it will lean towards selling bonds at high prices, i.e., keeping interest rates low. This leads to an inflationary bias in monetary policy.

**<u>Effective debt manager:</u>**
Sell bonds at higher prices
Keep interest rate low (indirect relation between interest rate and bond price)

**<u>Effective Inflation Controller:</u>**
Keep inflation in the healthy range
Government debt might get expensive if inflation is high and interest rates are raised to control it

### <u>Overcoming the conflict of interest through Public Debt Management Agency (PDMA)</u>

**<u>Public Debt Management Agency (PDMA)</u>** is a proposed independent agency that would manage the internal and external liabilities of the Central Government

It is an interim arrangement in the RBI itself, but it is to be given a separate statutory status from that of the RBI

The aim is to segregate the debt management function of the RBI and allot it to an independent agency.

- PDMA was proposed to be established in India through the Finance Bill 2015.
- It is set up with the objective of **"minimizing the cost of raising and servicing debt over the long term"**

## What are the functions of PDMA?

- To prepare plans for the government borrowings both under the categories of market borrowings and other borrowings.
- To manage the liabilities of the government
- To monitor the cash balances
- To improve the forecasting of cash
- Enhancing the liquidity and efficiency of the market to make it ready for floating of government securities.
- To advise the government on capital market operations, investment, administration of the rates of interest on small savings.
- To develop an Integrated Debt Database System which shall act as a centralized database of all the liabilities of the government on the basis of real time.

## Need for PDMA

Some of the general reasons are:

### 1. Institutional Reforms

The introduction of PDMA can pave the way for an institutional reform for building an efficient government securities market and transparency in public debt in India.

### 2. Internationally accepted practice

Separation of public debt management from the activities of central bank is also an internationally recognized practice for debt management. It is prevalent in most of the advance economies and developing economies like Colombia, South Africa and Brazil.

### 3. Omission of certain debt management functions

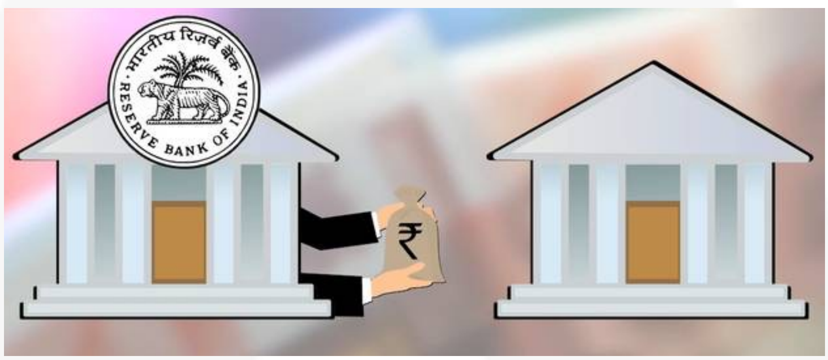
The RBI being involved in several functions, ignored certain incidental debt management functions like cash and investment management and there was no consolidation of the information relating to the contingent and other liabilities.

### 5. Conflict of Interests (explained)

### 6. Consolidation

Consolidating all the debt management functions can result in a holistic and more focused approach these debts- both internal and external liabilities.

## 3. Banker to Banks




The RBI being an apex monitory institution has obligatory powers to guide, help and direct other commercial banks in the country.

The RBI can control the volumes of banks reserves and allow other banks to create credit in that proportion. Every commercial bank must maintain a part of their reserves with its parent's viz the RBI

Similarly, in need or in urgency those banks approach the RBI for fund. Thus, it is called as the lender of the last resort.

## 4. Financial Regulation and Supervision

The RBI has been empowered with vast powers for supervising the banking system in the country.

In respect to banks, the Reserve Bank derives its power from the provisions of the Banking Regulations Act, 1949, while the other entities and markets are regulated and supervised under the provisions of the Reserve Bank of India Act, 1934

The credit information companies are regulated under the provisions of Credit Information companies (Regulation) Act, 2005

**<u>The Board for Financial Supervision (BFS)</u>**, constituted in November 1994, is the <u>principal guiding force behind the Reserve Bank's regulatory and supervision initiatives.</u>


The major regulatory functions of the Reserve Bank with respect to the various components of the financial system are as follows:

| | | | |
|---|---|---|---|
| **Licensing** | **Statutory Pre-Emptions** | **Corporate Governance** | **Interest rate** |
| **Prudential Norms** | **KYC Norms** | **Protection of Small Depositors-DICGC** | **Para Banking** |

## 5. Foreign Exchange Reserves Management

The Reserve Bank, as the custodian of the country's foreign exchange reserves, is vested with the responsibility of managing their environment.

The basic parameters of the Reserve Bank's policies for foreign exchange reserves management are-

- Safety
- Liquidity
- Returns

**The foreign exchange reserves include:**

- **Foreign currency assets**
- **Special Drawing rights**
- **Gold and Reserve Tranche Position**

### The RBI's approach

The Reserve Bank's approach to foreign exchange reserves management has undergone a change

The approach underwent a paradigm shift following the recommendations of the High-level Committee on Balance of Payments chaired by Dr. C. Rangarajan (1993)

The committee stressed the need to maintain sufficient reserves to meet all external payment obligations, ensure a reasonable level of confidence in the international community about India's capacity to honour its obligations , and counter speculative tendencies in the market.

# SECURITIES AND EXCHANGE BOARD OF INDIA

The capital market, i.e., the market for equity and debt securities is regulated **Securities and Exchange Board of India (SEBI)**

**Government of India** set up **SEBI in 1988**, which was granted **legal status in May 1992** to **act as a regulator of the financial market in India.**

Before 1992,the three principal acts governing the securities markets were:

- The Capital Issues (Control) Act, 1947
- The Companies Act, 1956
- The Securities Contracts (Regulations) Act, 1956

## Composite of SEBI

The hierarchical structure of SEBI consists of the following members:

- The chairman of SEBI is nominated by the Union Government of India
- One member will be appointed from the Reserve Bank of India
- Two offices from the Union Finance Ministry will be a part of this structure
- Five other members will be nominated by the Union Government of India

## Functions of SEBI

Three important functions of SEBI can be rolled into as-

**Functions**

- **Quasi legislative**
  - Drafting of Regulations
- **Quasi Judicial**
  - Passing rulings and orders
- **Quasi Executive**
  - Investigation and Enforcement

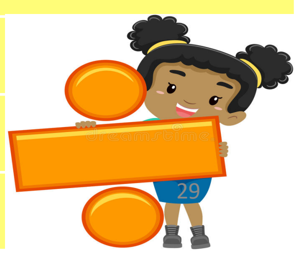
## ❑ The three main functions/ objectives of SEBI are-


### What is Securities Appellate Tribunal (SAT) ?

SEBI also appoints various committees, whenever required to look into the pressing issues of that time. Further, a Securities Appellate Tribunal (SAT) has been constituted to protect the interest of entities that feel aggrieved by SEBI's decision. SAT consists of a presiding officer and two other members.

## ❑ Further divisions of functions of SEBI

- Regulating business in stock exchanges and any other securities market
- Investor protection
- Registering and regulating working of instruments in the securities market
- Registering and regulating of intermediaries in the securities market
- Prohibits fraudulent and unfair trade practices
- Investor education
- Prohibits insider trading



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# Power of SEBI

- To approve by-laws of securities exchanges
- To require the securities exchange to amend the laws
- Inspect the books of accounts and call for periodical returns from recognized securities exchanges

- Inspect the books of accounts of financial intermediaries
- Compel certain companies to list their shares in one or more securities exchanges
- Registration of brokers

# SEBI's Committees

- Technical Advisory Committee
- Mutual Fund Advisory Committee
- Primary Market Advisory Committee
- Secondary Market Advisory Committee
- Takeover Regulations Advisory Committee
- Corporate Bonds & Securitization Advisory committee
- Committee for review of structure of market infrastructure institutions

# SEBI Amendment Act 2014

- Venture Capital Funs
- Stock Exchanges
- Brokers
- Mutual Funds
- Underwriters
- Portfolio Manager
- FIIs
- Depository Participants
- Credit Rating Agencies
- Depositors

# Categories of Investors in the Primary Market

### Retail Institutional Investor

An investor who applies or bids for securities for a value of not more than Rs.200,000

### Qualified Institutional Investors

### Non-Institutional Investors

Investors do not fall within the definition of the other two categories are termed as "Non-institutional investors"

**Qualified Institutional Buyers** are those institutional investors who are generally perceived to possess expertise and the financial muscle to evaluate and invest in the capital markets. In terms of clause 2.2.2B (v) of DIP Guidelines, a 'Qualified Institutional Buyer' shall mean:

a. Public financial institution as defined in section 4A of the Companies Act, 1956;
b. Scheduled commercial banks;
c. Mutual funds;
d. Foreign institutional investor registered with SEBI;
e. Multilateral and bilateral development financial institutions;
f. Venture capital funds registered with SEBI.
g. Foreign Venture capital investors registered with SEBI.
h. State Industrial Development Corporations.
i. Insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
j. Provident Funds with minimum corpus of Rs.25 crores
k. Pension Funds with minimum corpus of Rs. 25 crores)

# Collective Investment Scheme

Any pooling of funds under any scheme or arrangement, which is not registered with the Board (SEB) and involving a corpus amount of one hundred crore rupees or more shall be deemed to be a collective investment scheme (CIS).

According to **Section 11AA of the SEBI Act**, CIS can be any kind of scheme or project which satisfies the below mentioned criterion:

- The total contributions of the investors are used only for the concerned scheme
- The investors have made payments to the scheme hoping to receive profits on their investments;
- The total sum of the investments is managed by the Collective Investment Management Company on behalf of the contributors;
- The investors are in no way involved in the internal management and functioning of the scheme

## ❑ What does not come under CIS?

- Made or offered by a co-operative society
- Under which deposits are accepted under section 58 A of the companies Act, 1956
- Under which deposits are accepted by NBFCs
- Being a contract of insurance to which the Insurance Act applies
- Providing for any scheme, pension or insurance scheme
- Under which contributions made are subscription of mutual fund or chit business or Nidhi companies

## Investigatory Power of SEBI

Where the Board has reasonable ground to believe that-

- The transaction in securities are being dealt with in a manner detrimental to the investors or the securities market
- Any intermediary or any person associated with the securities market has violated any of the provisions of this Act or the rules or the regulations made, or directions issued by the Board thereunder
- It may at any time by order in writing direct any person specified in the order to investigate the affairs of such intermediary or persons associated with the securities market and to report thereon to the Board

## Prohibition of manipulative and deceptive devices, Insider Trading and Substantial Acquisition of Securities or Control

No person shall directly or indirectly-

Use or employ any manipulative or deceptive device in contravention of the provisions of this Act or the rules and regulations made thereunder (in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange. )

Engage in any act, practice, course of business which operates as fraud or deceit upon any person, in connection with the issue.

Engage in insider trading

Deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person

Acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognized stock exchange in contravention of the regulations made under this Act.

# NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

NABARD came into existence on **12 July 1982** by transferring the **agricultural credit functions of RBI** and **refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).**

It was established on the recommendations of B.Sivaraman Committee **(Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)).**
Set up with an initial capital of Rs.100 crore

The Bank has been entrusted with-
1. Matters concerning policy
2. Planning and operations in India for credit of agriculture
3. Other economic activities in rural areas in India

## Roles and Responsibilities

**Responsibilities can be categorized broadly into three heads:**

- **Financial**
- **Development**
- **Supervisory**

## Financial Responsibilities

### 1. Refinance – Short-Term & Long-term loans

NABARD sanctions short-term credit limits for seasonal agriculture operations to financial institutions.

NABARD's long-term refinance provides credit to financial institutions for a wide gamut of activities encompassing farm and non-farm activities with tenors of 18 months to 5 years.

## 2. Rural Infrastructure Development Fund

- In 1995-96, the Government of India set up RIDF for financing ongoing rural infrastructure projects
- The main objective of the fund is to provide loans to State Governments and State-owned corporations to enable them to complete ongoing rural infrastructure projects

## 3. Long-term irrigation fund (LTIF)

- LTIF was created in 2016-21017 with an initial corpus of Rs.20,000 crore for funding and fast tracking the implementation or incomplete major and medium irrigation projects

## 4. NABARD Infrastructure Development Assistance (NIDA)

NABARD Infrastructure Development Assistance (NIDA) has been designed to complement RIDF.

This line of credit has been opened to financially sound state-owned institutions and corporations with sustained incomes streams

## 5. Warehouse Infrastructure Fund (WIF)

GOI created Warehouse Infrastructure Fund (WIF) in the year 2013-14 with NABARD for providing loans to meet the requirements for scientific warehousing infrastructure for agricultural commodities in the country.

## ❑ Developmental Responsibilities

### 1. Kisan Credit Card Scheme

The Kisan Credit Card Scheme was designed by NABARD in association with the RBI in August 1998 for providing crop loans.

NABARD has been at the forefront of technology revolution by helping rural financial institutions in providing RuPay Kisan Cards to all farmer clients


### 2. Financial Inclusion Fund

Under this strategy, grant assistance is provided at enhanced rate of 90% for Special Focus Districts (SFDs) which includes aspirational districts, district identified by RBI, etc.

### 3. SGH Bank linkage Programme

'SHG Bank Linkage Programme' which encourages India's banks to lend to self-help groups (SHGs). Largely because SHGs are composed mainly of poor women, this has evolved into an important Indian tool for microfinance.

## ❑ Supervisory Responsibilities

NABARD to conduct inspection of State Cooperative Banks, Central Cooperative Banks and Regional Rural Banks.

NABARD has also been conducting periodic inspections of state level cooperative institutions such as State Cooperative agriculture and Rural Development Banks

# NATIONAL HOUSING BANK

राष्ट्रीय आवास बैंक
NATIONAL HOUSING BANK

The Sub-Group on Housing Finance for the Seventh Five- year Plan (1985-90) identified the non-availability of long-term finance to individual households

The Committee of Secretaries considered' the recommendation and set up the High-Level Group under the Chairmanship of Dr. C. Rangarajan, the then Deputy Governor, RBI to examine the proposal and recommended the setting up of National Housing Bank as an autonomous housing finance institution

The Hon'ble Prime Minister of India, while presenting the Union Budget for 1987-88 on February 28, 1987, announced the decision to establish the National Housing Bank (NHB) as an apex level institution for housing finance.

The head Office of National Housing Bank as at New Delhi, it is 100% government owned entity.

## Objective of National Housing Bank

NHB has been established to achieve, inter alia, the following objectives-

- To promote a sound, healthy, viable and cost effective housing finance system
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them for housing.
- To make housing credit more affordable.
- To supervise the activities of housing finance companies based on supervisory power derived under the Ac
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

# NHB RESIDEX

NHB RESIDEX, India's first official housing price index, was an initiative of the NHB undertaken at the behest of the Ministry of Finance, Government of India.

## ❑ Purpose of RESIDEX

It enables the policy makers, banks, housing finance companies, builders, developers, investors, individuals, etc., to track the movement of housing prices across different cities in India.

# REGIONAL RURAL BANK

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1987 to provide sufficient banking and credit facility for agriculture and other rural sectors

## Shareholding of RRBs

The Government of India, the concerned state government and the bank, which has sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35% respectively. This has now been amended with the new capital structure as:

| | |
|---|---|
| Government of India and Sponsor Bank | 51% (combined) |
| State Government | 15% |
| Remaining to be raised from the market | 34% |

The RBI IN 2001 constituted a committee under the chairmanship of Dr. V S Vyas on "Flow of credit to Agriculture and Related Activities from the Banking System" which examined relevance RRBs in the of rural credit system and the alternatives for making it viable.

## Sources of Funds

The sources of funds of RRBs comprise of owned funds, deposits, borrowings from NABARD, sponsor banks and other sources including SIDBI and National Housing Bank.

## Owned Funds

The owned funds of RRBs comprising of share capital, deposits received from the shareholders and the reserves.

## Regional Rural Banks (Amendment) Act, 2015

| | |
|---|---|
| 1 | The Regional Rural Banks (Amendment) Bill, 2014 that seeks to amend the Regional Rural Banks (RRB) Act, 1976 was introduced by the Union Minister of Finance, Arun Jaitley |
| 2 | It raises the amount of authorized capital of Rs.2000 crore rupees<br>• In the 1976 Act the authorized capital of each RRB was 5 crore rupees |
| 3 | The bill allows RRBs to raise their capital from sources other than the central and state governments, and sponsor banks as was mandated under the RRB Act. |
| 4 | It also provides that in case of raising capital from sources by a RRB, the combined shareholding of the central government and the sponsor bank cannot be less than 51% |
| 5 | The Central Government shall consult the concerned State Government if the level of shareholding in the RRBs of such State Government is reduced below 0% |
| 6 | This Act also changed of the financial year of RRB to 1st April to 31st March while the Act of 1976 said that the books of a RRB should be closed and balanced as on 31st December every year. |
| 7 | No person shall be nominated as a director, if he or she is already a director on the Board of any other Regional Rural Banks. |
| 8 | A director nominated shall hold office during the pleasure of the central Government and for such term, not exceeding three years and shall be eligible for re-nomination |

## Recapitalization of RRBs

Dr. K.C Chakrabarty Committee on "Recapitalization of RRBs for improving CRAR" had recommended recapitalization of 40 out of 82 RRBs for strengthening their CRAR to the level of 9% by 31st March 2022.

# SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

**Small Industries Development Bank of India (SIDBI)** set up **on 2nd April 1990** under an Act of Indian Parliament, acts as the **Principal Financial Institutions for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.**


**It was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India.**
**Currently the ownership is held by 34 Government of India owned/ controlled institutions.**

## Subsidiaries of SIDBI

- SIDBI Venture Capital Limited
- Micro Units Development & Refinance Agency
- Credit Guarantee Fund Trust for MSMs branded as UDAAN
- Receivables Exchange of India Limited
- Acuite Ratings & Research Limited
- India SME Asset Reconstruction Company Ltd.
- ONLINE PSB LOANS Ltd.

# Loan Facilitation & Syndication Service

## ❑ What is loan Facilitation & Syndication Service?

Under this initiative, SIDBI facilitates Bank loans for new as well as existing manufacturing and service sector units

SIDBI's initiative in partnership with Banks, Rating Agencies, and Accredited Consultants

It's a transparent, structured mechanism for timely consideration for loan applications.

## ❑ Why is it needed?

To generate complete structured applications along with necessary documents as are needed by Banks for sanctioning of loans.

Independent Validation by ACs of the information furnished by MSMEs in the loan applications provides a second check thereby enhancing the reliability of furnished information and acts as an additional comfort to the banks in handling the loan applications.

Rating (not mandatory) of proposals by Rating Agencies, as and when required, provides an independent opinion and helps the bankers for considering applications expeditiously.

The initiative would reduce delays and is expected to enhance flow of assistance to MSME sector.

# Trade Receivables Discounting System

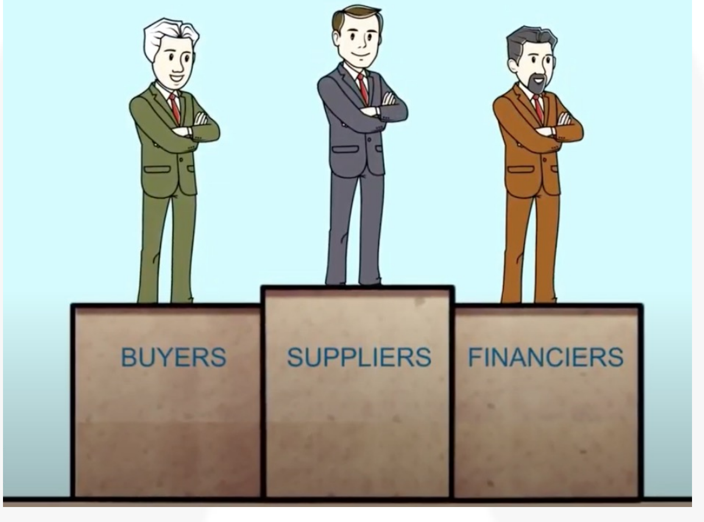
Trade Receivables Discounting System (TReDS) is an initiative of Reserve Bank of India (RBI) to facilitate MSME receivables payments from corporates.

- It is an electrotonic platform that allows auctioning of trade receivables. The process is also commonly known as 'bill discounting'.

The main objective of TReDS platform is to address the critical needs of MSMEs-

- ✓ Promptly en-cashing receivables
- ✓ Eliminating credit risk

## ❑ Who are the participants in TReDS?




## ❑ How does the system work?

1. A seller must upload the invoice on the platform. It then goes to the buyer for acceptance.

2. Once the buyer accepts, the invoice becomes a factoring unit. The factoring unit then goes to auction.

3. The financiers then enter their discounting (finance) rate, whoever bids the highest gets the deal.

4. TReDS then settle trade by debiting the financier and paying the seller

5. The amount gets credited the next working day into the seller's designated bank account through an electronic payment mode.

## ❑ What are the discounting platform providers in the country?

RBI has given license to three entities, and they are governed by the Payment and Settlement Systems Act.

1. Receivables Exchange of India (RXIL)

   A joint venture between National Stock Exchange and SIDBI

2. A. TReDS Ltd.

   A joint venture between Axis Bank and Mjunction Services

3. Mynd Solutions Pvt. Ltd.

# EXPORT IMPORT BANK OF INDIA

Export-Import Bank of India (Exim Bank) was set up in 1982 by an Act of Parliament for the purpose of financing, facilitating and promoting India's foreign trade.

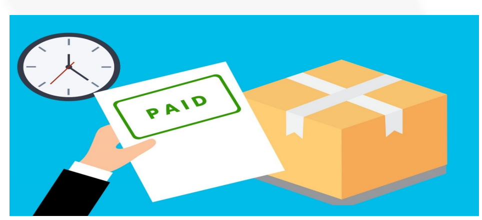
It is the principal financial institution in the country for coordinating the working of institutions engaged in financing exports and imports.

It was previously a branch of IDBI but as the foreign trade sector grew it was made into an independent body and now it is fully owned by Government of India.

## Functions of EXIM


### ❑ Buyer's Credit

Through this facility, the oversee buyer can open a "letter of credit" in favor of the Indian exporters and can import goods and services from India on deferred payment terms.




### ❑ Corporate Banking

The bank offers a range of financing programmes to enhance the export competitiveness of Indian companies. The bank caters the long-term loans requirements that help exporters finance new projects, expand etc. and to cater working capital and overseas investment requirements.

## ❑ Lines of Credit

The bank extends LOC to Indian exporters to enable then enter new areas and expand their busines without payment risk from the importers.

- It also extends LOC to overseas financial institutions to enable buyers in those countries to import developmental and infrastructure projects

## ❑ Overseas Investment Financec

The bank provides term loans to Indian companies for equity investment in their overseas joint venture or wholly owned subsidiary.

## ❑ Project Exports

In recent years, Indian projects exporters have secured diverse contracts exemplifying their versatility and technological capabilities. EXIM bank provides support to project activities in engineering, procurement, construction etc.

# EXPORT CREDIT GUARANTEE CORPORATION OF INDIA

ECGC Ltd. (Formerly known as Export Credit Guarantee Corporation of India Ltd.) wholly owned by Government of India, was set up in 1957

## ❑ Objective

Promoting exports from the country by providing credit risk insurance and related service for exporters.

## ❑ Functions of ECGC

| |
|---|
| Provide a range of credit risk insurance covers to exporters against loss in export of goods and services |
| Offers export credit insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them. |
| Providing overseas investment insurance to Indian companies investing in joint ventures in the form of equity or loan. |

## ❑ Facilities provided by ECGC to exporters

| |
|---|
| ECGC offers insurance protection to exporters against payment risks. |
| Provides guidance in export-related activities |
| Makes available information on different countries with its own credit ratings. |
| Makes it easy to obtain export finance from banks/financial institutions. |
| Assist exporters in recovering bad debts |
| Provides information on credit worthiness of overseas buyer. |

# CREDIT RATING


An indication of the current opinion regarding the relative capability of a corporate entity to service its debt obligations in time

Credit rating agency can rate an instrument, a company, or even a country.

It enables the investor to differentiate between debt instruments based on their underlying credit quality

As per SEBI Regulations 1999, 'rating' means an opinion regarding securities expressed in the form of standard symbols or in any other standardized manner, assigned by a credit rating agency and used by the issuer of such securities, to comply with a requirement specified by these regulations.

## Credit Rating Agency

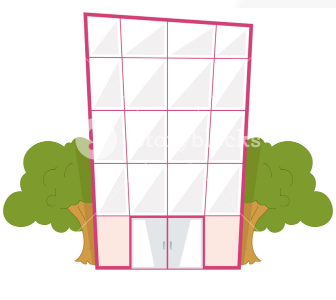
A credit rating agency is an entity, or a body corporate engaged in assessing the ability and willingness of the issuer company for repayment of interest and principal on a debt instrument.

There is no pre-defined mathematical formula for the calculation of ratings. It is based on a comprehensive evaluation and in-depth study of company's fundamentals (including quality of management, corporate strategy), industry as well as macro-economic outlook, socio and political environment.

In India, Credit Rating Agencies are regulated by SEBI.

## Difference between Credit Rating Agencies and Credit Bureaus

| Credit Rating Agency | Credit Bureau |
| --- | --- |
| It assigns ratings to instruments issued by companies which is useful to investors. | It assigns ratings to individual borrowers which is useful for banks and other lenders and government. |
| It provides opinions relating to future debt payments by the borrowers. | It provides information on past debt repayments by borrowers. |



## Credit Rating Agencies in India

- **Credit Rating Information Services of India Limited (CRISIL)**

The process of credit rating in India was started by CRISIL in 1987.

CRISIL
An S&P Global Company

CRISIL has been fourth largest in the world and offers comprehensive range of ratings services like long-term rating, fixed deposit rating, real estate projects and corporate credit rating.

CRISIL is headquartered in Mumbai. The majority shareholder of CRISIL is Standard & Poor's which is the leading credit rating agency of the world.

CRISIL is listed on stock markets and BSE for trading.s

## ❑ Credit Analysis and Research (CARE)

CARE initiated its operation in 1993.

CARE is a rating and information service company that provides a wide range of rating and grading services in different sectors.

It is headquartered in Mumbai.

## ❑ Investment Information and Credit Rating Agency of India (ICRA)

ICRA started in 1991 and has been one of the independent and professional credit rating agencies.

ICRA Ltd. Has been listed on BSE and NSE for trading.

At present, Moody's investor service, the international credit rating agency, is ICRA's largest shareholder.

## ❑ India Ratings and Research Pvt. Ltd.

India Ratings and Research Pvt. Ltd., which was formerly called Fitch Ratings India Pvt. Ltd., is wholly owned subsidiary of the fitch Group.

It covers corporate issuers, financial institutions, banks, insurance companies, urban local bodies, structured finance and project finance.

It is headquartered in Mumbai.

## ❑ SME rating Agency of India Limited (SMERA)

It was conceptualized by the ministry of Finance, Govt. of India and the Reserve Bank of India to help Indian MSMEs grow and get access to credit through independent and unbiased credit opinion that breaks can rely on.

SMERA
SME RATING AGENCY OF INDIA

The agency has its headquarters in Mumbai.

## Credit Information Bureau India Limited (CIBIL)

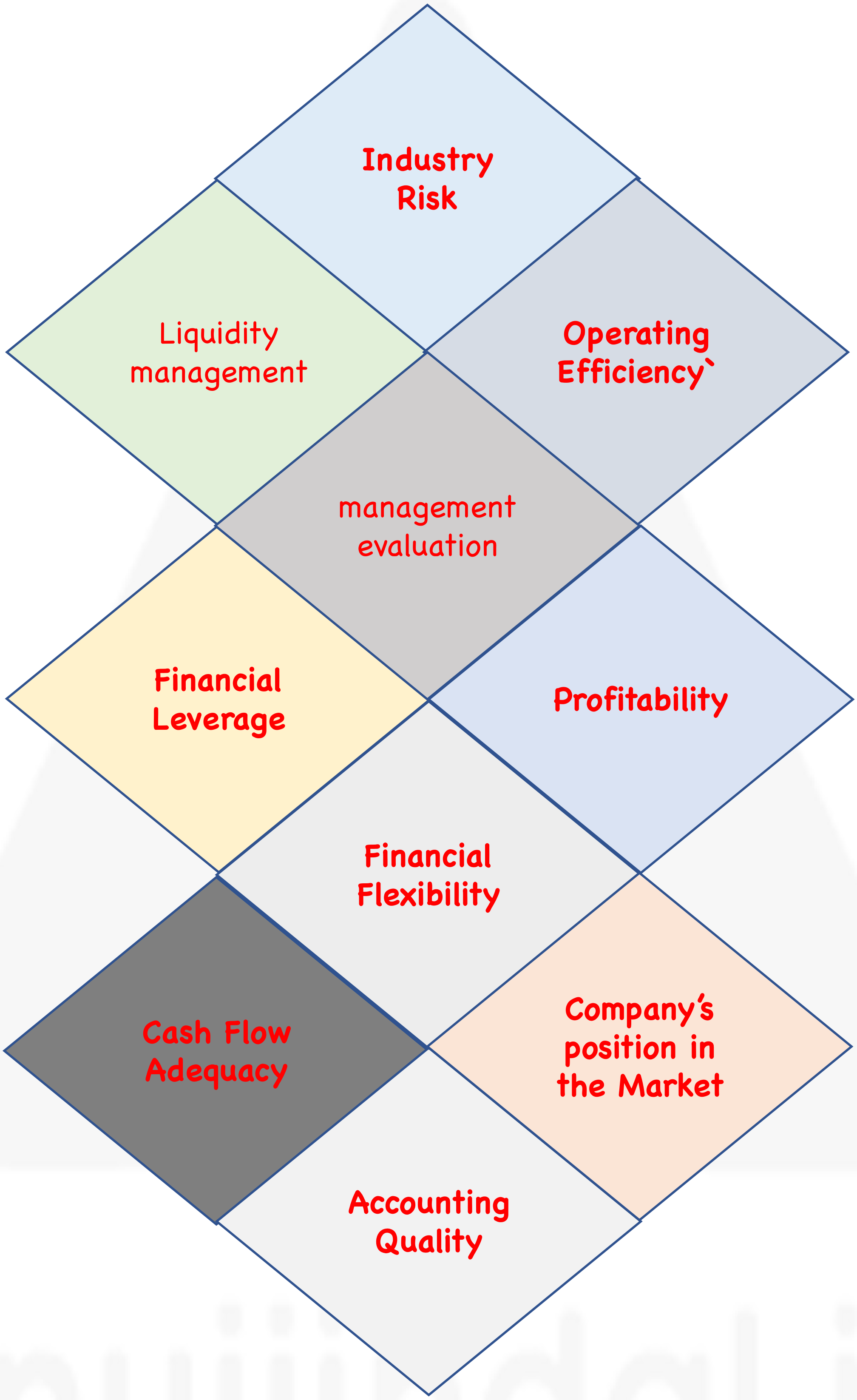
**Credit Information Bureau (India) Limited (CIBIL)** is a credit bureau or credit information company, engaged in maintaining the records of all the credit-related activities of companies as well as individuals, including credit cards and loans.

CIBIL
Part of TransUnion

It was established in the year 2000. It issues CIBIL score which is a person's financial report card. CIBIL score was launched in 2007. It was India's first credit scoring model for banking and financial institutions.

CIBIL score is a three-digit number which gives information about credit history of the person.

# Factors considered for rating companies



# NEGOTIATED DEALING SYSTEM

It is online trading platform for trading of government securities in India created by RBI in February 2002

Prior to this, G-Sec market was majorly telephone based which was slow and inefficient.

Securities that are auctioned using the NDS platform include securities of the central government (both dated securities as well as treasury bills) and the state government loans.

NDS has two modules:
1. One for Primary Market
2. One for Secondary market

## Functions of NDS

### In Primary Market

Government securities are sold through auction by RBI in the primary market. NDS facilitates submission of bids for government securities electronically.

### In Secondary Market

NDS facilitates settlement of transactions in G-secs in secondary market. Trading in G-secs mostly occur over-the-counter.

## NDS-OM

NDS-OM stands for "Negotiated Dealing System – Order Matching System" introduced in August 2005.

It is a screen-based electronic autonomous order matching system for secondary trading in G-secs

It was operated by the Clearing Corporation of India Limited (CCIL) on behalf of RBI.

There are two kinds of participation in NDS-OM-

**Direct**

Direct members have current and SGL accounts with the Reserve bank of India and can directly settle their trades on NDS-OM

**Indirect**

Indirect members are those players who do not have current and SGL accounts with Reserve bank of India and therefore must trade in NDS-OM through members who have these accounts with the Reserve bank of India

## Consumer Confidence Survey


It is conducted by the RBI in major cities of India.
The survey measures consumer perception on 5 economic variables-

**Income** | **Economic situation** | **Employment** | **Price level** | **Spending**

A consumer confidence index above 100 gives optimistic perception of the consumers.