



CHAPTER 2 – FINANCIAL AFFAIRS

CURRENT DEVELOPMENT IN BANKING

BRIEF ABOUT RESERVE BANK OF INDIA

- The Reserve Bank of India was **established on April 1, 1935** in accordance with the provisions of the **Reserve Bank of India Act, 1934**.
- The Central Office of the Reserve Bank was **initially established in Calcutta** but was **permanently moved to Mumbai in 1937**. The Central Office is where the Governor sits and where policies are formulated.
- Though originally privately owned, **since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India**.



MAIN FUNCTIONS:

Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: **maintaining price stability** while keeping in mind the objective of growth.

Regulator And Supervisor Of The Financial System

- Prescribes **broad parameters of banking operations** within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide **cost-effective banking services to the public.**

Manager Of Foreign Exchange

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to **facilitate external trade and payment** and promote orderly development and maintenance of foreign exchange market in India.

Issuer Of Currency

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to **give the public adequate quantity of supplies of currency notes and coins** and in good quality.

Developmental Role

- Performs a wide range of promotional functions to support national objectives.

Regulator And Supervisor Of Payment And Settlement Systems

- Introduces and upgrades **safe and efficient modes of payment systems** in the country to meet the requirements of the public at large.
- Objective: **maintain public confidence** in payment and settlement system

Related Functions

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: **maintains banking accounts of all scheduled banks.**

RBI has **27 regional offices**, most of them in state capitals and **04 Sub-offices.**

BANKING SECTOR IN NEWS

Poonam Gupta appointed RBI Deputy Governor (April 02, 2025)

Dr. Poonam Gupta has been appointed as the new Deputy Governor of the Reserve Bank of India (RBI) for a three-year term, making her the first woman to hold this position in over a decade. With an illustrious career spanning the World Bank, IMF, and NCAER, Gupta brings extensive experience in economic policy and research. Her role will focus on monetary policy, financial markets, and inflation management, guiding the RBI through economic challenges and growth opportunities.

Digital Payments Awareness Week 2025 (March 10, 2025)

Governor, Reserve Bank of India (RBI) on March 10, 2025 inaugurated the 5th Digital Payments Awareness Week (DPAW). DPAW is an initiative to highlight the impact and importance of digital payments and to create awareness about safe usage of digital payment products.

During the week, RBI, along with payment system operators, banks and other stakeholders, conducts nationwide awareness activities, including multimedia campaigns, on-ground educational programs and social media-based outreach. The DPAW shall be observed from March 10 to 16, 2025. Under the mission 'Har Payment Digital', the theme for the current year is 'India Pays Digitally'.

Release of Handbook on "Regulations at a Glance" (February 27, 2025)

The Reserve Bank had constituted the Regulations Review Authority 2.0 (RRA 2.0) in 2021 to review the regulatory prescriptions with a view to their simplification and ease of implementation. The Department of Regulation (DoR) has compiled its regulatory instructions in an easily accessible handbook titled 'Regulations at a Glance' to provide a broad overview of the regulatory landscape across multiple dimensions of activities and entities. The handbook is intended primarily for ease of reference and to provide a high-level overview of the regulations for general understanding.

Monetary Policy Statement, 2024-25 Resolution of the Monetary Policy Committee February 5 to 7, 2025 (February 07, 2025)

The Monetary Policy Committee (MPC) held its 53rd meeting from February 5 to 7, 2025 under the chairmanship of Shri Sanjay Malhotra, Governor, Reserve Bank of India. After assessing the current and evolving macroeconomic situation, the MPC unanimously decided to reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points to 6.25 per cent with immediate effect; consequently, the Standing Deposit Facility (SDF) rate shall stand adjusted to 6.00 per cent and the Marginal Standing Facility (MSF) rate and the Bank Rate to 6.50 per cent and continue with the neutral monetary policy stance and remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

Supervisory Action against Kotak Mahindra Bank Limited under Section 35A of the Banking Regulation Act, 1949 (April 24, 2024)

The Reserve Bank of India has today, in exercise of its powers under Section 35A of the Banking Regulation Act, 1949, directed Kotak Mahindra Bank Limited to cease and desist, with immediate effect, from (i) onboarding of new customers through its online and mobile banking channels and (ii) issuing fresh credit cards. The bank shall, however, continue to provide services to its existing customers, including its credit card customers.

Consumers optimistic about economic situation, income, employment for next one year: RBI survey (April 07, 2024)

Indian consumers are quite optimistic about the general economic situation, income spending and employment conditions and also expect inflation to moderate in the one year ahead period, the latest surveys of the Reserve Bank of India showed. Consumer confidence for the current period has been on a path of sustained recovery. The Current Situation Index (CSI) rose by 3.4 points to 98.5 – its highest level since mid-2019, the RBI's Consumer Confidence Survey (CCS) showed.

Indian travellers can now use PhonePe UPI payments over 8,000 merchants in Singapore (April 03, 2024)

Fintech firm PhonePe on April 03, 2024 said its users can now make payments through UPI in Singapore under a pact signed by the company with The Singapore Tourism Board. The collaboration has been built upon the existing Unified Payments Interface (UPI) linkage between India and Singapore, which allows customers to instantly make cross-border transactions between the two countries directly from their existing Indian bank accounts.

CURRENT DEVELOPMENTS IN FINANCE / STOCK MARKETS

CAPITAL MARKET INDICES

An Index is used to give information about the price movements of products in the financial, commodities or any other markets. Financial indexes are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets. A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. An Index is calculated with reference to a base period and a base index value.

Benefits of Indices

- They provide a historical comparison of returns on money invested in the stock market against other forms of investments such as gold or debt.
- They can be used as a standard against which to compare the performance of an equity fund.
- It is a lead indicator of the performance of the overall economy or a sector of the economy
- Stock indexes reflect highly up to date information
- Modern financial applications such as Index Funds, Index Futures, Index Options play an important role in financial investments and risk management.

Major Capital Market Indices are as under:

1. Broad-market indices
2. Sectoral Indices

3. Strategy indices
4. Fixed income indices
5. Hybrid indices

Broad-market indices

The Broad market indices are, consisting of the large, liquid stocks listed on the Exchange. They serve as a benchmark for measuring the performance of the stocks or portfolios such as mutual fund investments. In India, seventeen broad market indices are on the NSE. Overall, the NSE owns and manages 350 indices under the NIFTY brand, including the NIFTY 50. The NIFTY 50, which comprises the top 50 companies in India, is also called the benchmark index. Likewise, India's oldest equity index, the SENSEX, comprises the 30 best-performing companies managed by the Bombay Stock Exchange (BSE).

Sectoral Indices

While SENSEX and NIFTY50 provide the overall picture and trend of the economy, sectoral indices summarise the specific sectors or industries. These sectoral indices are constructed in a similar manner as the broad market indices. Usually, when an investor buy or sell a stock in a particular sector, he should first analyse the trend of the sectoral index for that sector.

For example, under the NIFTY brand, there are various sectoral indices viz. Automobiles, Banking, Realty, IT, Financial Services, FMCG, Pharma, Metal, Oil & Gas, Healthcare, Consumer Durables, Media etc.

Strategy indices

These are multi-factor indices which are designed to reflect the performance of a portfolio of stocks that are selected based on combination of 2 or more factors selected from 4 single factors such as quality, value, alpha and low volatility. Some of the strategy indices are:

- **NIFTY Alpha 50:** tracks the performance of 50 stocks with high Alphas in the last one year.
- **NIFTY 100 Equal Weight:** includes constituents of the Nifty 100 Index.
- **NIFTY Low Volatility 30:** tracks the performance of 30 stocks in Nifty 100 with the lowest volatility in the last year.

Fixed income indices

The fixed income indices offer independent and comprehensive benchmarks for the fixed income market in India, covering universe of fixed income assets including government securities, T-bills, corporate bonds of different credit rating categories, commercial papers, certificate of deposits and overnight rate.

Hybrid indices

The hybrid indices measure the performance of hybrid portfolios comprising indices from NIFTY 50 and aggregate fixed income indices. Hybrid indices under the brand NIFTY measures govt, state and corporate bonds.

SOCIAL STOCK EXCHANGE

Introduction

We often feel like helping the poor, the underprivileged, or the oppressed with whatever little we can afford. A common question we face is who to donate to. We mostly doubt the legitimacy of the NGOs (non-governmental organizations) around us.

This is where a Social Stock Exchange (SSE) steps in. An SSE will act as a bridge between the less-informed but willing donors and legitimate organizations doing real social work. Hon'ble Finance Minister Smt. Nirmala Sitharaman as part of the Budget Speech for FY 2019-20 proposed the idea of an electronic fund-raising platform "Social Stock Exchange", under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.

Social Stock Exchange (SSE) is a separate segment of the existing Stock Exchange, that can help Social Enterprise(s) to raise funds from public through the stock exchange mechanism. SSE will act as a medium between Social Enterprises and fund providers and that can help them to select those entities that are creating measurable social impact and reporting such impact. Certain type of Social Enterprises i.e. Not-for-profit organizations (NPOs) that meet

the registration can register on SSE and undertake to make continuous disclosures on their social impact. Such NPOs may or may not choose to raise funds through SSE, however, would continue to make disclosures including on social impact to stock exchanges.

The SSE has been set up in both the National Stock Exchange (NSE) and the BSE (formerly known as the Bombay Stock Exchange).

Unnati becomes the first entity to list on the Social Stock Exchange

Objectives of the Social Stock Exchange:

- Regulated platform that brings together social enterprises and donors
- Facilitate funding and growth of social enterprises
- Enabling mechanism to ensure robust standards of social impact and financial reporting

Key benefits of Social Stock Exchange:

- **Improved market access** - SSE will facilitate a common and a structured meeting ground between Social Enterprises and investors/donors with inbuilt regulation for providing sanctity and accountability of finances.
- **Synergy between investors and investee in social aims** - In view of flexibility of investments and capital that would be available on SSE, the canvas of choice would be much wider allowing investors and investees with similar missions and visions to connect seamlessly.
- **Performance based philanthropy** - Performance of the enterprises listed on SSE would be monitored thus it will instill a culture of performance (Social return) driven philanthropy.
- **Minimal Registration Cost** - SSE saves cost for both issuer and investor/donor by charging minimal fees for registration and listing.
- **Additional avenue for Social Enterprises** - Central and State governments till date have the biggest onus of achieving sustainable development goals. SSE will provide an alternate avenue for raising funds thereby encouraging new and existing social enterprises.

Forms of Social Enterprises:

The universe of enterprises that create social impact is vast and consists of a variety of legal forms.

These can broadly be categorized into: -

For-profit enterprises (FPEs) (which include companies registered under the Companies Act, sole proprietorships, partnership firms, HUFs and limited liability partnerships) and;

Non-Profit Organisations (NPOs) (which include Section 8 companies, trusts and societies).

The key difference between these two categories is that they source different kinds of capital. Specifically, FPEs can raise equity while NPOs cannot.

Eligibility:

A Not-for-Profit Organization or For-Profit Social Enterprise must prioritize its social intent to be recognized as a Social Enterprise. It must engage in one of the 16 SEBI-prescribed activities, target underserved populations or underdeveloped regions, and ensure that at least 67% of its activities align with these criteria.

Ineligibility for raising of funds

A Social Enterprise cannot register or raise funds through the Social Stock Exchange if its promoters, directors, or trustees are barred by SEBI, linked to barred entities, are willful defaulters or fraudulent borrowers, are fugitive economic offenders, or are restricted by the Ministry of Home Affairs or other government bodies.

FUND RAISING BY SOCIAL ENTERPRISES:

Ways in which a Not-for-profit organization can raise funds through Social Stock Exchange:

A Not-for-Profit organization after registering with Social Stock Exchange may raise funds on Social Stock Exchange through

- i. Issuance of Zero Coupon Zero Principal Instruments [through private placement or public issuance]
- ii. Donations through Mutual Fund Schemes as specified by the SEBI
- iii. Any other means that SEBI may specify in future

Ways in which a For-profit organization can raise funds through Social Stock Exchange:

A For-Profit Social Enterprise may raise funds through

- i. Issue of Equity Shares (On Main Board, SME Platform or innovators growth platform of stock exchange as the case may be)
- ii. Issue of Equity Shares to an Alternative Investment Fund including Social Impact Fund
- iii. Issue of Debt Instruments
- iv. Any other means that SEBI may specify in future

Issuance of Zero Coupon Zero Principal Instruments

Following conditions need to be fulfilled by Not-for-Profit Organizations to issue Zero Coupon Zero Principal Instruments:

- a. The Not-for-Profit Organization must be registered with Social Stock Exchange, and
- b. Zero Coupon Zero Principal Instruments must have specific tenure and can only be issued for a specific project or activity to be completed within a duration specified in the fund raising document, and
- c. The specific project or activity for which the Zero Coupon Zero Principle Instruments are being issued must fall under the list of eligible activities (16 activities as mentioned above) specified under regulation 292E of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Zero Coupon Zero Principal Instruments will be issued in dematerialized form only

Zero Coupon Zero Principal instrument (ZCZP) – Salient Features:

- Issuance in dematerialized form only
- Issuance mode – Public Issue or private placement
- Minimum issue size: Rs 50 Lakh
- Minimum application size: Rs 1,000/- (amended vide circular dated March 19, 2025)

	Not-for-Profit Organizations	For Profit Enterprises	Commercial Entities
Focus	Maximizing social impact	Maximizing social impact along with growing shareholder wealth	Maximizing shareholder wealth
Listing on the exchange	Register on the exchange and then raise funds either through listing or other means. Fund raising is not mandatory after registration.	Raise funds through an IPO or follow-on public offers	Raise funds through an IPO or follow-on public offers
Instruments/ modes for raising funds	Equity, Zero Coupon Zero Principal, Development Impact Bonds, Social Impact Funds, Donations from Mutual Funds	Equity shares through main board, SME, or innovators growth platform, equity shares through AIFs or Social Impact Funds, debt	Equity, Debt
Social mandate	At least 67% of the past three years' average revenues/expenses/ customer base should be meant towards providing eligible social activities	At least 67% of the past three years' average revenues/expenses/ customer base should be meant towards providing eligible social activities	A company with at least a net worth of `500 Cr / revenues of `1000 Cr / net profit of `5 Cr shall spend at least 2% of its average of three years' net profits towards CSR activities.

Minimum fund raise	₹50 lakh from ZCZP	Similar to commercial entities or AIFs, depending on the choice of fund-raising instruments	Minimum requirements vary depending upon the exchange and the segment (mainboard, SME, growth innovators)
Who can invest?	All entities are allowed. In case of ZCPs, anyone with minimum ₹10,000 can invest. That is the minimum security denomination for ZCZPs	Retail investors, HNIs, institutional investors - all entities allowed in the capital markets	Retail investors, HNIs, institutional investors - all entities allowed in the capital markets
Reporting social impact	Social Impact Scorecard	Social Impact Scorecard	Business Responsibility and Sustainability Report (mandatory for the 1000 largest listed companies)

SEBI Partners with DigiLocker to Reduce Unclaimed Assets in the Indian Securities Market (March 19, 2025)

SEBI has partnered with DigiLocker to Reduce Unclaimed Assets in the Indian Securities Market. This initiative enables investors to store and access information on their demat and mutual fund holdings through DigiLocker, a key Digital Public Infrastructure, benefiting investors and their families.

By facilitating seamless access to financial records, this mechanism helps minimize unclaimed assets and ensures the identification of assets that might otherwise remain unnoticed. Key

highlights of this initiative inter-alia include access to Securities Holdings; Nomination Facility for Seamless Access; Automated Notification to Nominees; Role of KYC Registration Agencies (KRAs).

SEBI launches RPT portal to strengthen corporate governance and transparency (February 14, 2025)

The SEBI Launched a dedicated Related Party Transaction portal to enhance transparency and governance in corporate India. SEBI introduced this portal as a strategic move to track and analyse RPTs, a critical area where governance lapses often occur. The launch of the RPT portal marks a significant step toward corporate accountability, ensuring that transactions are conducted fairly and transparently. SEBI expects market participants to leverage the platform to reinforce governance norms and boost investor confidence.

SEBI allows safer participation of retail investors in algo trading (February 04, 2025)

SEBI facilitated the participation of retail investors in algorithmic trading (algo trading), which provides advantages of faster order execution and improved liquidity. At present, only institutional investors are allowed to put in algo trading, which provides significant advantages of timed and programmed order execution.

SEBI also came out with a regulatory framework aimed at spelling out the rights and responsibilities of the main stakeholders of the trading ecosystem such as investors, brokers, algo providers/vendors and Market Infrastructure Institutions (MIIs) so that the retail investors can avail algo facilities with requisite safeguards. Under the framework, retail investors will get access to the approved algos only from the registered brokers, which will safeguard the interests of these investors.

Exchanges shall specify the turnaround time (TAT) to register certain types of algos (eg. Execution algos) on a fast track basis while registering other types of algos on a normal basis. For both these scenarios, TAT shall be decided by the stock exchanges and mentioned in their SOP, disclosed on their website. The provisions of this circular shall be applicable with effect from August 01, 2025.

Trading supported by Blocked Amount in Secondary Market (November 11, 2024)

In a view to promote the UPI-based block mechanism in the secondary market, the SEBI directed qualified stock brokers (QSBs) to offer either the facility of trading supported by block amount in the cash segment or the 3-in-1 trading account facility to their clients. Clients of the QSBs will have the option, to either continue with the existing facility of trading by transferring funds to Trading Members or opt for either of the facilities stated above, as provided by the QSBs. The provisions of this circular will come into effect from February 01, 2025.

T+0 SETTLEMENT CYCLE (APRIL 01, 2024)

Recently, the **Bombay Stock Exchange (BSE)** and **National Stock Exchange (NSE)** introduced trading in the T+0 beta version of the settlement cycle in the equity segment on an optional basis. This came after the Securities and Exchange Board of India (SEBI) issued operational guidelines for the launch of the shorter tenure settlement cycle.

In December 2023, the **SEBI proposed to introduce a facility for clearing and settlement of funds and securities on T+0 (same day)** on an optional basis, in addition to the existing T+1 settlement cycle.

Under the T+0 trade cycle, the settlement of trades would occur on the same day after the closure of the T+0 market. This means that if investors sell a share, they would receive the money credited to their account on the very same day, and the buyer would also get the shares in their demat account on the day of the transaction itself. This is the world's fastest stock settlement system.

In comparison, **the current T+1 system involves a delay of one business day between the trade execution date and the settlement date.** In this system, sellers only receive 80% of their cash on the day of sale, with the remaining 20% available the following day.

However, with the introduction of the new T+0 settlement system, sellers would have instant access to 100% of their cash on the day of the transaction, eliminating the need to wait for the following day for the remaining amount.

IEPFA AND DBS BANK INK MOU TO SPREAD AWARENESS ON INVESTMENT AND FRAUDULENT SCHEMES (FEBRUARY 19, 2024)

A Memorandum of Understanding (MoU) was signed between the Investor Education and Protection Fund Authority (IEPFA) under the aegis of the Ministry of Corporate Affairs (MCA), and DBS Bank, a prominent financial institution with a strong presence in Asia and Southeast Asia in New Delhi.

According to the MoU, DBS Bank aims to support IEPFA's investor awareness activities by disseminating safety messages via its various digital platforms. Leveraging DBS Bank's extensive network of branches and ATMs in 19 Indian states, as well as its digital infrastructure, will significantly increase the reach of IEPFA's investor awareness and protection messages to the end users.