SYLLABUS

BBA IV YEAR

Financial Market & Regulatory Framework

UNIT – 1	Indian financial system - overview of financial markets in India, Capital markets, money market, government securities markets, foreign exchange Market, derivative markets - financial sector reforms in India since 1991
UNIT – 2	Stock exchange-An overview, Stock exchange trading, Stock exchange, Regulatory framework, Indian stock exchanges-A Profile, Insider trading, Listing of securities, Criteria for listing. Delisting. SEBI Functions and Working. Restructuring of Indian stock exchanges, Major issues.
UNIT – 3	Overview of financial services, merchant banking, functions, regulation, leasing and hire purchasing, factoring, venture capital, mutual funds, credit rating agencies, depositories.
UNIT – 4	Changing Role of Financial Institutions: Role of banking. financial sector reforms, financial and promotional role of financial institutions, universal banking, concept and consequences.
UNIT – 5	Understand the provisions of the SEBI (Investment Advisers) Regulations, 2013, Understand the overall framework of the regulatory system, Learn about the roles of regulators: SEBI and RBI. Understand the role of Self-regulatory organizations

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Unit -1

Indian Financial System: Overview

The Indian financial system consists of institutions, markets, instruments, and services that facilitate the flow of funds. It plays a crucial role in economic development by mobilizing savings and allocating them efficiently.

Components of the Financial System:

1. Financial Institutions– Banks, NBFCs, insurance companies, mutual funds.
2. Financial Markets– Capital market, money market, forex market, derivative market.
3. Financial Instruments – Bonds, shares, derivatives, treasury bills.
4. Financial Services – Banking, investment, insurance, foreign exchange.

1. Capital Markets

The capital market is where long-term securities (equity and debt) are issued and traded. It includes:

Primary Market: Where new securities are issued (IPOs).

Secondary Market:Where existing securities are traded (Stock Exchanges).

Key Institutions:

SEBI (Securities and Exchange Board of India): Regulates capital markets.

Stock Exchanges:NSE (National Stock Exchange) & BSE (Bombay Stock Exchange).

Investors: Retail, institutional, foreign investors (FII, FPI).

Instruments:

Equities (Shares)

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Debentures & Bonds

Mutual Funds

Exchange-Traded Funds (ETFs)

2. Money Market

The money marketdeals with short-term funds (less than a year). It provides liquidity to the financial system.

Key Instruments:

- Treasury Bills (T-Bills):Issued by the RBI, risk-free.
- Commercial Papers (CPs): Issued by corporations for short-term funding.
- Certificate of Deposits (CDs): Issued by banks.
- Call Money Market:Overnight borrowing and lending among banks.

Regulator:Reserve Bank of India (RBI)

3. Government Securities Market

This market is for trading government debt instruments like:

- G-Secs (Government Securities): Long-term bonds issued by the Government of India.
- Treasury Bills: Short-term (91-day, 182-day, 364-day) securities issued by the RBI.
- State Development Loans (SDLs): Issued by state governments.

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Purpose:

- Helps the government raise funds for infrastructure and development.

- Provides risk-free investment options.

4. Foreign Exchange Market (Forex Market)

The foreign exchange market is where different currencies are traded. It is regulated by the RBI and plays a critical role in:

- Determining exchange rates.

- Facilitating international trade and investment.

Key Participants:

- RBI (Intervention in forex reserves)

- Banks (Authorized Dealers)

- Exporters & Importers

- Investors & Speculators

Types of Exchange Rates:

- Fixed Exchange Rate: Controlled by the central bank.

- Floating Exchange Rate: Determined by market forces.

- Managed Float: Combination of both.

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5. Derivative Markets

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The derivative market deals with financial contracts whose value depends on an underlying asset (stocks, currencies, commodities, interest rates).

Types of Derivatives:

- Futures Contracts: Agreement to buy/sell at a future date.
- Options Contracts: Gives the right but not the obligation to buy/sell.
- Forwards & Swaps: Custom contracts used for hedging risks.

Regulator: SEBI & RBI (for forex derivatives).

India's financial sector reforms since 1991 have been comprehensive and aimed at transforming its financial system into one that is more market-oriented, globally competitive, and capable of supporting rapid economic growth. The reforms have taken place in phases, targeting key areas such as banking, capital markets, insurance, and financial institutions. Below is an in-depth overview of the major reforms:

1. Background to the 1991 Economic Crisis

- Prior to 1991, India's financial sector was characterized by a highly regulated, controlled, and inefficient structure. The financial system was dominated by public sector banks, with high levels of government control over interest rates, credit allocation, and foreign exchange.
- The 1991 balance of payments crisis prompted the Indian government to undertake a comprehensive set of economic reforms. These reforms were aimed at liberalizing the economy, increasing efficiency, and making India more integrated into the global economy.

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2. Key Objectives of Financial Sector Reforms

- Liberalization: Reduce government control and create a more competitive environment.

- Privatization: Encourage the participation of the private sector in the financial system.

- Globalization: Integrate India's financial markets with global markets.

- Modernization: Introduce technology and innovative financial products.

- Strengthening Regulation: Improve regulatory mechanisms to ensure the stability and soundness of the financial system.

3. Phases of Financial Sector Reforms (1991 Onwards)

Phase 1: Early 1990s – Structural Reforms

- Monetary and Fiscal Policies (1991-92):

  - The Reserve Bank of India (RBI) was tasked with moving towards a more market-based interest rate regime, reducing direct credit controls, and focusing on financial stability.

  - Introduction of fiscal consolidation measures to reduce fiscal deficits.

- Liberalization of Interest Rates: The government moved towards deregulating interest rates, giving banks the freedom to set their own rates.

- Financial Institutions Reorganization:

  - Financial Institutions Act (1993): This established a regulatory framework for institutions like the Industrial Development Bank of India (IDBI), which was tasked with promoting industrial financing.

Phase 2: Mid-1990s to Early 2000s – Banking Reforms

- Banking Sector Reforms:

- Narasimham Committee (1991): One of the most significant reforms came through the Narasimham Committee, which made several key recommendations to modernize India's banking sector, including:

- Reduction in Statutory Liquidity Ratio (SLR): The SLR was reduced gradually from 38.5% to around 25% by the early 2000s to free up more credit for the private sector.

- Capital Adequacy Norms: Introduced a system of capital adequacy norms based on the Basel I standards, which were later aligned with Basel II and Basel III.

- Entry of Private Banks: Encouraged the entry of private sector banks through liberalization of licensing policies. Notable private banks like HDFC Bank, ICICI Bank, and Axis Bank were allowed to operate, breaking the dominance of public sector banks.

- Asset Reconstruction Companies (ARCs): Established to handle the non-performing assets (NPAs) of banks and facilitate the clean-up of bank balance sheets.

- RBI's Role:

- Strengthening the RBI's role as a regulator with enhanced powers to supervise and regulate the banking and financial sectors.

- Introduction of Prudential Norms for the classification of loans, provisioning for NPAs, and other risk management measures.

Phase 3: 2000s – Capital Markets Reforms

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- Stock Market Reforms:

  - SEBI (Securities and Exchange Board of India) Act, 1992: Strengthened the regulatory framework for securities markets.

  - Introduction of dematerialization of shares and the National Stock Exchange (NSE) becoming a major player in India's capital markets.

  - Derivatives Market: The introduction of stock index futures and options, and eventually, commodity derivatives.

- Foreign Investment Regulations:

  - The Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) policies were liberalized, allowing greater foreign participation in Indian financial markets.

  - Introduction of the Foreign Portfolio Investor (FPI) scheme to facilitate and streamline foreign investment flows into Indian equity markets.

Phase 4: 2010s – Banking Sector and Corporate Governance Reforms

- Increased Focus on Non-Performing Assets (NPAs):

  - The government and RBI introduced various measures to tackle rising NPAs, including the Insolvency and Bankruptcy Code (IBC), 2016.

  - Pradhan Mantri Jan Dhan Yojana (PMJDY) (2014): Aimed at providing universal access to banking, expanding the banking network, and increasing financial inclusion.

- Financial Inclusion and Digital Banking:

  - Significant investments were made to improve access to banking services in rural areas and among underserved populations.

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- The Jan Dhan-Aadhaar-Mobile (JAM) Trinity was introduced to integrate financial services with Aadhaar (India's biometric identification system) and mobile technology.

- Banking Sector Consolidation:

  - The government announced the merger of several public sector banks to strengthen the banking system. This aimed at improving operational efficiency, reducing the number of loss-making banks, and creating larger, stronger banks.

- Corporate Governance Reforms:

  - Strengthening corporate governance norms through amendments to the Companies Act, 2013, focusing on improving transparency, accountability, and the protection of shareholder rights.

Phase 5: 2020s – Further Consolidation, Financial Technology (FinTech) & Internationalization

- Digital and Financial Technology (FinTech) Reforms:

  - The rise of fintech, with the Pradhan Mantri Financial Literacy Mission and the UPI (Unified Payments Interface), revolutionized digital payments and online banking.

  - The India Stack initiative focused on building a strong digital infrastructure for banking, payments, and financial inclusion.

- Insolvency and Bankruptcy Code (IBC):

  - The IBC 2016 was a landmark reform aimed at resolving corporate insolvencies efficiently, addressing stressed assets, and improving creditor recovery.

- Asset Management and Insurance Reforms:

- The government allowed foreign investment in insurance up to 49%, opening the sector to more foreign capital.

- India also began to develop an active mutual fund industry, encouraging greater savings and investments from the population.

- Internationalization of Indian Financial Markets:

- Indian financial markets became more integrated with global markets, with the inclusion of Indian government bonds in global bond indices and improved access to global capital markets.

4. Regulatory Authorities and Reforms

- Reserve Bank of India (RBI): Continued to play a crucial role as the primary regulator of the financial system, focusing on monetary policy, inflation control, and financial stability.

- Securities and Exchange Board of India (SEBI): Played an increasing role in regulating capital markets, preventing fraud, and ensuring investor protection.

- Insurance Regulatory and Development Authority (IRDAI): Governed the insurance sector, with reforms encouraging private players and foreign investments.

- Pension Fund Regulatory and Development Authority (PFRDA): Created to regulate pension funds, promoting long-term savings.

5. Challenges and Issues

- Non-Performing Assets (NPAs): Although measures like IBC were introduced, the banking sector continues to face challenges with bad loans, especially in public sector banks.

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- Financial Inclusion: Despite substantial progress, a large section of India's population remains unbanked or underbanked.

- Capital Adequacy and Financial Health: Ensuring the stability of financial institutions and preventing excessive risk-taking, particularly in the wake of global financial crises.

- Regulatory Challenges: Keeping pace with the rapidly evolving financial markets and incorporating fintech innovations into the regulatory framework.

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Unit -2

Stock Exchange – Overview and Regulatory Framework

Stock exchanges play a crucial role in financial markets by providing a structured platform for buying and selling securities. They ensure liquidity, price discovery, and regulatory oversight for investors and companies.

1. Overview of Stock Exchange

A stock exchange is a marketplace where securities (stocks, bonds, derivatives) are bought and sold. It ensures transparency, liquidity, and fair trading practices.

Functions of a Stock Exchange

- Facilitating Capital Raising – Companies raise capital through Initial Public Offerings (IPOs).

- Providing Liquidity – Investors can buy or sell securities quickly.

- Ensuring Price Discovery – Prices are determined based on demand and supply.

- Regulating Market Practices – Protects investors from fraudulent activities.

- Encouraging Investment – Provides opportunities for individuals and institutions.

Major Stock Exchanges in India

- National Stock Exchange (NSE) – Established in 1992, leading exchange in India.

- Bombay Stock Exchange (BSE) – Asia's oldest exchange, founded in 1875.

- Metropolitan Stock Exchange (MSEI) – Focuses on smaller companies and regional trading.

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2. Stock Exchange Trading Process

Stock trading involves multiple participants, including buyers, sellers, brokers, and regulatory authorities.

Trading Mechanisms

- Order-Driven Market – Buyers and sellers place orders, matched electronically.
- Quote-Driven Market – Market makers provide buy and sell quotes.
- Auction Market – Prices determined via competitive bidding.

Types of Stock Orders

- Market Order – Immediate execution at the current price.
- Limit Order – Executed only at a specific price or better.
- Stop-Loss Order – Automatically triggers selling if a stock falls to a set price.

Trading Segments

- Equity Trading – Buying and selling shares of companies.
- Derivative Trading – Trading futures and options based on stocks and indices.
- Commodity Trading – Involves trading raw materials like gold, oil, etc.

3. Regulatory Framework of Stock Exchanges in India

Stock exchanges in India are regulated to ensure transparency, fair trading practices, and investor protection.

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Key Regulatory Bodies

- Securities and Exchange Board of India (SEBI) – Regulates stock exchanges, brokers, and investors.
- Reserve Bank of India (RBI) – Regulates foreign exchange transactions.
- Ministry of Finance – Oversees financial market policies.

SEBI's Role in Stock Market Regulation

- Protects investor interests.
- Prevents insider trading and fraud.
- Regulates stockbrokers and investment advisors.
- Ensures fair trade practices and market integrity.

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4. Indian Stock Exchanges – A Profile

India has a well-developed stock exchange ecosystem with the NSE and BSE being the primary exchanges.

Key Market Indices

- Nifty 50 – Tracks the top 50 companies listed on NSE.
- Sensex – Tracks 30 major companies listed on BSE.
- Nifty Midcap 100 – Represents mid-sized companies.

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5. Insider Trading

Definition: Buying or selling stocks based on non-public, material information.

Example: A company executive trading shares before announcing financial results.

SEBI's Regulations Against Insider Trading:

- Prevents unfair advantage for insiders.
- Ensures transparency and trust in markets.
- Heavy penalties for violations.

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6. Listing and Delisting of Securities

Companies must meet regulatory requirements to list their securities on stock exchanges.

Listing Process

1. Approval from SEBI
2. Filing of Red Herring Prospectus (RHP)
3. Price Determination (Book Building Process)
4. Allotment and Listing on Exchange

Delisting of Securities

A company may remove its shares from a stock exchange voluntarily or involuntarily.

Types of Delisting:

- Voluntary Delisting – A company chooses to exit the exchange (e.g., mergers, buybacks).

- Compulsory Delisting – SEBI removes a company due to non-compliance.

Implications of Delisting:

- Shareholders must sell their holdings via buyback offers.

- Reduced liquidity for investors.

- Loss of public confidence.

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7. SEBI – Functions and Working

SEBI is the apex regulatory body overseeing the securities market in India.

Functions of SEBI

- Regulates stock exchanges and brokers.

- Prevents market manipulation.

- Protects investor rights.

- Promotes fair market practices.

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Powers of SEBI

- Can impose penalties on defaulters.
- Can conduct audits and investigations.
- Has authority to approve IPOs and FPOs.
- Regulates Foreign Portfolio Investors (FPIs).

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8. Restructuring of Indian Stock Exchanges

The Indian stock market has undergone significant changes to improve transparency and efficiency.

Key Developments in Stock Exchange Restructuring

- Dematerialization of Shares – Physical certificates replaced by electronic shares.
- Introduction of Online Trading – Investors can trade from anywhere.
- T+1 Settlement Cycle – Faster trade settlements.
- New Derivative Instruments – Expansion into options, futures, and ETFs.

Major Issues in Indian Stock Exchanges

- Market Manipulation – Pump and dump schemes.
- High Volatility – Impact of global economic trends.
- Retail Investor Protection – Need for better financial literacy.
- Cybersecurity Risks – Increasing online trading frauds.

Unit -3

Overview of Financial Services

The financial services sector plays a crucial role in the economic development of a country. It provides essential services such as investment, credit, insurance, and fund management. This unit covers key financial services, including merchant banking, leasing, hire purchasing, factoring, venture capital, mutual funds, and credit rating agencies.

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1. Overview of Financial Services

Financial services refer to activities that facilitate the movement of money and financial instruments in the economy. These services are provided by banks, NBFCs (Non-Banking Financial Companies), investment firms, and financial institutions.

Functions of Financial Services:

- Mobilizing savings and investments.
- Providing credit and capital to businesses.
- Ensuring risk management through insurance and hedging.
- Enhancing liquidity in financial markets.
- Facilitating efficient payment and settlement systems.

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2. Merchant Banking

Merchant banks provide financial advisory services to corporations, especially related to raising capital, mergers, and acquisitions. Unlike traditional banks, they do not accept deposits or provide loans to the general public.

Functions of Merchant Banks:

- Issue Management: Managing IPOs and FPOs.
- Underwriting Services: Guaranteeing the sale of securities.
- Corporate Restructuring: Advising on mergers, acquisitions, and takeovers.
- Project Finance: Assisting businesses in securing long-term financing.
- Portfolio Management: Managing investment portfolios for institutional investors.

Examples of Merchant Banks in India:

- SBI Capital Markets
- ICICI Securities
- Kotak Mahindra Capital
- JM Financial

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3. Leasing

Leasing is a financial arrangement where the owner (lessor) allows another party (lessee) to use an asset for a specified period in exchange for periodic payments.

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Types of Leasing:

1. Operating Lease – Short-term lease where the lessor retains ownership.
2. Finance Lease – Long-term lease where ownership may transfer to the lessee.
3. Sale and Leaseback – A company sells an asset and leases it back for continued use.

Advantages of Leasing:

- No large upfront capital investment.
- Tax benefits for lessees.
- Flexibility in acquiring new technology or equipment.

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4. Hire Purchasing

Hire purchase is a financial agreement where the buyer pays for an asset in installments. Ownership is transferred only after the final payment is made.

Features of Hire Purchase:

- The asset is delivered immediately, but ownership remains with the seller.
- The buyer pays in installments with interest.
- The seller can repossess the asset if payments are not made.

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5. Factoring

Factoring is a financial service where a business sells its receivables (invoices) to a third party (factor) at a discount to get immediate cash flow.

Types of Factoring:

- Recourse Factoring – The seller retains the risk of bad debts.
- Non-Recourse Factoring – The factor assumes the risk of non-payment.
- Domestic Factoring – Both the seller and buyer are in the same country.
- International Factoring – Used in export-import transactions.

Benefits of Factoring:

- Immediate cash flow without waiting for invoice payments.
- Reduces credit risk.
- Improves working capital management.

Example of Factoring Companies in India:

- SBI Global Factors
- Canbank Factors
- Tata Capital Financial Services

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6. Venture Capital

Venture capital (VC) is a form of financing provided to startups and small businesses with high growth potential. Venture capitalists invest in exchange for equity in the company.

Stages of Venture Capital Financing:

1. Seed Funding: Early-stage investment for idea development.
2. Startup Funding: Capital provided for product development.
3. Early Growth Stage: Investment for scaling up operations.
4. Expansion Stage: Funds for business expansion and market entry.
5. Exit Stage: VC firms exit through IPOs or acquisitions.

Features of Venture Capital:

- High-risk, high-reward investment.
- Involves active participation in business management.
- Provides mentorship and networking opportunities.

Major Venture Capital Firms in India:

- Sequoia Capital India
- Accel Partners
- Nexus Venture Partners
- Tiger Global Management

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7. Mutual Funds

A mutual fund is a pooled investment vehicle managed by asset management companies (AMCs). It collects money from multiple investors and invests in stocks, bonds, or other assets.

Types of Mutual Funds:

- Equity Mutual Funds – Invest primarily in stocks.
- Debt Mutual Funds – Invest in fixed-income securities like bonds.
- Hybrid Funds – Mix of equity and debt investments.
- Index Funds – Replicate the performance of stock market indices.

Benefits of Mutual Funds:

- Professional fund management.
- Diversification reduces investment risk.
- Liquidity – Investors can redeem units anytime.
- Systematic Investment Plan (SIP) allows small investments over time.

Popular Mutual Fund Companies in India:

- SBI Mutual Fund
- HDFC Mutual Fund

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- ICICI Prudential Mutual Fund
- Nippon India Mutual Fund

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8. Credit Rating Agencies

Credit rating agencies assess the financial health of companies, governments, and financial instruments to determine creditworthiness.

Functions of Credit Rating Agencies:

- Evaluate a borrower's ability to repay debt.
- Help investors make informed decisions.
- Influence interest rates and credit spreads.

Major Credit Rating Agencies in India:

- CRISIL (Credit Rating Information Services of India Ltd.)
- ICRA (Investment Information and Credit Rating Agency)
- CARE (Credit Analysis and Research Ltd.)
- India Ratings & Research (Fitch Group)

Credit Rating Scale (Example – CRISIL):

Impact of Credit Ratings:

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- High ratings attract lower interest rates for companies.

- Poor ratings indicate higher risk and borrowing costs.

- Essential for investors in bonds and debt instruments.

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Unit -4

Role of Banking and Financial Sector Reforms

The banking and financial sector reforms are critical in modernizing financial institutions, improving their efficiency, and fostering economic growth. These reforms are typically aimed at improving the stability, competitiveness, and accessibility of the financial system.

1. Liberalization and Deregulation:

- Liberalization refers to the reduction of government restrictions, allowing market forces to determine the allocation of resources.

- Deregulation involves the removal of restrictions that inhibit competition, allowing banks to operate freely and in accordance with market conditions. This leads to increased competition, which can improve efficiency and lead to the better allocation of resources.

2. Privatization of Public Sector Banks:

- Many reforms focus on reducing the dominance of state-owned banks and increasing the role of private players. This leads to improved efficiency, customer service, and profitability.

3. Financial Inclusion:

- Banking reforms aim to improve financial inclusion by ensuring access to banking services in underbanked and rural areas. This includes setting up new branches, ATMs, and using technology such as mobile banking.

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4. Capital Adequacy Norms:

- Banking reforms, particularly post-1991, focus on aligning the Indian banking system with international norms like Basel I, II, and III. These regulations ensure banks maintain adequate capital to absorb financial shocks.

5. Non-Performing Assets (NPA) Management:

- Reforms address the growing issue of NPAs, with strategies for managing and recovering bad loans, such as the establishment of the Insolvency and Bankruptcy Code (IBC) to speed up the resolution of distressed assets.

6. Regulatory Bodies and Supervision:

- Institutions like the Reserve Bank of India (RBI) have been given greater powers to supervise and regulate the financial sector, ensuring proper governance, compliance, and stability.

Financial and Promotional Role of Financial Institutions

Financial institutions perform a financial and promotional role in the economy.

1. Financial Role:

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- Resource Mobilization: Financial institutions mobilize savings from individuals and institutions and channelize them into productive investments. They act as intermediaries between savers and borrowers.

- Credit Creation: Banks and other institutions provide credit to individuals, businesses, and the government, which supports consumption and investment, driving economic activity.

- Risk Mitigation: Through the provision of insurance and financial products, financial institutions help individuals and firms manage risk.

2. Promotional Role:

- Economic Growth: Financial institutions support economic development by providing financing for businesses, particularly small and medium enterprises (SMEs), which are key to job creation and innovation.

- Infrastructure Development: Institutions often fund large-scale infrastructure projects, such as roads, bridges, and power plants, which are critical for national development.

- Policy Implementation: Institutions also play a key role in implementing government policies, such as financing housing schemes, promoting green finance, and enabling other social welfare programs.

- Financial Literacy and Inclusion: Financial institutions promote financial literacy and inclusion programs to ensure that people, especially in rural or underserved areas, are aware of available financial products and services.

Universal Banking: Concept and Consequences

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Concept of Universal Banking:

Universal banking refers to a model where a financial institution offers a wide range of services, including commercial banking, investment banking, insurance, asset management, and other financial services under one roof.

This is in contrast to traditional models where institutions specialized in one area, such as only offering loans or deposits, or focusing solely on investment services.

Key Features:

- Wide Range of Services: Universal banks provide a variety of services such as savings and checking accounts, loans, mortgages, asset management, investment services, and insurance.

- Integration of Services: These services are integrated, allowing for greater convenience for customers.

- Diversification of Risks: By offering multiple services, universal banks diversify their revenue sources, which can protect them against downturns in any one segment of the financial industry.

Consequences of Universal Banking:

1. Increased Market Competitiveness:

- The competition between universal banks and specialized institutions increases, leading to improved services, innovation, and efficiency.

- Customers benefit from a one-stop-shop for all their financial needs, increasing convenience.

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2. Risk Diversification:

- By operating in multiple areas, banks can spread risk. For instance, investment banking profits can offset downturns in traditional lending activities. However, this can also lead to conflicts of interest.

3. Too Big to Fail:

- Large universal banks may become "too big to fail," meaning their failure could have disastrous effects on the entire financial system. This creates moral hazard, where banks may take excessive risks, assuming they will be bailed out if necessary.

- To counter this, stronger regulatory frameworks are needed to ensure stability, such as higher capital requirements.

4. Regulatory Challenges:

- Universal banks present regulatory challenges since they operate in diverse areas with different risks and regulatory frameworks. Ensuring effective oversight becomes complex and requires stronger supervisory bodies and clearer guidelines.

5. Financial Innovation:

- These banks drive financial innovation by combining traditional banking with modern financial products like derivatives, hedge funds, and online banking.

- This can lead to more diverse investment options for consumers but can also increase systemic risks if the institutions are not well-managed.

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Unit -5

SEBI (Investment Advisor) Regulations, 2013

The Securities and Exchange Board of India (SEBI) Investment Adviser Regulations, 2013, were introduced to regulate the advisory services related to securities and investments in India. These regulations aim to protect investors, maintain transparency in the advisory services, and ensure that investment advisers act in the best interests of their clients.

Key Provisions:

1. Registration of Investment Advisers:

- Investment advisers must be registered with SEBI under these regulations. Individuals or entities that provide advice on securities or investment products must comply with SEBI's regulatory requirements.

- This includes financial planners, portfolio managers, and other advisory services.

2. Qualification and Experience:

- To be registered as an investment adviser, a person or entity must have the necessary qualifications and experience. Typically, qualifications such as a Certified Financial Planner (CFP), a relevant degree in finance, or prior experience in the financial advisory industry are required.

- The regulatory framework ensures that the advisers possess a high level of professional competence.

3. Fiduciary Duty:

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- Investment advisers are required to act in the best interest of their clients and ensure that there is no conflict of interest.

- This includes providing advice that is suitable for the client's needs and financial circumstances.

4. Disclosure and Transparency:

- Advisers must disclose all relevant information about the products they recommend, including any potential risks and benefits. Full transparency regarding any commissions, fees, or conflicts of interest must also be maintained.

- Clients must be informed of the fees charged for advisory services and whether those fees are fixed or performance-based.

5. Code of Conduct:

- SEBI outlines a specific Code of Conduct for investment advisers to ensure ethical behavior. This includes maintaining confidentiality, avoiding conflicts of interest, providing unbiased advice, and acting with integrity.

6. Compliance and Auditing:

- Investment advisers are required to follow strict compliance procedures, including periodic audits and reporting to SEBI. They must maintain records of the advice given, transactions executed, and the rationale behind them.

- Annual reports and disclosures must be filed with SEBI, ensuring ongoing transparency and regulatory oversight.

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Overall Framework of the Regulatory System in India

The financial regulatory framework in India is structured to ensure a sound, transparent, and stable financial system. The framework comprises multiple regulatory authorities and self-regulatory organizations (SROs) that work together to maintain financial discipline, protect investors, and enhance market efficiency.

1. Securities and Exchange Board of India (SEBI):

- SEBI is the primary regulator for the securities market in India. It is responsible for regulating stock exchanges, brokers, investment advisers, mutual funds, and other market participants.

- SEBI's role includes ensuring that the securities market operates in a fair, transparent, and efficient manner. It also safeguards the interests of investors, particularly retail investors.

2. Reserve Bank of India (RBI):

- The RBI is the central bank of India and plays a key role in regulating the monetary system, banking sector, and financial markets. It regulates commercial banks, non-banking financial companies (NBFCs), and other financial institutions.

- The RBI is also responsible for formulating and implementing monetary policy, managing inflation, ensuring financial stability, and overseeing currency and credit flow.

3. Insurance Regulatory and Development Authority of India (IRDAI):

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- IRDAI is the regulatory body for the insurance industry in India. It regulates the functioning of insurance companies, brokers, and agents, ensuring that they operate in a manner that is in the interest of policyholders.

4. Pension Fund Regulatory and Development Authority (PFRDA):

- PFRDA regulates and promotes pension schemes, including the National Pension System (NPS), and ensures the safety and security of pension funds.

5. Financial Stability and Development Council (FSDC):

- The FSDC monitors macroeconomic and financial stability risks. It coordinates and oversees the functioning of various financial regulators, ensuring a unified approach to maintaining stability.

6. Ministry of Finance:

- The Ministry of Finance is responsible for overseeing the overall financial and economic policies of the country. It works closely with SEBI, RBI, and other regulators to formulate policies for the growth of the financial sector.

Role of Regulations: SEBI and RBI

SEBI's Role:

1. Regulating Securities Markets:

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- SEBI ensures that the securities market in India is transparent, efficient, and free of manipulation. It enforces regulations governing the functioning of stock exchanges, brokers, and other market intermediaries.

2. Protecting Investor Interests:

- SEBI works to protect investors by promoting transparency and reducing the risks of fraud, market manipulation, and insider trading. It regulates public offerings and takes action against market abuses.

3. Regulating Investment Advisers:

- SEBI's Investment Adviser Regulations ensure that individuals and entities providing investment advice act with integrity, disclose potential conflicts of interest, and comply with ethical standards.

4. Promoting Financial Literacy:

- SEBI runs programs to educate investors about the risks and benefits of securities markets and financial products, improving financial literacy across India.

RBI's Role:

1. Monetary and Credit Policy:

- RBI formulates and implements monetary policy to control inflation, manage the money supply, and ensure that the financial system remains stable. This includes setting interest rates and managing liquidity.

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2. Regulation of Banks:

- The RBI regulates the banking sector by setting prudential norms, ensuring that banks maintain adequate capital, liquidity, and financial soundness. It issues guidelines for non-performing asset (NPA) management and other banking operations.

3. Financial Inclusion:

- RBI plays a crucial role in promoting financial inclusion by ensuring that banking services reach underbanked and rural areas. It also facilitates the digitization of banking services.

4. Consumer Protection:

- RBI has established frameworks to safeguard the interests of banking customers. This includes ensuring that banks operate transparently, handle complaints effectively, and provide fair services.

5. Foreign Exchange Management:

- RBI manages India's foreign exchange reserves and ensures that the foreign exchange market operates efficiently. It regulates the external sector and ensures the stability of the Indian rupee.

Self-Regulatory Organizations (SROs)

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Self-Regulatory Organizations (SROs) are non-governmental organizations that have the authority to create and enforce rules and regulations for their members, particularly in the financial sector. They complement the work of regulatory bodies like SEBI and RBI by overseeing specific sectors and ensuring compliance with standards.

1. Role of SROs:

- Enhancing Market Discipline: SROs help maintain market discipline by setting standards and ensuring that members adhere to industry norms and ethical guidelines.

- Providing Investor Protection: They establish rules for their members to protect investors and maintain fairness in the market.

- Facilitating Dispute Resolution: SROs often offer dispute resolution mechanisms between market participants and investors, providing a quicker and more cost-effective process than formal legal channels.

2. Examples of SROs in India:

- National Stock Exchange (NSE): As an SRO, NSE sets rules for its members and ensures that its trading platform operates fairly and efficiently.

- Bombay Stock Exchange (BSE): Similar to NSE, BSE acts as an SRO by ensuring compliance with market rules and promoting fair trading practices.

- Association of Mutual Funds in India (AMFI): AMFI acts as an SRO for the mutual fund industry, setting ethical guidelines, promoting best practices, and regulating its members.

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- The Institute of Chartered Accountants of India (ICAI): While not a market-specific SRO, ICAI regulates the accounting profession in India, ensuring that auditors adhere to ethical standards and best practices.

3. Regulatory Authority's Relationship with SROs:

- Regulatory bodies like SEBI recognize and work alongside SROs to enhance oversight and ensure compliance with market standards. SROs operate with delegated authority and often assist in enforcing regulations set by SEBI and other regulators.

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