JAGRAN Josh

Simplifying Test Prep

IBPS Bank PO Exam 2013

General Awareness(Basic)

Common Written Examination (CWE)

Inside the E-Book

- Complete Coverage on Money & Banking System
- National & International Institutions
- Banking Terminology
- Topic wise Questions

As Per IBPS PO/MT 2013 Exam Pattern

Contents

Preface

The study material in this E-book on IBPS PO EXAM 2013: General Awareness (Basic) is developed and created by a team of experts using their professional expertise to respond to the cause of knowledge sharing and educating, which directly aims at helping people preparing for Banking Recruitment Examinations.

The E-book focuses on two main sections:

- Banking and Money
- Economy

The E-Book is so well designed so that you can grasp all the basic banking and economy knowledge in relatively in very short span of time and even retain it very easily for your further consideration. We have covered wide range of topics to keep you informed and updated. Studying this E-Book supplement will help you in exploring topics which are likely to appear in the competitive exams.
The best thing about this E-Book supplement is that it allows you to keep your IQ sharp and updated. The supplement enables you to judge your knowledge and IQ and this can be highly beneficial while appearing in the tests or the interviews of the IBPS PO Grade exams.

To make you Aware it is worth mentioning here that the exam carry 20 Question of basic economics in General Awareness section. You can do it very easily in 10 minutes if you are aware of things. Here arrives the use of our E-Book!!!! The rest of the time you can utilize to solve difficult questions from other sections like quantitative aptitude and reasoning.

Jagranjosh.com at a glance

Jagranjosh.com since its inception has always worked tirelessly in bringing up content for all serious aspirants. Jagranjosh.com as a site can be accessed by students applying for admissions, looking for government sector jobs, aspiring to excel in all fields of education especially the competitive examinations. It expertise's and is a gateway to infinite knowledge on Current Affairs, UPSC/State PSC's examinations, Banking, SSC and also provides information on MBA, CBSE and other admission related queries. Jagranjosh.com is more than a site it is companion for life, for those wanting to be successful; it is the key to success.

Best of Luck!

Previous Year Questions

Questions of 2011

1. **Which of the following statement is true?**

(a) Banks cannot accept demand and time deposits from public.
(b) Banks can accept only demand deposits from public.
(c) Banks can accept only time deposits from public.
(d) Banks can accept both demand and time deposits from public.
(e) Banks can accept demand and time deposits only from government.

Ans: (d)

2. **Which of the following is the correct statement?**

(a) State bank of India is the sole authority to issue and manage currency in India
(b) A nationalized bank is the sole authority to issue and manage currency in India.
(c) A cooperative bank is the sole authority to issue and manage currency in India.
(d) RBI is the sole authority to issue and manage currency in India.
(e) None of these

Ans: (d)

3. **Interest payable on savings bank accounts is ____**

(a) not regulated by RBI
(b) regulated by Sate Governments
(c) regulated by Central Government
(d) regulated by RBI
(e) regulated by Finance minister

Ans: (d)

4. **The usual deposit accounts of banks are _____**

(a) Current accounts, electricity accounts and insurance premium accounts
(b) Current accounts, Post office savings bank accounts and term deposit accounts
(c) Loan accounts, savings bank accounts and term deposit accounts

(d) Current accounts, savings bank accounts and term deposit accounts
(e) Current bill accounts and term deposit accounts

Ans: (d)

5. **Fixed deposits and recurring deposits are _____**

(a) repayable after an agreed period.
(b) repayable on demand.
(c) not repayable.
(d) repayable after death of depositors.
(e) repayable on demand or after an agreed period as per bank's choice.

Ans: (a)

6. **Accounts are allowed to be operated by cheques in respect of _____**

(a) Both Savings bank accounts and fixed deposit accounts
(b) Savings bank accounts and current accounts
(c) Both Savings bank accounts and loan accounts.
(d) Both Savings bank accounts and cash accounts only.
(e) Both Current accounts and fixed deposit accounts

Ans: (b)

7. **Which of the following is correct statement?**

(a) Normally no interest is paid on current deposit accounts.
(b) Interest is paid on current accounts at the same rate as term deposit accounts.
(c) The rate of interest on current account and savings account are the same.
(d) No interest is paid on any deposit by the bank.
(e) Savings deposits are the same as current deposits.

Ans: (a)

8. **Mortgage is a _____**

(a) security on movable property for a loan given by a bank.
(b) security on immovable property for a loan given by a bank.
(c) concession on immovable property for a loan given by a tank.
(d) facility on immovable property for a loan given by a bank.
(e) security on immovable property for a deposit received by a bank.

Ans: (b)

9. **Financial inclusion means provision of _____**

(a) financial services namely, payments, remittances, savings, loans and insurance at affordable cost to persons not yet given the same.
(b) ration at affordable cost to persons not yet given the same.
(c) house at affordable cost to persons not yet given the same.
(d) food at affordable cost to persons not yet given the same.
(e) education at affordable cost to persons not yet given the same.

Ans: (a)

10. **When a bank returns a cheque unpaid, it is called**
(a) payment of the cheque
(b) drawing of the cheque
(c) cancelling of the cheque
(d) dishonor of the cheque
(e) taking of the cheque

Ans: (d)

11. **Which of the following states became the first state in the country to launch RBI's e-payment system for commercial tax payers?**
(a) Andhra Pradesh
(b) Kerala
(c) Gujarat
(d) Maharashtra
(e) Karnataka

Ans: (d)

12. **Which of the following types of accounts are known as 'Demat Accounts"?**
(a) Accounts which are Zero Balance Accounts
(b) Accounts which are opened to facilitate repayment of a loan taken from the bank. No other business can be conducted from there
(c) Accounts in which shares of various companies are traded in electronic form
(d) Accounts which are operated through internet banking facility
(e) None of these

Ans: (c)

13. **NEFT means _____**

(a) National Electronic Funds Transfer system

(b) Negotiated efficient Fund Transfer System

(c) National Efficient Fund Transfer Solution

(d) Non Effective Fund Transfer system

(e) Negotiated Electronic Foreign Transfer system

Ans: (a)

14. **Distribution of insurance products and insurance policies by banks as corporate agents is known as _____**

(a) General Insurance

(b) Non-life insurance

(c) Bancassurance

(d) Insurance banking

(e) Deposit insurance

Ans: (c)

15. **Interest on savings bank account is now calculated by banks on _____**

(a) minimum balance during the month

(b) minimum balance from 7th to last day of the month

(c) minimum balance from 10th to last day of the month

(d) maximum balance during the month

(e) daily product basis

Ans: (e)

16. **Largest shareholder (in percentage shareholding) of a nationalized bank is _____**

(a) RBI

(b) NABARD

(c) LICI

(d) Govt. of India

(e) IBA

Ans: (d)

17. **Banks in our country normally publicise that additional interest rate is allowed on retail domestic term deposits of _____**

(a) Minors

(b) Married women

(c) Senior citizens

(d) Govt. employees
(e) Rural residents

Ans: (c)

18. **When the rate of inflation increases _____**
(a) purchasing power of money increases
(b) purchasing power of money decreases
(c) value of money increases
(d) purchasing power of money remains unaffected
(e) amount of money in circulation decreases

Ans: (a)

19. **A centralized database with online connectivity to branches, internet as well as ATM-network which has been adopted by almost all major banks of our country is known as**
(a) investment banking
(b) core banking
(c) mobile banking
(d) national banking
(e) specialized banking

Ans: (b)

20. **With a view to facilitate payment of balance in the deposit account to the person named by the depositor without any hassles in the event of death of the account holder, the following facility was introduced for bank accounts In our country**
(a) will
(b) Registration
(c) Nomination
(d) Indemnity
(e) Guarantee

Ans: (c)

Questions of 2012

1. Money deposited at a bank that cannot be withdrawn for a preset fixed period of time is known as a ______?

(a) Term deposit
(b) Checking Account
(c) Saving Bank Deposit
(d) No Frills Account
(e) Current Deposit

Ans. (a)

2. A worldwide financial messaging network which exchanges between banks and financial institution is known as _______?

(a) CHAPS
(b) SWIFT
(c) NEFT
(d) SFMS
(e) CHIPS

Ans. (b)

3. The term 'Smart Money' refers to________?

(a) Foreign Currency
(b) Internet Banking
(c) US Dollars
(d) Travelers cheques
(e) Credit Cards

Ans. (e)

4. Which one of the following is not a 'Money Market Instrument'?

(a) Treasury Bill
(b) Commercial Paper
(c) Certificate of Deposit
(d) Equity Shares
(e) None of these

Ans. (d)

5. Which one of the following is a retail banking product?

(a) Home Loans
(b) Working capital finance
(c) Corporate term loans
(d) Infrastructure financing
(e) Export Credit

Ans. (a)

6. When there is a difference between all receipts and expenditure of the Govt. of India, both capital and revenue, it is called ______?
(a) Revenue Deficit
(b) Budgetary Deficit
(c) Zero Budgeting
(d) Trade Gap
(e) Balance of payment problem

Ans. (b)

7. Which of the following is NOT a function of the Reserve Bank of India?

(a) Fiscal Policy Functions
(b) Exchange Control Functions
(c) Issuance, Exchange and destruction of currency notes
(d) Monetary Authority Functions
(e) Supervisory and Control Functions

Ans. (a)

8. Which of the following is NOT required for opening a bank account?

(a) Identity Proof
(b) Address Proof
(c) Recent Photographs
(d) Domicile Certificate
(e) None of these

Ans. (d)

9. With reference to a cheque which of the following is the 'drawer bank'?

(a) The bank that collects the cheque
(b) The payee's bank
(c) The endorsee's bank
(d) The endorser's bank
(e) The bank upon which the cheque is drawn

Ans. (a)

10. In which of the following fund transfer mechanisms, can funds be moved from one bank to another and where the transaction is settled instantly without being bunched with any other transaction?
(a) RTGS
(b) NEFT
(c) TT
(d) EFT
(e) MT

Ans. (a)

11. Banking Ombudsman Scheme is applicable to the business of ______?
(a) All scheduled commercial banks excluding RRBs
(b) All scheduled commercial banks including RRBs
(c) Only Public Sector Banks
(d) All Banking Companies
(e) All scheduled banks except private banks

Ans. (b)

12. Nationalization of banks aimed at all of the following except ________?

(a) Provision of adequate credit for agriculture, SME & exports
(b) Removal of control by a few capitalists
(c) Provision of credit to big industries only
(d) Access of banking to masses
(e) Encouragement of a new class of entrepreneurs

Ans. (c)

13. Base Rate is the rate below which no Bank can allow their lending to anyone. Who sets up this 'Base Rate' for Banks?
(a) Individual Banks' Board
(b) Ministry of Commerce
(c) Ministry of Finance
(d) RBI
(e) Interest Rate Commission of India

Ans. (d)

14. What is a 'Debit Card'?

(a) It is a card issued by a Rating Agency
(b) It is a card which can be used for withdrawing cash or making payment even in the absence of any balance in the account

(c) It is a card which can be used for withdrawing cash or making payment if there is balance in the account
(d) It is a card which carries prepaid balance
(e) It is a card which can be used for making STD calls\

Ans. (c)

15. Bad advances of a Bank are called _____?

(a) Bad debt
(b) Book debt
(c) Non Performing Asset
(d) Out of order accounts
(e) Overdrawn accounts

Ans. (c)

16. Axis Bank is a ______?

(a) Public Sector Bank
(b) Private Sector Bank
(c) Co-operative Bank
(d) Foreign Bank
(e) Gramin Bank

Ans. (b)

17. By increasing repo rate, the economy may observe the following effects ______?

(a) Rate of interest on loans and advances will be costlier
(b) Industrial output would be affected to an extent
(c) Banks will increase rate of interest on deposits
(d) Industry houses may borrow money from foreign countries
(e) All of these

Ans. (c)

18. Increased interest rates, as is existing in the economy at present will______?

(a) Lead to higher GDP growth
(b) Lead to lower GDP growth
(c) Mean higher cost of raw materials
(d) Mean lower cost of raw materials
(e) Mean higher wage bill

Ans. (e)

19. An ECS transaction gets bounced and you are unable to recover your money from your customer. Under which Act criminal action can be initiated?

(a) Indian Penal Code
(b) Negotiable Instruments Act
(c) Criminal Procedure Code
(d) Payment and Settlements Act
(e) Indian Contract Act

Ans. (b)

20. Mr. Rajendra had filed a complaint with Banking Ombudsman but is not satisfied with the decision. What is the next option before him for getting his matter resolved?

(a) Write to the CMD of the Bank File an appeal before the Finance Minister
(b) File an appeal before the Banking Ombudsman again
(c) File an appeal before the Dy. Governor RBI
(d) Simply close the matter as going to court involves time and money
(e) None of These

Ans. (b)

Chapter: Money and Banking In India

Definition of Money

Money is anything, which is generally acceptable as means of payment in the settlement of all transactions, including debt. It is the commonly used as medium of exchange. It has power to purchase things directly in all markets. It does not require to be converted into something else before it can be spent or used. General acceptability as the common means of payment is the distinctive characteristic of money.

FUNCTIONS OF MONEY

Medium of Exchange

- It is a characteristic that distinguishes money from other assets (near-money or non-money). All other functions of money are derived from this primary function.
- Without money, exchange will involve a direct barter of goods and services for goods and services. It always promotes transactional efficiency in exchange and allocation efficiency.

Unit of Account

- This function of money is also variously known as unit of value, standard of value, common denominator of value and common measure of value.
- In terms of money, the values of all goods and services are expressed which ensures possible meaningful accounting systems by adding up the values of goods and services, e.g. National income estimates of a country, money cost of a project, etc.

Standard of Deferred Payment

- Money serves as a standard or unit through which deferred or future payments can be made. This applies to payments of interest, rents, salaries, insurance premium etc.
- In a money-using system, the bulk of deferred payments are stipulated in money terms.

Store of Value

This function is derived from the use of money as a medium of exchange in a two-fold manner. First, it decomposes a single barter transaction into two separate transactions of purchase and sale. Second, in money-using system, incomes in the form of wages, salaries, rent, interest and profits are money payments received discontinuously.

KINDS OF MONEY

- **Coins:** These are metallic token money because the intrinsic (metallic) value of a coin is less than its face value.
- **Currency notes**: These are made of paper without any intrinsic value. These are inconvertible in the sense that the issuing authority (RBI) does not stand ready to buy them back against gold or silver or full-bodied gold or silver coins of equal value at a pre-determined price.
- **Deposit money:** It is not like coins or currency notes that can be passed on from hand to hand for a transfer of purchasing power. Deposits are only entries in the ledgers of bank to the credit of their holders. Only demand deposits of banks on which cheques can be drawn are treated as money. The cheques are an instrument through which these deposits can be transferred from the payer to the payee. Only when the ownership of these deposits has been so transferred is the medium of exchange or the means of payment function of these deposits completed.

MEASURES OF MONEY SUPPLY

Four alternative measures of money supply (adopted by RBI since 1977)

- M or M1 = C + DD + OD
- M2 = M1 + Time Liabilities Portion of Savings Deposits with the Banking System+ Certificates of Deposit issued by Banks + Term Deposits of residents with a contractual maturity of up to and including one year with the Banking System (excluding CDs).
- AMR or M3 =M2 + Term Deposits of residents with a contractual maturity of over one year with the Banking System + Call/Term borrowings from 'Non-depository' Financial Corporations by the Banking System
- M4 = M3 + total deposits with the post-office Saving Organisation (excluding National Savings Certificates)

Here C = Currency held by public

DD = Net demand deposits with the banks

OD = Other deposits with the RBI

AMR = Aggregate Monetary Resources.

In the above definitions, M1 is called narrow money and M3 is called broad money. Currency includes paper currency and coins only. Other deposits of the RBI includes deposits other than those held by the Govt (Central and State govt.), banks and a few others. They include demand deposits of quasi-government institutions (like the IDBI), foreign central banks and governments, the IMF and the World Bank etc.

Banking: Introduction, Types, and Functions

BANKING

Banking means accepting for the purpose of lending or Investment of deposits of money from public repayable on demand or otherwise and withdraw-able by cheque, drafts order or otherwise.

Some other aspects of Banking are mentioned below:

- Banking company means any company which transacts the business of banking.
- Secured loan or advances means a loan or advance made en the security of asset the market value of which is net at any time less than the amount of such lean or advances and unsecured loan or advances means a lean or advance net secured.
- Banking business a banking company may be engaged in accepting deposits, borrowing money, lending money, dealing in bills, collection of bills buying/selling foreign exchange, lockers, issuing letter of credit, traveler cheques, mortgages, insurance business, acting as trustee etc or any other business which Central Government may notify in the Official Gazette.
- **Use of Word 'Banking'** - For banking companies carrying on banking business in India to use at least one word bank, banking, banking company in its name.
- **Immovable property** - Banks are prohibited from holding any immovable property howsoever acquired except as acquired for its own use for a period exceeding 7 years from acquisition of the property, RBI may extend this period by five years.
- Prohibitions on employment like Chairman, Directors etc (Period of office-not mere than 5 years extendable by another 5 years).
- Paid-up capital, reserves and rules relating to - Foreign banks: minimum Rs 15 lac (Rs 20 lac for business in Mumbai and/or Calcutta). For domestic Banks: not less than Rs 5 lac. Ratio of authorised, subscribed and paid-up capital minimum 4:2:1. Voting right more than 10% irrespective of holding.
- Banks not to pay any commission, brokerage, discount etc more than 2.5% of paid-up value of one share.
- Prohibits a banking company from creating a charge upon any unpaid capital of the company. Section prohibits a banking company from creating a floating charge on the undertaking or any property of the company without the RBI permission.

- Prohibits payment of dividend by any bank until all of its capitalised expenses have been completely written off.
- To create reserve fund: 20% of the profits should be transferred to this fund before any dividend is declared (RBI however directed banks to transfer not less than 25% of net profits to Reserve Fund wef Mar 31, 2001).
- Cash reserve - Non-scheduled banks to maintain 3% of the demand and time liabilities by way of cash reserves with itself or by way of balance in a current account with RBI.
- Permits banks to form subsidiary company for certain purposes.
- No banking company shall hold shares in any company.
- Banks cannot grant loan against security of its own shares.
- Branch Licensing - obtaining of license from RBI is essential.
- Statutory Liquidity Ratio - Every bank to maintain a percentage of its demand and time liabilities by way of cash, gold, unencumbered securities.
- Unclaimed deposits - Return of unclaimed deposits within 30 days of close of each calendar year (10 years and above).
- Every bank has to publish its balance sheet as on Mar 31.
- Publish balance sheet and auditor's report within 3 months from the end of period to which they refer. RBI may extend the period by further three month.
- RBI can terminate any Chairman or any employee of a bank where it considers desirable to do so.
- Amendment carried in the Act during 1983 employers Central Govt to frame rules specifying the period for which a bank shall preserve its books.
- Other than a banking company/RBI/SBI, no person can accept deposit of money withdrawable by cheque.

Certain returns are also required to be sent to RBI by banks such as monthly return of liquid assets and liabilities, quarterly return of assets and liabilities in India, return of unclaimed deposits and monthly return of assets and liabilities.

Banking Regulation Act 1949

Passed as the Banking Companies Act 1949 (came into. force wef 16.3.49) and changed to Banking Regulations Act 1949 wef 01.03.66, it was made applicable to J&K in 1956. The Act is not applicable to primary agricultural credit societies, cooperative land mortgage banks and non-agricultural primary credit societies.

POWER TO SUSPEND OPERATION OF ACT

(1) The Central Government, if on a representation made by the Reserve Bank in this behalf it is satisfied that it is expedient so to do, may by notification in the Official Gazette suspend for such period, not exceeding sixty days, as may be specified in the notification, the operation of all or any of the provisions of this Act, either generally or in relation to any specified banking company.

Forms of business in which banking companies may engage

(1) In addition to the business of banking, a banking company may engage in any one or more of the following forms of business, namely:-

(a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;

(b) acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a [managing agent or secretary and treasurer] of a company;

(c) contracting for public and private loans and negotiating and issuing the same;

(d) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;

(e) carrying on and transacting every kind of guarantee and indemnity business;

(f) managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;

(g) acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;

(h) undertaking and executing trusts;

(i) undertaking the administration of estates as executor, trustee or otherwise;

(j) establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;

(k) the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;

(l) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;

(m) acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in this sub- section;

(n) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;

(o) any other form of business which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

(2) No banking company shall engage in any form of business other than those referred to in subsection (1).

PROHIBITION OF TRADING

Notwithstanding anything contained in section 6 or in any contract, no

banking company shall directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realisation of security given to or held by it, or engage in any trade, or buy, sell or barter goods for others otherwise than in connection with bills of exchange received for collection or negotiation or with such of its business as is referred lo in clause (i) of sub-section (1) of section 6:

Provided that this section shall not apply to any such business as is specified in pursuance of clause (o) of sub-section (1) of section 6.

Explanation

For the purposes of this section, "goods" means every kind of movable property, other than actionable claims, stocks, shares, money, bullion and specie, and all instruments referred to in clause (a) of sub-section (1) of section 6.

Reserve Bank of India

ESTABLISHMENT

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.

Preamble

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

Central Board

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

Appointed/nominated for a period of four years

Constitution

Official Directors

- Full-time : Governor and not more than four Deputy Governors

Non-Official Directors

- Nominated by Government: ten Directors from various fields and two government Officials
- Others: four Directors - one each from four local boards

Description

- It is the apex institution of country's monetary system and financial system.
- It plays a leading role in organising, running, supervising, regulating and developing the monetary and financial system. The design and conduct of the monetary and credit policy are its special responsibility.
- It was established on April 1, 1935 under the Reserve Bank of India Act 1934.
- Initially, it was constituted as a private shareholders' bank with a fully paid- up share capital of Rs 5 crores.
- It was nationalised on January 1, 1949.
- The executive head of the Bank is called Governor who is assisted by deputy governors and other officers.
- It has a central board of directors, supplemented by four local boards at Delhi, Kolkata, Chennai and Mumbai for four regional areas: northern, eastern, southern and western respectively.
- Its head office is at Mumbai.

FUNCTIONS OF RBI

Monetary Authority

- Formulates implements and monitors the monetary policy.
- Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

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.

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.

Offices

Has 19 regional offices, most of them in state capitals and 9 Sub-offices.

Training Establishments

Has five training establishments

Two, namely, College of Agricultural Banking and Reserve Bank of India Staff College are part of the Reserve Bank

Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

Subsidiaries

Fully owned: Deposit Insurance and Credit Guarantee Corporation of India(DICGC), Bharatiya Reserve Bank Note Mudran Private Limited(BRBNMPL)

MONETARY POLICY OF RBI

It is a regulatory policy whereby the Reserve Bank of India maintains its control on the supply of money in the money market of India.

RBI issues guidelines at regular time interval to regulate the money supply in the system. It affects the interest rates, the liquidity, inflation, the loans rates and the related rates. It is a tool in the hands of RBI to increase or decrease the money supply in the open market.

CREDIT CONTROL BY RBI

Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 empowers the RBI to control the credit flow in India.

BANK RATE POLICY

It is a temporary tool in the hands of RBI for credit control. The Bank Rate (BR) has been defined in See 49 of RBI Act 1934 as the 'standard rate at which RBI is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under this act'.

The bank rate policy depends upon the following factors.

1. That the commercial banks in the country should not be averse to availing rediscounting facility from the central bank.
2. That the banks do not maintain any excess cash reserve deposits and thus if extraordinary demands are made by the depositors, they have no option except that they rediscount bills from the Central Bank(RBI).
3. That the banks must hold adequate quantity of such credit instruments which will be rediscounted by the Central Bank (RBI).

The RBI uses its lending power to (a) to influence their credit allocation and (b) to develop a genuine bill market in India.

OPEN MARKET OPERATIONS

RBI uses it **Open Market Operations** to reduce or increase the supply of money in the system. Buying and selling of government securities by the central bank with a view to influencing money supply is called open market operations. When the central bank sells securities the buyers make payment for these to the central bank through commercial banks. As a result, the lending and financing power of banks decreases which leads to reduction in the rate of credit expansion. The purchase of securities by the central bank has the reverse effects.

STATUTORY LIQUIDITY RATIO (SLR)

- As per Indian Banking Act, a bank is legally bound to keep 20% of its deposits in form of liquid assets. This is kept by bank itself to check inflation in the economy.
- Section 24 (2A) of Banking Regulations Act.1949 requires every banking company to maintain in India equivalent to an amount which shall not, at the close the business on any day, be less than prescribed by RBI (earlier 25%) as a percentage of the total of its net demand and time liabilities in India, which is known as SLR.

CASH RESERVE RATIO (CRR)

Cash reserve ratio is the amount of funds that the banks have to keep with RBI. If the RBI decides to increase CRR, the available amount with the banks comes down. RBI uses this method to drain out excess money out of the banks.

- In other words, CRR refers to the ratio of bank's balance with RBI to the bank's net demand and time liabilities. The objective of maintaining a minimum balance with RBI is basically to ensure the liquidity and solvency of the scheduled banks.
- The system of maintaining a minimum cash balance with the Central Bank of a country had originated in USA.
- Earlier in India the lower and the upper limit of the CRR was 3 to 15 % respectively. But now these limits are done away with no upper and lower limit.

SELECTIVE CREDIT CONTROL

Selective Credit Control (SCC) refers to the directives issued by RBI u/s 21 of Banking Regulation Act 1949 to regulate flow of bank credit against security of sensitive/selected commodities. With a view to prevent speculative holding of essential commodities with the help of bank credit, RBI issues from time to time, directive covering the margin requirements and the level and quantum of accommodation that could be granted against the SCC items.

ISSUE OF NEW CURRENCY

Apart from the aforesaid measures RBI can issue new currency in the system. RBI issues new notes by transferring the foreign securities from its Banking department to Issue department. The amount of notes issued will be equal to the securities transferred.

RESERVE MONEY

Reserve money is said to be high powered money because it enable the banking system to create the deposit money. It is represented by M_0 and is given by

M_0 =Currency in Circulation + Bankers' Deposits with the RBI + 'Other' Deposits

with the RBI

SHORT TERM LIQUIDITY MANAGEMENT

Price Stability and the Growth are the two underlying objective of the RBI in each and every policy step. Since the liberalization in early nineties, the short term liquidity adjustment has acquired very dynamic nature. RBI now manipulates the Repo rates and Reverse Repo Rates to control the short term liquidity in the system. Repo operations and Liquid Adjustment Ratio are the two main tools to achieve the basic objective of short term Management of credit.

REPO RATE

Repo Rate is the Tool by which RBI in flews liquidity in the financial system. Or it is the rate of interest at which RBI provide short term loans to the scheduled commercial Bank against the government securities. (Maximum-90 days)

REVERSE REPO RATE

Reverse repo rate is the rate that banks get from RBI for parking their short term excess funds with RBI.

LIQUIDITY ADJUSTMENT FACILITY

- It was introduces in June 2000 by RBI.
- It is a daily basis operation of the central Bank to manipulate and control the liquidity on the daily basis.
- It operates through the repo auctions, the selling of Government Securities and thus absorption of liquidity from the market.
- Through reverse repo options where the government securities are bought back by the RBI to increase the liquidity.

Commercial Banks

Commercial Banks refer to both scheduled and non-scheduled commercial banks which are regulated under Banking Regulation Act, 1949**.**

(a) Scheduled Commercial Banks are grouped under following categories:

1. State Bank of India and its Associates

2. Nationalised Banks

3. Foreign Banks

4. Regional Rural Banks

5. Other Scheduled Commercial Banks.

(b) Non-Scheduled Commercial Banks

Note: Banks in the groups (1) & (2) above are known as public sector banks whereas, other scheduled commercial banks mentioned at group (5) above are known as private sector banks.

- Commercial banks are the single most important source of institutional credit in India. A bank is an institution that accepts deposits of money from the public, withdraw-able by cheque and used for lending.
- Two essential functions which make a financial institution a bank - I. acceptance of chequable deposits (of money) from the public and II. Lending.
- Three things about deposits are noteworthy:
- They are deposits of money
- Deposits are accepted from public at large
- Deposits are repayable on demand and withdraw-able by cheque

As bank (under the Banking Regulation Act, 1949) is not allowed to carry on any business of its own (other than that of banking), the word lending is used here broadly to include both direct lending to borrowers and indirect lending through investment in open-market securities.

NATIONALISATION OF BANKS

- First to be nationalised was RBI on January 1, 1949.
- Nationalisation of Imperial Bank of India and its conversion into State Bank of India in July 1955.
- Conversion of 8 major State-associated banks into subsidiary banks of SBI in 1959.

- Nationalisation of 14 other Indian scheduled banks in July 1969.
- Nationalisation of 6 more banks in April 1980.
- Indian bank merged into Punjab National Bank in 1995.
- At present, there are 27 commercial banks in public sector. Out of these 19 banks are nationalised.
- There are 297 scheduled banks (including foreign banks) and one non-scheduled bank at the end of Dee 2000.
- Out of these scheduled banks, 223 are in public sector and which account for about 82% of the total deposits of scheduled banks.
- The principal objectives of the nationalisation were:
- To eliminate concentration of economic power in a few hands.
- To diversity the flow of bank credit towards priority sectors consisting of agriculture and allied activities, small scale industries and small business.
- To foster a new class of entrepreneurs so as to create, sustain and accelerate economic growth.
- To professionalise banks managements.
- To impart adequate training as also reasonable terms of service to banks staff and
- To extend banking facilities to unbanked rural areas.

Keeping in view the objectives of nationalisation, PSBs undertook expansion of reach and services. Resultantly the number of branches increased from 8262 in 1969 to 66239 on Jun 30, 2002 out of which 49% in rural areas and no. of people served per branch office came down from 64000 in 1969 to 15000 in 2002. Much of this expansion has taken place in rural and semi-urban areas. The expansion is significant in terms of geographical distribution. States neglected by private banks before 1969 have a vast network of public sector banks. The PSBs including RRBs, account for 93% of banks offices and 87% of banking system deposits.

Functions of Banks

- Acceptance of money on deposit from the public.
- Collection of cheques, drafts, bills, hundis, and other instruments (inland and foreign) for their depositors.
- Issue of performance and financial guarantees.
- Provision of remittance facilities by issue of drafts, mail transfers, and telegraphic transfers.
- Provision of facilities of safe custody of deeds and securities and safe deposits vaults.
- Purchase and sale of securities for their constituents.

CLASSIFICATION

- **Scheduled Banks:** The bank which is included in the second schedule of RBI, Act, 1934. The bank included in this list should fulfill two conditions:
    - The paid up capital and collected funds of bank should not be less than Rs 5 lakh.
    - Any activity of the bank will not adversely affect the interest of depositors.
- **Non-scheduled Banks**: The bank which is not included in the list of scheduled banks is called non-scheduled bank. It has to follow CRR conditions. However, it can keep these funds with itself as no compulsion has been made to deposit CRR funds with RBI. It is not eligible for having loans from RBI for meeting their day-to-day activities but under emergency conditions it can be granted loans by RBI.

Nationalized Banks / Public-sector banks

- Allahabad Bank
- Andhra Bank
- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank
- Central Bank of India
- Corporation Bank
- Indian Bank
- Indian Overseas Bank
- Oriental Bank of Commerce
- Punjab National Bank
- Punjab & Sind Bank
- Syndicate Bank
- UCO Bank
- Union Bank of India
- United Bank of India
- Vijaya Bank
- IDBI Bank
- Dena Bank
- ECGC

SBI and Associate banks

- State Bank of India
- State Bank of Bikaner & Jaipur

- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Travancore
- State Bank of Saurashtra (merged into SBI in 2008)
- State bank of Indore (merged into SBI in 2010)

Private-sector banks

- Axis Bank
- ABN Amro Bank
- Catholic Syrian Bank
- Development Credit Bank
- Dhanlaxmi Bank
- Federal Bank
- HDFC Bank
- ICICI Bank
- IndusInd Bank
- ING Vysya Bank
- Karnataka Bank
- Karur Vysya Bank
- Kotak Mahindra Bank
- Lakshmi Vilas Bank
- Tamilnadu Mercantile Bank
- South Indian Bank
- YES Bank
- UP Agro Corporation Bank

Basel-II Norms

Basel is the city of Switzerland where in 1992 the BIS conference was held (Banks for International Settlement) & this conference for organized by the European Banks in which they have prepared some guidelines for the banking industry dividing into parts Basel-I & Basel-II.

- Basel I- between1994 to 1004
- Basel II- after 2004

The Basel-I guidelines were only intact with the car of the banks in which banks were bound to maintain their car between 8-12%.

BASEL-II ACCORD

In the era of globalization, the banking industry is facing very high risk like:

- Market Risk
- Supervisory Risk
- Operational Risk

To shake this type of risk, the banking industry requires Basel- II Accord because' these accords related with risk managements of the banks. There are 3 type of risk Indian banking is facing.

- Operational Risk
- Human Resource Risk
- Capital Risk

For management of these risks India required to adopt Basel-II accord.

As banking industry is fully based on computer and software so far operational risk management, Bank are upgrading themselves in the field of technology. They are increasing their CBS branches and recruiting highly technically qualified professionals.

For human resource risk management the bankers are increasing their head count.

Capital risk management is the most concerning area of Basel-II norms in the era of American subprime crises (capital crunch) and global recession the banks are requires to maintain their capital adequacy ratio between 12-18%.

According to recent release of RBI the top 50 banks of the country requires Rs.51225cr. To meet capital adequacy ratio norms of Basel-II, of which Rs.45000 Cr raise through stock options and Rs.3000 by RBI and rest of the amount by the GOI.

According to the release of RBI, All Indian banks which have the foreign branches and all foreign banks working in India are required to adopt Basel-II norms on April 1, 2008 and rest of the Indian banks by the April 1, 2009.

BASEL III

Basel III is the global regulatory standard on bank capital adequacy, stress testing and market liquidity risk. The standard was agreed upon by the members of the Basel Committee on Banking Supervision. Basel III or Basel 3 released in December 2010, is the third in the series of Basel Accords. These accords deal with risk management aspects for the banking sector.

- Basel III is only a continuation of effort initiated by the Basel Committee on Banking Supervision to enhance the banking regulatory framework under Basel I and Basel II.
- Basel III accord now seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen the banks' transparency.

OBJECTIVES OF THE BASEL III MEASURES

Basel III guidelines are aimed at to improve the ability of banks to withstand periods of economic and financial stress. Basel III guidelines are more stringent than the earlier requirements for capital and liquidity in the banking sector.

- Improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- Improve risk management and governance
- Strengthen banks' transparency and disclosures

MAJOR FEATURES OF BASEL III

Better Capital Quality: Basel 3 has introduced much stricter definition of capital. Better quality capital means the higher loss-absorbing capacity.

Result-Banks will be stronger, allowing them to better withstand periods of stress.

Capital Conservation Buffer: According to the provisions given in Basel iii, banks will be required to hold a capital conservation buffer of 2.5%.

Result-This will help banks to maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress.

Counter cyclical Buffer: Its objectives are to increase capital requirements in good times and decrease the same in bad times. The buffer will range from 0% to 2.5%, consisting of common equity or other fully loss-absorbing capital.

Result- The buffer will slow banking activity when it overheats and will encourage lending when times are tough i.e. in bad times.

Minimum Common Equity and Tier 1 Capital Requirements: It has been raised under Basel III from 2% to 4.5% of total risk-weighted assets. The overall Tier 1 capital requirement, consisting of not only common equity but also other qualifying financial instruments, will also increase from the current minimum of 4% to 6%.

Result- Although the minimum total capital requirement will remain at the current 8% level, yet the required total capital will increase to 10.5% when combined with the conservation buffer.

Leverage Ratio: Basel III rules include a leverage ratio to serve as a safety net. A leverage ratio is the relative amount of capital to total assets (not risk-weighted). 3% leverage ratio of Tier 1 will be tested before a mandatory leverage ratio is introduced in January 2018.

Result-This aims to put a cap on swelling of leverage in the banking sector on a global basis.

Liquidity Ratios: Under Basel III, a framework for liquidity risk management will be created.

Result-A new Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are to be introduced in 2015 and 2018, respectively.

Systemically Important Financial Institutions (SIFI): As part of the macro-prudential framework, systemically important banks will be expected to have loss-absorbing capability beyond the Basel III requirements.

Result-Options for implementation include capital surcharges, contingent capital and bail-in-debt.

AFFECTS OF BASEL III NORMS ON INDIAN BANKS

- Indian banks have to implement Basel III norms according to guidelines issued by RBI.
- It is estimated that Indian banks will be required to raise Rs 600000 crores in external capital by 2020 (The estimates vary from organisation to organisation).
- Expansion of capital to this extent will affect the returns on the equity of these banks specially public sector banks.
- However, only consolation for Indian banks is the fact that historically they have maintained their core and overall capital well in excess of the regulatory minimum.

CAPITAL REQUIREMENTS UNDER BASEL II AND BASEL III

Requirements	**Under Basel II**	**Under Basel III**
Minimum Ratio of Total Capital To RWAs	8%	10.50%
Minimum Ratio of Common Equity to RWAs	2%	4.50% to 7.00%
Tier I Capital to RWAs	4%	6.00%
Core Tier I capital to RWAs	2%	5.00%
Capital Conservation Buffers to RWAs	None	2.50%
Leverage Ratio	None	3.00%
Countercyclical Buffer	None	0% to 2.50%
Minimum Liquidity Coverage Ratio	None	TBD (2015)
Minimum Net Stable Funding Ratio	None	TBD (2018)
Systemically important Financial Institutions Charge	None	TBD (2011)

Non Performing Asset

Reserve Bank of India started implementing the prudential guidelines on asset classification, income recognition and provisioning on loan assets based on the recommendation of Narasimham Committee, in a phased manner commencing with the accounting year beginning April 1, 1992. These types of assets are called Non Performing Assets.

Non-performing Asset (NPA) is an advance where:

- Interest and/or installment of principal remain overdue for a period of more than 180 days* in respect of a Term Loan,
- The account remain 'out of order' for a period of more than 180 days* in respect of an Overdraft/Cash Credit (OD/CC),

- The bill remain overdue for a period of more than 180 days in the case of bill purchased and discounted.

Regional Rural Banks (RRBS)

- Established in 1975.
- Paid-up capital of each rural bank vary from Rs 25 lakh to Rs 1 crore contributed by Central Government, State Government and Public-sector commercial banks in the ratio of 50: 15: 35.
- Authorised capital of RRB is Rs 5 cr.
- Now they numbered 196, with about 14,485 branches covering 492 districts.
- The commercial banks (nationalised) are responsible for the actual setting up of RRBs. Thus the RRBs are also public sector banks.
- RRBs are working in all states of the country except Sikkim and Goa.
- The sponsoring banks lend them funds and advise and train their senior staff.
- NABARD gives them (RRBs) short-term and medium-term loans.
- Other sources of finance are SIDBI, deposits.
- They get guarantee cover against deposits and credit from DICGC on the pattern of commercial banks.
- Objective: rural development.

MAIN FEATURES OF RRBS

- Provides credit and other facilities to agriculture and non-agricultural productive activities in rural areas.
- Main beneficiaries are small farmers, landless labourers, artisans and small entrepreneurs.
- Area of operation is limited to a specific region comprising one or more districts. (vary from 1 district to 5 districts.)

CO-OPERATIVE BANKS

- A co-operative bank is registered under the cooperative society's law of the state in which it is founded.
- Serves the needs of the rural sector in general and the agricultural sector in particular.
- Provides short-term and medium-term credit to agriculture.

FEATURES OF CO-OPERATIVE BANKS

- Banking Regulation Act, 1949 is partially applicable to co-operative banks. Thus RBI has partial control on co-operative banks.
- Co-operative banks work on principles of co-operation that is the reason why co-operative banks get financial assistance from RBI on concessional rate.
- Only State Co-operative Bank can seek refinance facility from RBI.
- Co-operative banks cannot open their branches in foreign countries.
- Co-operative banks can operate its activities only within limited area.

State Cooperative Banks

- Organised at a state level.
- Apex of the three-tier co-operative credit structure.
- There were 28 SCBs, 14 of which were scheduled banks.
- It is only through them that the RBI provides credit to co-operatives.
- RBI generally provides loans to SCB on interest rate, one or two per cent lower than Bank Rate.
- They operate as 'balancing centres' for central cooperative banks (CCBs).
- They raise funds on their own to make them available to the CCBs and through them or directly to primary societies in such districts where CCBs are not in operation.

CENTRAL CO-OPERATIVE BANKS

- It can be divided into two parts
- Co-operative Banking Union: Members are only Co-operative societies.
- Mixed control Co-operative Bank: Members are co-operative societies and individuals.
- These are the middle level in the three-tier structure.
- Operate at district level.
- Main function is to lend money to affiliated primary societies. The duration of loans vary from 1 year to 3 years.
- Their working capital derives from deposits, borrowings and other liabilities and owned funds.

PRIMARY CO-OPERATIVE BANKS (PCBS)

They are non-agricultural credit societies.

Two types:

- urban co-operative banks

- salary earners' societies

Development of PCBs is looked after by the RBI

- Operate only in urban and semi-urban areas.
- Working capital drawn largely from public deposits and to a smaller extent from owned funds and borrowings.
- RBI and IDBI offer them concessional refinance facility on a selected basis.
- Provide housing finance and loans and advances for various other pus poses such as petty trade and industry.

Development Banks

- They are development-oriented banks.
- Chief role is the promotion of economic development by way of promoting investment and enterprise.
- Specialized financial institutions which perform the twin functions of providing medium- and long-term finance to private entrepreneurs and of performing various promotional roles.
- Financial resources of development banks rose not directly from the public but from the Government of India, the RBI, other financial institutions and foreign sources (WB, IFC, IDA).
- Bonds issued by the IDBI, and the IFCI are guaranteed by the Government of India in respect of both principal and interest.
- ICICI bonds though not guaranteed by the government are treated as trustee securities.
- Rate of interest on these bonds is also the same as that on the Government of India bonds.
- As banks, they provide finance.

OMBUDSMAN CONCEPT

'Ombudsman' is an official personal appointed for investigation people's complaints about mal-administration by public authorities.

The first Office of the Banking Ombudsman (OBO) was set up in UK in 1986. It enables banks to offer customers a means of resolving problems, which the banks are unable to resolve themselves, fairly. In that way fairness can be achieved and an unpopular image of the banks can be combated.

Customer dissatisfaction and disputes are required to be redressed now through internal complaints procedure, and this includes the right of customers to meet the Top Management of the bank on 15th of every month.

The Banking Ombudsman Scheme carries number of advantages over the court system. In court, there are three teams of lawyers - the plaintiffs' team, the defendants' team and the court team. At OBO, there is usually only one team, as in most cases neither the complainant nor the banks are represented, though they can be. OBO functions informally and aims to settle and resolve a dispute by conciliation if it can. For the complainants, it has attraction since the awards of the ombudsman are binding on member banks, but the complainant, if he does not accept the ombudsman's decision, retains the right to proceed through the court in the usual way. Also, at the OBO, the service is free - the complainant has no legal costs to bear, win or lose.

The Ombudsman is not a customer champion or a defender of the banks. He is better described as an independent arbitrator or referee whose function is to decide fairly disputes between them.

Lord Alexander, Chairman of National Westminister Bank stated:

"Over time, the decisions of the Ombudsman, summarized in an Annual Report, help to establish industry norms or practices. This in turn helps to prevent future disputes arising.

"The Banking Ombudsman system fills a vacuum where effective remedies would not otherwise be available. It provides a much more flexible, efficient and constructive jurisdiction than the court could ever offer....what most people seem to want is for an independent third party to look at their grievances in an open minded way, and decide it cheaply and speedily".

In India also, we have since introduced the Banking Ombudsman Scheme.

BANKING OMBUDSMAN SCHEME 1995 (BOS)

The scheme became effective from June 14, 1995, (It has been revised w.e.f June 14, 2002) provides an opportunity to the public to approach Banking Ombudsman for grievances against a bank which are not resolved within a period of two months provided their complaints pertain to any of the matters specified in the scheme. The scheme covers all scheduled commercial banks, Regional Rural Banks and all scheduled primary cooperative banks having a place of business in India whether incorporated in India or outside India. The scheme is not a substitution of Consumer Protection Act as far as banking services are concerned but is an additional grievance settlement mechanism available to the banks' customers.

Considering the onerous responsibilities of the ombudsman, the Reserve Bank of India appoints t6 the post persons of high standing in the legal, banking, financial services, public administration or management sectors. The jurisdiction of an ombudsman is as specified by RBI. He is appointed for a period of three years with a possible extension of two more years subjects to an minimum age of 55 yrs and maximum age limit of65 years. The cost of the office of the ombudsman will be shared by the banks.

He is assisted by a senior Bank functionary known as Secretary and other staff drawn from banks. The cost of office is shared by banks in the proportion determined by RBI.

IBA's Banking Practices Guidelines

Indian Banks' Association has come out with a comprehensive set of guidelines under IBA Code for Banking Practices, ill a bid to promote a healthy relationship between banks and their customers, implemented from Sep 01, 1999. The code replaced the Ground Rules and Code of Ethics (GRACE). The non-statutory code is to be observed by member-banks in dealing with their personal customers.

MAJOR FEATURES

- Promotional schemes duly approved by the Board of respective banks may be launched within the regulatory framework of Central Bank.
- Banks while opening current accounts and fixed deposits of chit funds in the normal course of business, should not encourage or lend their name to promote speculative ventures of any nature.
- Banks which customarily give gifts on festive occasions like Diwali or New Year should see that the cost of such gift does not exceed Rs 250 per piece.
- When banks issue deposit receipts against cheques/drafts/payorder drawn on local banks, may pay interest on such deposits from the date on which the relative instruments gets credited/adjusted in the bank's account in the clearing house.
- Banks should follow RBI's manual of instructions which states that savings deposit account cannot be opened by banks among others in the name of government departments, municipal

corporations/committees, political parties and any trading, business or professional concern (like firms of Chartered Accountants-and Lawyers) whether such a concern is a proprietary, partnership firm, company or association.

– Renewal of overdue domestic term deposit shall be for a period extending up to at least 15 days beyond the date of actual renewal and if the renewed term deposit is tendered for encashment before the completion of 15 days, no interest shall be paid.

– For term deposits maturing on a holiday, sunday or on non-business working day, interest should be paid for such intervening period at the originally contracted rate till the succeeding working day.

– Banks are to refrain from making negative publicity of adverse/weak position of other banks.

– Overdraft in saving banks account should not be permitted on a regular basis.

– Customer's logo/advertisement shall not be printed on cheque leaves, except of dividend/interest warrants.

– Term deposit receipts received for collection from other banks shall be paid to collecting bank only and not delivered to the customer.

– Maturity value certificate shall not to be issued to any person who approach bank branches with offer to procure substantial rupee deposits.

– Deposits for longer than 10 years cannot be accepted, except in terms of court orders or in case of minor where his interest is involved.

– Interest can be compounded only on quarterly rests. Payment can be made on monthly basis by discounting.

– Interest would be paid for no. of days on the basis of 365 days in a year where deposit in payable in less than three months or where terminal quarter is incomplete.

– Banks cannot issue incomplete term deposit.

Computerisation in Banks

As the Indian banking and financial system develops and gets integrated with the international financial markets, it has to be technically ready to meet the challenges. The banks in India are gearing up to shed their age-old style of functioning and to adopt the computer-aided modern systems and procedures on the lines of what has been done by banks in other parts of the World.

BANK NET

Banknet is a payment network established by RBI (on the recommendations of Iyer Committee) which functions within India and was launched during 1991. The system makes use of inter-city trunk voice grade data circuits. The user banks can access BANKNET from their premises through lease or dial-up lines at the local centres using ports on PADS and UNIX machines with popular data communication software. The messages of banking transactions can be transferred in coded form for settlement of transactions and advices. It enables transfer of data and other statement to RBI. Access to SWIFT is also possible through this system.

RBINET

It is communication system operating over the BANKNET. RBINET client running a personal computer is called RBINET Dos client and he can communicate with its server over a dedicated leased line or dial up line.

I-NET

I-net owned by Department of Telecommunications (DoT) is a Packet Switching Public Data Network (PSPDN) which was opened in 1983 for slow speed data communication. I-net uses telephone connections and satellite for communication through which communication is possible across major metropolis and other international networks. The subscribers can also form a private network within I-net.

NICNET

National Informatic Centre Network (NICNET), a part of internet services was set up in 1975 to promote information culture which is a government organisation and works for government organisations. It provides multiple services to user departments which include finance, agriculture, industry, commerce by making use of various applications. The host computer in NICNET is stationed in New Delhi. Currency chest operations in banks are performed through NICNET.

INFINET

Indian Financial Network (Infinet), the satellite based VSAT network designed by Institute for Development and Research in Banking Technology (IDRBT-Hyderabad, an RBI sponsored organisation) is fast and secure intra-bank and interbank communication system.

DETAILS OF THE APPLICATIONS ON INFINET:

INTRA-BANK

- Any branch banking
- Funds transfer and payment messages bank owned ATM/credit card, debit card and other applications on corporate network
- Inter-branch reconciliation
- Quick disposal of loan/investment proposal
- Forex information from branches
- Fund information from clearing centres
- Cash and treasury management
- Asset liability management
- Auditing and inspecting computerized branches using the network
- Organisational bulletin boards
- Timely information to the top management
- Help in developing new products
- Speedy communication among branches, controlling offices.

INTER-BANK

- Asset liability management for reporting to RBI
- Electronic funds transfer
- Clearing and settlement systems for securities delivery vs payment
- Transferring balances from net settlement systems of real time gross settlement server at periodical intervals
- Exchange of defaulting borrowers' list among RBI and banks
- Currency chest accounting

- Intranet in RBI to enable banks to get circulars and press releases
- Reporting of Section 42 data to RBI
- Returns to the submitted by banks to Deptt of Banking Supervision for onsite supervision and monitoring.

SHARED PAYMENT NETWORK SYSTEM (SPNS)

The Shared Payment Network System (SPNS) in Mumbai has been conceived by IBA. It will provide round-the-clock banking convenience since a customer of a bank can perform basic banking functions like cash withdrawals, balance enquiry etc at any ATM belonging to anyone of the banks.

IBA SWADHAN NETWORK

Swadhan is IBA floated Shared Payment Network Systems (SPNS), which came in existence since last five years. Over 56 banks are in the network and 43 have so far gone live. More than 1000 ATMs nationwide are Swadhan enabled, connecting over 67 cities to service about 2.6 million Swadhan-enabled cardholders. The Swadhan member banks comprise cooperative banks, public sector banks, private sector banks. Foreign banks etc. India Switch Company runs this network for a fee of Rs 5 per transaction.

Questions for Practice

1. The gilt-edged market refers to the market for

(i) Government securities

(ii) Semi-government securities

(iii) Corporate securities

Select the correct answer

(1) Only (i)

(2) (i) and (ii)

(3) (i) and (iii)

(4) (i), (ii) and (iii)

(5) Only (iii)

2. Consider the following statements

(**i) Securities that have an original maturity that is greater than one year are traded in capital markets.**

(ii) The best known capital market securities are stock and bonds.

Select the correct answer

(1) (i) is true and (ii) is false

(2) (i) is false and (ii) is true

(3) Both are true

(4) Both are false

(5) None of the above

3. Consider the following statements

(i) Securities that have an original maturity that is greater than one year are traded in money markets.

(ii) The best known money market securities are stocks and bonds.

Select the correct answer

(1) (i) is true and (ii) is false

(2) (i) is false and (ii) is true

(3) Both are true

(4) Both are false

(5) None of the above

4. The primary issuers of capital market securities include

(1) The Central Government

(2) The Local Government

(3) Corporations

(4) The Central and Local Governments and corporations

(5) Local Government and corporations

5. Which of the following is characteristic of a capital market instrument?

(1) Liquidity

(2) Marketability

(3) Long maturity

(4) Liquidity premium

(5) All of the above

6. Which of the following statements is true regarding a corporate bond?

(1) A corporate callable bond gives the holder the right to exchange it for a specified number of the company's common shares

(2) A corporate debenture is a secured bond

(3) A corporate indenture is a secured bond

(4) A corporate convertible bond gives the holder the right to exchange the bond for a specified number of the company's common shares

(5) Holders of corporate bonds have voting rights in the company

7. Specified interest rate on a fixed maturity security fixed at the time of issue is called.

(1) Market Rate of Interest

(2) Call Rate

(3) Repo Rate

(4) Coupon Rate

(5) Discount Rate

8. Which of the following statements is not correct about prudential norms of RBI?

(1) Lending of Scheduled Commercial Banks, on a fortnightly average basis, should not exceed 35% of their capital fund

(2) Banks are allowed to lend a maximum of 50% of their capital fund on any day during a fortnight

(3) Borrowing by scheduled Commercial Bank should not exceed 100% of their capital fund

(4) Bank are allowed to borrow a maximum of 125% of their capital fund on any day during a fortnight

(5) Bank are allowed to lend a maximum of 25% of their capital fund on a fortnightly basis

9. A short term credit investment created by a non-financial firm and guaranteed by a bank to make payment is called

(1) Bankers Acceptance Market

(2) Collateral Lone Market

(3) Treasury Bill Market

(4) Call Money Market

(5) Repo Market

10. Money market securities are

(1) Short term

(2) Low risk

(3) Very liquid

(4) All of the above

(5) (1) and (2)

11. In the term repo the term of the lone is greater than

(1) 30 days

(2) 20 days

(3) 60 days

(4) 90 days

(5) None of these

12. The money market in India consists of two sectors namely the organized and the unorganized sector. Which of the following do not fall under unorganized sector?

(1) RBI, Commercial Bank and SBI

(2) LIC and GIC

(3) Unit Trust of India

(4) Indigenous Bank

(5) None of the above

13. Government security that is a claim on the government and is a secure financial instrument which guarantees of both capital and interest is called

(1) Coupon Security

(2) Gilt-edged Security

(3) Corporate Security

(4) All of the above

(5) None of the above

14. The market for bankers acceptance which or out of trade transactions both domestic and foreign is called

(1) Money Market

(2) Capital Market

(3) Bankers Acceptance Market

(4) Repo Market

(5) Government Security Market

15. Interest is calculated on actual/365 days basis in respect of the following products except one

(1) Call Money

(2) Notice Money

(3) Term Money

(4) GOI Dated Securities

(5) None of the above

16. While discussing investments there is mention of short term government security. What is this type of investment known as?

(1) Debenture

(2) Mutual Fund

(3) Treasury Bill

(4) Share

(5) All of the above

17. Special drawing right is an international practice of drawing funds. Which of the following institutions control this special funding facility?

(1) World Bank

(2) Asian Development Bank

(3) Federal Reserve

(4) European Common Market

(5) All of the above

18. NBFCs are an important part of the Indian financial system. What is the full form of this term?

(1) New Banking Financial Companies

(2) Non-Banking Financial Companies

(3) Non-Banking Fiscal Companies

(4) Non-Banking Fiscal Companies

(5) All of the above

19. Which of the following schemes available in the financial markets is not meant for investment purposes?

(1) National savings certificates

(2) Infrastructure bonds

(3) Mutual funds

(4) Letter of credit

(5) All of the above

20. An institution which accepts deposits, makes business loans and offers related services is called

(1) Saving Bank

(2) Commercial Bank

(3) Investment Bank

(4) Development Bank

(5) Central Bank

21. Consumer banks are usually found in

(1) India and Pakistan

(2) India and UK

(3) USA and Germany

(4) China and Russia

(5) India and China

22. A bank account in which a depositor can deposit his funds any number of times he likes and can also withdraw the same any number of times he wishes is called

(1) Fixed Deposit Account

(2) Saving Account

(3) Current Account

(4) Recurring Account

(5) Demat Account

23. Under which type of account a specified amount is deposited every month for a specific period say, 12, 24, 36, or 60 months?

(1) Fixed Deposit Account

(2) Saving Account

(3) Current Account

(4) Recurring Account

(5) Demat Account

24. An inter-bank fund transfer system, where fund are transferred as and when the transactions are triggered is called

(1) Internet Banking

(2) Mobile Banking

(3) Bill Payment Service

(4) Real time Gross Settlement

(5) None of the above

25. The operative guidelines for banks on Mobile Banking Transactions in India were issued in

(1) 2008

(2) 2009

(3) 2010

(4) 2011

(5) 2007

26. To use smart cards/debit cards/credit cards for the purchase of an item or for payment of a service at a merchant's store the card has to be swiped in a terminal known as

(1) Point of Sale terminal

(2) Real time terminal

(3) Shopping terminal

(4) All of the above

(5) None of the above

27. The Branding Line of Bank of Baroda is

(1) International Bank of India

(2) India's International Bank

(3) India's Multinational Bank

(4) World's Local Bank

(5) None of the above

28. Lot of Bank in India these days are offering M-Banking Facility to their customers. What is the full form of 'M' in 'M-Banking'?

(1) Money

(2) Marginal

(3) Message

(4) Mutual Fund

(5) Mobile

29. Which of the following is not the part of the Scheduled Banking structure in India?

(1) Money Lenders

(2) Public Sector Bank

(3) Private Sector Bank

(4) Regional Rural Bank

(5) State Cooperative Banks

30. Section 14 of Banking Regulation Act, 1949

(1) Prohibits a banking company from creating a charge upon any unpaid capital of the company

(2) Contains a system of licensing of banks by the RBI

(3) Provides that the subscribed capital of a banking company should not be less than one-half of its authorized capital

(4) All of the above

(5) None of the above

31. Nationalized Bank have been permitted to offer their equity shares to the public to the extent of 49% of their capital as par amendments made in 1994 in

(1) Banking Regulation Act, 1949

(2) Banking Companies (Acquisition & Transfer of Undertakings) Acts 1970/1980

(3) RBI Act, 1935

(4) Nationalization of Bank Act, 1980

(5) None of the above

32. BCSBI stands for

(1) Banking Codes and Standards Board of India

(2) Banking Credit and Standards Board of India

(3) Banking Codes and Service Board of India

(4) Banking Credit and Service Board of India

(5) None of the above

33. The main function of a Commercial Bank can be segregated into

(i) Payment System

(ii) Financial Intermediation

(iii) Financial Services

Select the correct answer

(1) (i), (ii), (iii)

(2) (i) and (iii)

(3) (i) and (ii)

(4) (ii) and (iii)

(5) None of the above

34. The RBI has prescribed that all SCBs should maintain their SLRs in

(1) Dated securities notified by RBI

(2) T-Bills of Government of India

(3) State Development Loans

(4) All of the above

(5) None of the above

35. For filing and resolving customer complaints the Banking Ombudsman

(1) Charges a fee of Rs 500

(2) Does not charge any fee

(3) Charges a fee of Rs 1500

(4) Charges a fee of Rs 1000

(5) None of the above

36. In case a depositor is a sole proprietor and holds deposits in the name of the proprietory concern as well as in the individual capacity the maximum insurance cover is available up to

(1) Rs 100000

(2) Rs 200000

(3) Rs 500000

(4) All of these

(5) None of these

37. The past due debt collection policy of banks generally emphasizes on_____at the time of recovery

(1) Respect to customers

(2) Appropriate letter authorising agents to collect recovery

(3) Due notice to customers

(4) All of the above

(5) None of the above

38. According to the risk diversification principle of bank lending diversification should be in terms of

(1) Customer base

(2) Geographic location

(3) Nature of business

(4) All of the above

(5) None of the above

39. Scheduled Bank means a bank

(1) Incorporated under the Companies Act, 1956

(2) Authorized to transact Government business

(3) Governed by the Banking Regulation Act, 1949

(4) Included in the Second Schedule to the Reserve Bank of India Act, 1934

(5) All of the above

40. The Unit Banking System is prevalent in

(1) Canada

(2) Great Britain

(3) United States of America

(4) India

(5) Pakistan

41. RBI generally reviews the Monetary policy every

(1) three months

(2) six months

(3) nine months

(4) ten months

(5) None of these

42. The rate at which the RBI lends Short-term money to the banks

(1) PLR

(2) CRR

(3) Repo Rate

(4) Reverse Repo Rate

(5) None of these

43. The Reserve Bank of India (RBI) was nationalized on

(1) 1 January, 1949

(2) 1 July, 1955

(3) 19 July, 1969

(4) 15 April, 1980

(5) None of the above

44. Which of the following acts govern the RBI functions?

(1) RBI Act, 1934

(2) Banking Regulation Act, 1949

(3) Companies Act, 1956

(4) Foreign Exchange Regulation Act, 1973

(5) Foreign Exchange Management Act, 1999

45. The RBI is not expected to perform the function of

(1) the banker to the government

(2) accepting deposit from Commercial Banks

(3) accepting deposits from general public

(4) issuer currency

(5) None of the above

46. Headquarters of Reserve Bank of India is in

(1) New Delhi

(2) Mumbai

(3) Kolkata

(4) Chennai

(5) Hyderabad

47. The first Governor of the Reserve Bank of India from 1 April 1935 to 30 June, 1937 was

(1) Sir Osborne Smith

(2) Sir James Taylor

(3) C D Deshmukh

(4) Sir Benegal Rama Rao

(5) KG Ambegaonkar

48. 22nd Governor of Reserve Bank of India is

(1) Manmohan Singh

(2) C Rangarajan

(3) Bimal lalan

(4) Y V Reddy

(5) D Subbarao

49. Which of the following rates is not decided by RBI?

(1) Bank Rate

(2) Repo Rate

(3) Reverse Repo Rate

(4) Base Rate

(5) Cash Reserve Ratio

50. The Reserve Bank of India was set up on the recommendations of the

(1) Narasimham Committee

(2) Hilton-Young Commission

(3) Mahalanobis Committee

(4) Fazal Ali Commission

(5) None of the above

51. Which of the following formulates, implements and monitors the monetary policy?

(1) Ministry of Finance

(2) RBI

(3) SBI

(4) ICICI Bank

(5) None of the above

52. Which of the following is the central banking institution of India?

(1) State Bank of India

(2) Ministry of Finance

(3) Reserve Bank of India

(4) Finance Commission of India

(5) None of the above

53. The Reserve Bank of India had divested its stake in State Bank of India to

(1) IDBI Bank

(2) LIC

(3) ICICI Bank

(4) Government of India

(5) None of the above

54. At Present the RBI holds one per cent of shareholding in

(1) State Bank of India

(2) National Housing Bank

(3) State Bank of Hyderabad

(4) National Bank for Agriculture and Rural Development (NABARD)

(5) None of the above

55. The number of regional offices of RBI is

(1) 20

(2) 21

(3) 22

(4) 23

(5) None of these

56. In India, RBI prescribes the minimum SLR level for scheduled commercial banks in India in specified assets as a percentage of Bank's

(1) Net Demand and Time Liabilities

(2) Demand Liabilities

(3) Time Liability

(4) None of the above

(5) All of the above

57. CRR refers to the share of that banks have to maintain with RBI of their net demand and time liabilities.

(1) ill liquid cash

(2) forex reserves

(3) gold

(4) liquid cash

(5) None of the above

58. The RBI has adopted ____ Model in which mobile banking promoted through business correspondents of banks.

(1) Bank Led

(2) Band Mobile

(3) Mobile

(4) All of these

(5) None of these

59. Services offered to government departments include all the above except

(1) payments of salaries and pensions

(2) distributing RBI bonds to government departments

(3) direct and indirect tax collections

(4) remittance facilities

(5) None of the above

60. Which of the following is/are known as Banker's Bank?

(1) SBI

(2) NABARD

(3) RBI

(4) All of these

(5) None of these

61. Which of the following is the central bank of the country?

(1) RBI

(2) SBI

(3) RRB

(4) NABARD

(5) None of these

62. RBI was established on

(1) April 1, 1935

(2) March 1, 1935

(3) April 1, 1934

(4) March 1, 1934

(5) None of these

63. Which of the following is/are functions of the RBI?

(i) Acts as the currency authority

(ii) Controls money supply and credit

(iii) Manages foreign exchange

(iv) Serves as a banker to the government

Select the correct answer

(1) (i) and (iii)

(2) (ii) and (iii)

(3) (i), (ii) and (iii)

(4) (I), (ii), (iii) and (iv)

(5) None of these

64. Central Bank ….. Credit.

(1) creates

(2) controls

(3) restricts

(4) All of these

(5) None of these

65. ……. credit policy promotes investment.

(1) Dear

(2) Cheap

(3) Restricted

(4) Green

(5) None of these

66. Quantitative instrument of RBI can be

(1) bank rate policy

(2) cash reserve ratio

(3) statutory liquidity ratio

(4) All of the above

(5) None of the above

67. Objective of monetary policy of RBI is to

(1) control inflation

(2) discourage hoarding of commodities

(3) encourage flow of credit into neglected sector

(4) All of the above

(5) None of the above

68. When RBI is lender of last resort, what does it mean?

(1) RBI advances necessary credit against eligible securities

(2) Commercial Banks give fund to the RBI

(3) RBI advances money to public whenever there is any emergency

(4) All of the above

(5) None of the above

69. When RBI acts as a banker to the government, what does it do?

(1) RBI keeps bank accounts of the government

(2) RBI carries out government transactions

(3) RBI advises the government on all financial and monetary matters

(4) All of the above

(5) None of the above

70. The merit of issuing notes with RBI can be seen is

(1) uniformity

(2) stability in currency

(3) control of credit

(4) All of the above

(5) None of the above

71. The monetary and credit policy of India is the responsibility of which of the following?

(1) Planning Commission

(2) Finance Ministry

(3) RBI

(4) National Advisory Council

(5) None of the above

72. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?

(1) Customer Analysis and Savings Pattern

(2) Cost Appreciation and Selling Analysis

(3) Current Account and Savings Account

(4) Credit and Savings Aggregate

(5) None of the above

73. Banks are authorized to sell third party products. Which are these products?

(1) Mutual funds

(2) Term deposits

(3) Credit cards

(4) Gift cheques

(5) None of these

74. When RBI raises the Cash Reserve Ratio rate what action are the banks required to take?

(1) They have to deposit additional money with RBI as reserve money

(2) Banks are required to increase their lending to the priority sector

(3) Banks also increase their lending and deposit rates

(4) All of the above

(5) None of the above

75. Which of the following statements is correct?

(1) RBI is just like any ordinary commercial bank

(2) RBI is responsible for the overall monetary policy

(3) The fiscal policy of India is approved by RBI

(4) RBI has Dy. Chairman Planning Commission on its board

(5) None of the above

76. Bank rate as fixed by RBI means

(1) rate of interest charged by banks from borrowers

(2) rate of interest on banks deposits

(3) rate of interest charged by RBI on its loans to banks

(4) rate of interest on inter-bank loans

(5) None of the above

77. Increase in remittances from non resident Indians suggest

(1) increase in the balance of payments deficit in India

(2) reduces the balance of payments deficit in India

(3) has no effect on the balance of payments position

(4) All of the above

(5) None of the above

78. Which of the following is not a method of credit control?

(1) Cash reserve ratio

(2) Open market operations

(3) Credit deposit ratio

(4) Bank rate policy

(5) None of the above

79. Which of the following clauses of SEBI is associated with corporate government?

(1) 41

(2) 42

(3) 49

(4) 52

(5) 55

80. SEBI was established in

(1) 1993

(2) 1992

(3) 1988

(4) 1990

(5) 1994

81. The working of SEBI includes

(1) to regulate the dealings of share market

(2) to check the foul dealings in share market

(3) to control the insider trading of shares

(4) All of the above

(5) None of the above

82. The securities and Exchange Board of India (SEBI) recently imposed a restriction on money flow in equity through 'P-Notes'. What is the full form of 'P-Notes'?

(1) Permanent Notes

(2) Purchase Notes

(3) Participatory Notes

(4) Private Notes

(5) None of the above

83. Which of the following statements about SEBI is not correct?

(1) The SEBI was established in 1992 by passing of the Securities and Exchange Board ACT

(2) This board was established to protect the interests of investors in securities and to promote the development and regulation of securities market

(3) It extends to whole of India

(4) SEBI is headquartered in Mumbai

(5) SEBI is authorized to frame prudential norms for banks

84. Which of the following activities to be undertaken by a bank require its registration under the Securities & Exchange Board of India (Bankers to Issues) Rules & Regulations, 1994?

(1) Bankers to public/rights issues

(2) Collection of allotment/call moneys

(3) Payment of dividend/interest/refund orders

(4) None of the above

(5) All of the above

85. Which of the following statements is/are true?

(1) SEBI was established in 1988

(2) If was made a fully autonomous body in 1992

(3) If regulates the securities market and protect the interests of investors in securities

(4) All of the above

(5) None of the above

Answers

1) 2	13) 2	25) 1
2) 3	14) 3	26) 1
3) 4	15) 4	27) 2
4) 4	16) 3	28) 5
5) 5	17) 1	29) 1
6) 4	18) 2	30) 1
7) 4	19) 4	31) 2
8) 1	20) 3	32) 1
9) 1	21) 3	33) 1
10) 4	22) 4	34) 4
11) 1	23) 4	35) 2
12) 4	24) 5	36) 1

37) 4
38) 4
39) 4
40) 5
41) 1
42) 3
43) 1
44) 1
45) 3
46) 2
47) 1
48) 4
49) 4
50) 2
51) 2
52) 3
53) 4
84) 5

54) 4
55) 3
56) 1
57) 4
58) 4
59) 2
60) 3
61) 1
62) 1
63) 4
64) 2
65) 2
66) 4
67) 4
68) 1
85) 4

69) 4
70) 4
71) 3
72) 3
73) 1
74) 1
75) 2
76) 3
77) 2
78) 3
79) 1
80) 3
81) 3
82) 2
83) 1

Chapter: Financial Market

Financial Market is a market place wherein sellers and buyers participate in the trade of bonds, currencies, equities, and derivatives. It has transparent pricing, basic regulations on trading, costs and fees and market forces, which determines the prices of securities that trade.

Financial Market is divided into two broad categories:

Money Market

Money Market is a place of trading in money and short term financial assets that are close substitute to money.

OBJECTIVES OF MONEY MARKET:

- It provides an avenue for equilibrating the short term surplus funds of lenders/investors with the short term requirement of borrowers.
- It should provides a focal point of RBI intervention for influencing liquidity in the economy as per monitory policy

CAPITAL MARKET

It is a market for financial asset that have long or indefinite maturity. Capital Market may also be divided into two segments including Primary Market and Secondary Market. New issues are made in the primary market. Outstanding issues are traded in the secondary market.
The Capital Market deals with the medium and long term credit lending and borrowing.

STRUCTURE OF THE CAPITAL MARKET:

The Capital Market can be divided into two constituents:

1. Financial Institutions
2. The Securities Market

The Financial Institutions are IFCI, IDFC, SFC, LIC etc

THE SECURITIES MARKET

The Securities Market is divided into

1. Gilt-edged Market
2. The industrial securities market

GILT-EDGED MARKET

- The term gilt-edged means 'of the best quality'. This is because the Government securities do not suffer from risk of default and are highly liquid (as they can be easily sold in the market at their current price).
- The gilt-edged market refers to the market for Government and semi-government securities, backed by the Reserve Bank of India (RBI).
- Government securities are tradeable debt instruments issued by the Government for meeting its financial requirements.
- The open market operations of the RBI are also conducted in such securities.

THE INDUSTRIAL SECURITIES MARKET

The industrial securities market refers to the market which deals in equities and debentures of the corporate. It is further divided into primary market and secondary market.

- **Primary market (new issue market)**:- deals with 'new securities', that is, securities which were not previously available and are offered to the investing public for the first time. It is the market for raising fresh capital in the form of shares and debentures. It provides the issuing company with additional funds for starting a new enterprise or for either expansion or diversification of an existing one, and thus its contribution to company financing is direct. The new offerings by the companies are made either as an initial public offering (IPO) or rights issue.

- **Secondary market/ stock market (old issues market or stock exchange)**:- is the market for buying and selling securities of the existing companies. Under this, securities are traded after being initially offered to the public in the primary market and/or listed on the stock exchange. The stock exchanges are the exclusive centres for trading of securities. It is a sensitive barometer and reflects the trends in the economy through fluctuations in the prices of various securities. It been defined as, "a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities". Listing on stock exchanges enables the shareholders to monitor the movement of the share prices in an effective manner. This assist them to take prudent decisions on whether to retain their holdings or sell off or even accumulate further. However, to list the securities on a stock exchange, the issuing company has to go through set norms and procedure.

Regulatory Framework

• In India, the capital market is regulated by the Capital Markets Division of the Department of Economic Affairs, Ministry of Finance. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for (i) institutional reforms in the securities markets, (ii) building regulatory and market institutions, (iii) strengthening investor protection mechanism, and (iv) providing efficient legislative framework for securities markets, such as Securities and Exchange Board of India Act, 1992 (SEBI Act 1992); Securities Contracts (Regulation) Act, 1956; and the Depositories Act, 1996. The division administers these legislations and the rules framed there under.

• The **Securities and Exchange Board of India (SEBI)** is the regulatory authority established under the SEBI Act 1992, in order to protect the interests of the investors in securities as well as promote the development of the capital market. It involves regulating the business in stock exchanges; supervising the working of stock brokers, share transfer agents, merchant bankers, underwriters, etc; as well as prohibiting unfair trade practices in the securities market. The following departments of SEBI take care of the activities in the secondary market:-

• Market Intermediaries Registration and Supervision Department (MIRSD) - concerned with the registration, supervision, compliance monitoring and inspections of all market intermediaries in respect of all segments of the markets, such as equity, equity derivatives, debt and debt related derivatives.

• Market Regulation Department (MRD) - concerned with formulation of new policies as well as supervising the functioning and operations (except relating to derivatives) of securities exchanges, their subsidiaries, and market institutions such as Clearing and settlement organizations and Depositories.

• Derivatives and New Products Departments (DNPD) - concerned with supervising trading at derivatives segments of stock exchanges, introducing new products to be traded and consequent policy changes.

Policy Measures and Initiatives

• A number of initiatives have been undertaken by the Government, from time to time, so as to provide financial and regulatory reforms in the primary and secondary market segments of the capital market. These measures broadly aim to sustain the confidence of investors (both domestic and foreign) in the country's capital market.

The policy initiatives that have been undertaken in the primary market during 2006-07 include:-

• SEBI has notified the disclosures and other related requirements for companies desirous of issuing Indian depository receipts in India. It has been mandated that:- (i) the issuer must be listed in its home country; (ii) it must not have been barred by any regulatory body; and (iii) it should have a good track record of compliance of securities market regulations.

• As a condition of continuous listing, listed companies have to maintain a minimum level of public shareholding at 25 per cent of the total shares issued. The exemptions include:- (i) companies which are required to maintain more than 10 per cent, but less than 25 per cent in accordance with the Securities Contracts (Regulation) Rules, 1957; and (ii) companies that have two crore or more of listed shares and Rs. 1,000 crore or more of market capitalisation.

• SEBI has specified that shareholding pattern will be indicated by listed companies under three categories, namely, 'shares held by promoter and promoter group'; 'shares held by public' and 'shares held by custodians and against which depository receipts have been issued'.

• In accordance with the guidelines issued by SEBI, the issuers are required to state on the cover page of the offer document whether they have opted for an IPO (Initial Public Offering) grading from the rating agencies. In case the issuers opt for a grading, they are required to disclose the grades including the unaccepted grades in the prospectus.

• SEBI has facilitated a quick and cost effective method of raising funds, termed as 'Qualified Institutional Placement (QIP)' from the Indian securities market by way of private placement of securities or convertible bonds with the Qualified Institutional Buyers.

• SEBI has stipulated that the benefit of 'no lock-in' on the pre-issue shares of an unlisted company making an IPO, currently available to the shares held by Venture Capital Funds (VCFs)/Foreign Venture Capital Investors (FVCIs), shall be limited to:- (i) the shares held by VCFs or FVCIs registered with SEBI for a period of at least one year as on the date of filing draft prospectus with SEBI; and (ii) the shares issued to SEBI registered VCFs/FVCIs upon conversion of convertible instruments during the period of one year prior to the date of filing draft prospectus with SEBI.

• In order to regulate pre-issue publicity by companies which are planning to make an issue of securities, SEBI has amended the 'Disclosure and Investor Protection Guidelines' to introduce 'Restrictions on Pre-issue Publicity'. The restrictions, inter alia, require an issuer company to ensure that its publicity is consistent with its past practices, does not contain projections/ estimates/ any information extraneous to the offer document filed with SEBI.

• Similarly, the policy initiatives that have been undertaken in the secondary market during 2006-07 include:-

• In continuation of the comprehensive risk management system put in place since May 2005 in T+2 rolling settlement scenario for the cash market, the stock exchanges have been advised to update the applicable Value at Risk (VaR) margin at least 5 times in a day by taking the closing price of the previous day at the start of trading and the prices at 11:00 a.m., 12:30 p.m., 2:00 p.m. and at the end of the trading session. This has been done to align the risk management framework across the cash and derivative markets.

• In order to strengthen the 'Know Your Client' norms and to have sound audit trail of the transactions in the securities market, 'Permanent Account Number (PAN)' has been made mandatory with effect from January 1, 2007 for operating a beneficiary owner account and for trading in the cash segment.

• In order to implement the proposal on creation of a unified platform for trading of corporate bonds, SEBI has stipulated that the BSE Limited would set up and maintain the corporate bond reporting platform. The reporting shall be made for all trades in listed debt securities issued by all institutions such as banks, public sector undertakings, municipal corporations, corporate bodies and companies.

• In line with the Government of India's policy on foreign investments in infrastructure companies in the Indian securities market, the limits for foreign investment in stock exchanges, depositories and clearing corporations, have been specified as follows:- (i) foreign investment up to 49 per cent will be allowed in these companies with a separate Foreign Direct Investment (FDI) cap of 26 per cent and cap of 23 per cent on Foreign institutional investment (FII); (ii) FDI will be allowed with specific prior approval of Foreign Investment Promotion Board (FIPB); (iii) FII will be allowed only through purchases in the secondary market; and (iv) FII shall not seek and will not get representation on the board of directors.

• The application process of FII investment has been simplified and new categories of investment (insurance and reinsurance companies, foreign central banks, investment managers, international organizations) have been included under FII.

• Initial issue expenses and dividend distribution procedure for mutual funds have been rationalised.

• Mutual funds have been permitted to introduce Gold Exchange Traded Funds.

• In the Government securities market, the RBI has ceased to participate in primary issues of Central Government securities, in line with the provisions of Fiscal Responsibility and Budget Management Act (FRBM Act).
• Foreign institutional investors have been allowed to invest in security receipts.

Thus, the capital market plays a vital role in fostering economic growth of the country, as it augments the quantities of real savings; increases the net capital inflow from abroad; raises the productivity of investments by improving allocation of investible funds; and reduces the cost of capital in the economy.

SECURITIES AND EXCHANGE BOARD OF INDIA

ESTABLISHMENT OF SEBI

The SEBI was established on the recommendations of Narasimhan Committee. The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

PREAMBLE

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as
"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"

POWERS AND FUNCTIONS OF THE BOARD

Following are the Power and Functions of the Board

FUNCTIONS OF BOARD

(1) Subject to the provisions of this Act, it shall be the duty of the Board to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.

(2) Without prejudice to the generality of the foregoing provisions, the measures referred to therein may provide for -

(a) regulating the business in stock exchanges and any other securities markets;

(b) registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;

(ba) registering and regulating the working of the depositories, [14] [participants,] custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as the Board may, by notification, specify in this behalf;

(c) registering and regulating the working of venture capital funds and collective investment schemes,including mutual funds;

(d) promoting and regulating self-regulatory organisations;

(e) prohibiting fraudulent and unfair trade practices relating to securities markets;

(f) promoting investors' education and training of intermediaries of securities markets;

(g) prohibiting insider trading in securities;

(h) regulating substantial acquisition of shares and take-over of companies;

(i) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market intermediaries and self-regulatory organizations in the securities market;

(ia) calling for information and record from any bank or any other authority or board or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which is under investigation or inquiry by the Board

(j) performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956(42 of 1956), as may be delegated to it by the Central Government;

(k) levying fees or other charges for carrying out the purposes of this section;

(l) conducting research for the above purposes;

(la) calling from or furnishing to any such agencies, as may be specified by the Board, such information as may be considered necessary by it for the efficient discharge of its functions;

(m) performing such other functions as may be prescribed.

(2A) Without prejudice to the provisions contained in sub-section (2), the Board may take measures to undertake inspection of any book, or register, or other document or record of any listed public company or a public company (not being intermediaries referred to in section 12) which intends to get its securities listed on any recognised stock exchange where the Board has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market.

(3) Notwithstanding anything contained in any other law for the time being in force while exercising the powers under clause (i) or clause (ia) of sub-section (2) or sub-section (2A), the Board shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (5 of 1908),while trying a suit, in respect of the following matters, namely :

(i) the discovery and production of books of account and other documents, at such place and such time as may be specified by the Board;
(ii) summoning and enforcing the attendance of persons and examining them on oath;
(iii) inspection of any books, registers and other documents of any person referred to in section 12, at any place
(iv) inspection of any book, or register, or other document or record of the company referred to in sub-section (2A);
(v) issuing commissions for the examination of witnesses or documents.

(4) Without prejudice to the provisions contained in sub-sections (1), (2), (2A) and (3) and section 11B, the Board may, by an order, for reasons to be recorded in writing, in the interests of investors or securities market, take any of the following measures, either pending investigation or inquiry or on completion of such investigation or inquiry, namely:-

(a) suspend the trading of any security in a recognized stock exchange;
(b) restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
(c) suspend any office-bearer of any stock exchange or self- regulatory organization from holding such position;
(d)impound and retain the proceeds or securities in respect of any transaction which is under investigation;
(e)attach, after passing of an order on an application made for approval by the Judicial Magistrate of the first class having jurisdiction, for a period not exceeding one month, one or more bank account or accounts of any intermediary or any person associated with the securities market in any manner

involved in violation of any of the provisions of this Act, or the rules or the regulations made there under:

Provided that only the bank account or accounts or any transaction entered therein, so far as it relates to the proceeds actually involved in violation of any of the provisions of this Act, or the rules or the regulations made there under shall be allowed to be attached;

(f) direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of any transaction which is under investigation:

Provided that the Board may, without prejudice to the provisions contained in sub-section (2) or sub-section (2A), take any of the measures specified in clause (d) or clause (e) or clause (f), in respect of any listed public company or a public company (not being intermediaries referred to in section 12) which intends to get its securities listed on any recognized stock exchange where the Board has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market:

Provided further that the Board shall, either before or after passing such orders, give an opportunity of hearing to such intermediaries or persons concerned.

Board to regulate or prohibit issue of prospectus, offer document or advertisement soliciting money for issue of securities.

11A (1) Without prejudice to the provisions of the Companies Act, 1956(1 of 1956), the Board may, for the protection of investors, -

(a) specify, by regulations –

(i) the matters relating to issue of capital, transfer of securities and other matters incidental thereto; and
(ii) the manner in which such matters shall be disclosed by the companies;
(b) by general or special orders –
(i) prohibit any company from issuing prospectus, any offer document, or advertisement soliciting money from the public for the issue of securities;

(ii)specify the conditions subject to which the prospectus, such offer document or advertisement, if not prohibited, may be issued.
(2) Without prejudice to the provisions of section 21 of the Securities Contracts (Regulation) Act, 1956(42 of 1956), the Board may specify the requirements for listing and transfer of securities and other matters incidental thereto.

Collective Investment Scheme.

11AA (1) Any scheme or arrangement which satisfies the conditions referred to in sub-section (2) shall be a collective investment scheme.

(2) Any scheme or arrangement made or offered by any company under which,---

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized solely for the purposes of the scheme or arrangement;
(ii) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable from such scheme or arrangement;
(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors;
(iv) the investors do not have day to day control over the management and operation of the scheme or arrangement.

(3) Notwithstanding anything contained in sub-section (2), any scheme or arrangement –

(i) made or offered by a co-operative society registered under the co-operative societies Act,1912(2 of 1912) or a society being a society registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any state;
(ii) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934(2 of 1934);
(iii) being a contract of insurance to which the Insurance Act,1938(4 of 1938), applies;
(iv) providing for any scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952(19 of 1952);
(v) under which deposits are accepted under section 58A of the Companies Act, 1956(1 of 1956);
(vi) under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 620A of the Companies Act, 1956(1 of 1956);
(vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982(40 of 1982);
(viii) under which contributions made are in the nature of subscription to a mutual fund;
shall not be a collective investment scheme

POWER TO ISSUE DIRECTIONS

11B. Save as otherwise provided in section 11, if after making or causing to be made an enquiry, the Board is satisfied that it is necessary,-

(i) in the interest of investors, or orderly development of securities market; or

(ii) to prevent the affairs of any intermediary or other persons referred to in section 12 being conducted in a manner detrimental to the interest of investors or securities market; or

(iii) to secure the proper management of any such intermediary or person, it may issue such directions,-

(a) to any person or class of persons referred to in section 12, or associated with the securities market; or

(b) to any company in respect of matters specified in section 11A, as may be appropriate in the interests of investors in securities and the securities market

INVESTIGATION

11C. (1) Where the Board has reasonable ground to believe that

(a) the transactions in securities are being dealt with in a manner detrimental to the investors or the securities market; or

(b)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 there under,

It may, at any time by order in writing, direct any person (hereafter in this section referred to as the Investigating Authority) 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.

(2) Without prejudice to the provisions of sections 235 to 241 of the Companies Act, 1956(1 of 1956), it shall be the duty of every manager, managing director, officer and other employee of the company and every intermediary referred to in section 12 or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power.

(3) The Investigating Authority may require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before it or any person authorized by it in this behalf as it may consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of its investigation.

(4) The Investigating Authority may keep in its custody any books, registers, other documents and record produced under sub-section (2) or sub-section (3) for six months and thereafter shall return the

same to any intermediary or any person associated with securities market by whom or on whose behalf the books, registers, other documents and record are produced:

Provided that the Investigating Authority may call for any book, register, other document and record if they are needed again:

Provided further that if the person on whose behalf the books, registers, other documents and record are produced requires certified copies of the books, registers, other documents and record produced before the Investigating Authority, it shall give certified copies of such books, registers, other documents and record to such person or on whose behalf the books, registers, other documents and record were produced.

(5) Any person, directed to make an investigation under sub-section (1),may examine on oath, any manager, managing director, officer and other employee of any intermediary or any person associated with securities market in any manner, in relation to the affairs of his business and may administer an oath accordingly and for that purpose may require any of those persons to appear before it personally.

(6) If any person fails without reasonable cause or refuses –

(a) to produce to the Investigating Authority or any person authorised by it in this behalf any book, register, other document and record which it is his duty under sub-section (2) or sub-section (3) to produce; or

(b) to furnish any information which is his duty under sub-section (3) to furnish; or

(c) to appear before the Investigating Authority personally when required to do so under sub-section (5) or to answer any question which is put to him by the Investigating Authority in pursuance of that sub-section; or

(d) to sign the notes of any examination referred to in sub-section (7),

he shall be punishable with imprisonment for a term which may extend to one year, or with fine, which may extend to one crore rupees, or with both, and also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

(7) Notes of any examination under sub-section (5) shall be taken down in writing and shall be read over to, or by, and signed by, the person examined, and may thereafter be used in evidence against him.

(8) Where in the course of investigation, the Investigating Authority has reasonable ground to believe that the books, registers, other documents and record of, or relating to, any intermediary or any person associated with securities market in any manner, may be destroyed, mutilated, altered, falsified or secreted, the Investigating Authority may make an application to the Judicial Magistrate of the first class having jurisdiction for an order for the seizure of such books, registers, other documents and record.

(9) After considering the application and hearing the Investigating Authority, if necessary, the Magistrate may, by order, authorise the Investigating Authority –

(a) to enter, with such assistance, as may be required, the place or places where such books, registers, other documents and record are kept;
(b) to search that place or those places in the manner specified in the order; and
(c) to seize books, registers, other documents and record, it considers necessary for the purposes of the investigation:

Provided that the Magistrate shall not authorize seizure of books, registers, other documents and record, of any listed public company or a public company (not being the intermediaries specified under section 12) which intends to get its securities listed on any recognised stock exchange unless such company indulges in insider trading or market manipulation.

(10) The Investigating Authority shall keep in its custody the books, registers, other documents and record seized under this section for such period not later than the conclusion of the investigation as it considers necessary and thereafter shall return the same to the company or the other body corporate, or, as the case may be, to the managing director or the manager or any other person, from whose custody or power they were seized and inform the Magistrate of such return;

Provided that the Investigating Authority may, before returning such books, registers, other documents and record as aforesaid, place identification marks on them or any part thereof.

(11) Save as otherwise provided in this section, every search or seizure made under this section shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1973(2 of 1974), relating to searches or seizures made under that Code.

CEASE AND DESIST PROCEEDINGS

11D. If the Board finds, after causing an inquiry to be made, that any person has violated, or is likely to violate, any provisions of this Act, or any rules or regulations made thereunder, it may pass an order requiring such person to cease and desist from committing or causing such violation:

Provided that the Board shall not pass such order in respect of any listed public company or a public company (other than the intermediaries specified under section 12) which intends to get its securities listed on any recognized stock exchange unless the Board has reasonable grounds to believe that such company has indulged in insider trading or market manipulation.

Former Chairmen of SEBI

U.K Sinha is the present Chairman of SEBI. He took office on 18th February 2011.

Name Of Chairman	Tenure
Shri C. B. Bhave	February 19, 2008 to February 17, 2011
Shri M. Damodaran	February 18, 2005 to February 18, 2008
Shri G. N. Bajpai	February 20, 2002 to February 18, 2005
Shri D. R. Mehta	February 21, 1995 to February 20, 2002
Shri S. S. Nadkarni	January 17, 1994 to January 31, 1995
Shri G. V. Ramakrishna	August 24, 1990 to January 17, 1994
Dr. S. A. Dave	April 12, 1988 to August 23, 1990

National Stock Exchange of India

- Established in November 1990
- Got recognition as a stock exchange from government in April 1993
- In October 1995 it became the largest stock exchange of India
- In June 1996 Settlement Guarantee Fund Established

Bombay Stock Exchange

Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875. BSE is a corporatized and demutualised entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME).

DEMATERIALISATION

Dematerialisation is the process by which a client can get physical certificates converted into electronic balances.

An investor intending to dematerialise its securities needs to have an account with a DP. The client has to deface and surrender the certificates registered in its name to the DP. After intimating NSDL electronically, the DP sends the securities to the concerned Issuer/ R&T agent. NSDL in turn informs the Issuer/ R&T agent electronically, using NSDL Depository system, about the request for dematerialisation. If the Issuer/ R&T agent finds the certificates in order, it registers NSDL as the holder of the securities (the investor will be the beneficial owner) and communicates to NSDL the confirmation of request electronically. On receiving such confirmation, NSDL credits the securities in the depository account of the Investor with the DP.

Demat Account means an account in the dematerialized form having only digital documents.

Financial Institutions In India

The following are some of the Financial Institutions of India.

INDUSTRIAL FINANCE CORPORATION OF INDIA

At the time of independence in 1947, India's capital market was relatively under-developed. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent and commercial banks were not equipped to provide long-term industrial finance in any significant manner.

It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in the country to cater to the long-term finance needs of the industrial sector. The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

By the early 1990s, it was recognized that there was need for greater flexibility to respond to the changing financial system. It was also felt that IFCI should directly access the capital markets for its funds needs. It is with this objective that the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was also changed to "IFCI Limited" with effect from October 1999.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

Overview

As an apex bank involved in refinancing credit needs of major financial institutions in the country engaged in offering financial assistance to agriculture and rural development operations and programmes, NABARD has been sharing with the Reserve Bank of India certain supervisory functions in respect of cooperative banks and Regional Rural Banks (RRBs).

As part of these functions, it

- Undertakes inspection of Regional Rural Banks (RRBs) and Cooperative Banks (other than urban/primary cooperative banks) under the provisions of Banking Regulation Act, 1949.
- Undertakes inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non-credit cooperative societies on a voluntary basis.
- Undertakes portfolio inspections, systems study, besides off-site surveillance of Cooperative Banks and Regional Rural Banks (RRBs).
- Provides recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).
- Administering Credit Monitoring Arrangements (CMA) in SCBs and CCBs.

CORE FUNCTIONS

NABARD has been entrusted with the statutory responsibility of conducting inspections of State Cooperative Banks (SCBs), District Central Cooperative Banks (DCCBs) and Regional Rural Banks (RRBs) under the provisions of Section 35(6) of the Banking Regulation Act (BR Act), 1949. In addition, NABARD has also been conducting periodic inspections of state level cooperative institutions such as State Cooperative Agriculture and Rural Development Banks (SCARDBs), Apex Weavers Societies, Marketing Federations, etc., on a voluntary basis.

Objectives of Inspection

- To protect the interest of the present and future depositors.
- To ensure that the business conducted by these banks is in conformity with the provisions of the relevant Acts/Rules, regulations/Bye-Laws, etc
- To ensure observance of rules, guidelines, etc., formulated and issued by NABARD/RBI/Government.

- To examine the financial soundness of the banks
- To suggest ways and means for strengthening the institutions so as to enable them to play more efficient role in rural credit.

INSTRUMENTS OF SUPERVISION

- Periodic on-site inspection of SCBs, DCCBs, SCARDBs and RRBs and other Apex level Cooperative institutions.
- Supplementary Appraisal.
- Off-site Surveillance System (OSS).
- Portfolio inspection/System study.
- Monitoring through returns including CMA and Frauds.
- Attending to complaints in respect of Cooperative Banks (excluding Urban Cooperative Banks) and RRBs.

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

- Apex institution in the field of industrial development banking.
- Set up in July 1964 (as a wholly-owned subsidiary of the RBI).
- It was made autonomous in Feb 1976.
- Another industrial development bank, the IFCI, and an all-India investment trust, the UTI, are its subsidiaries.
- The paid-up capital of IDBI till end of March 1993 was Rs 753 Cr which was fully financed by the Govt of India.

BASIC FUNCTIONS OF IDBI

- To provide financial assistance to industrial enterprises.
- To promote institutions engaged in industrial development.
- Provides term finance and other development services to industry along with other development banks.
- Also provides export credit.
- Co-ordinates the activities of other development banks.
- IDBI mobilizes its funds mostly from:
- loans from capital market by issuing bonds and
- loans from National Industrial Credit (Long term) fund of RBI.
- It also secures short-term advances from RBI by depositing fixed term bills.
- Provides refinance to eligible banks and term-financing institutions like the IFCI and SFCs, against the term-financing of these institutions to industry.

- Refinance is provided in three ways:
- by subscription to the shares and bonds of term-financing institutions.
- by refinancing term loans to industry and export trade.
- by rediscounting the usance bills arising out of sales of indigenously- produced machinery on a deferred payment basis.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

- SIDBI, as a subsidiary of IDBI, commenced its operations from April 2, 1990. (Act passed in Oct 1989)
- Its headquarters is at Lucknow.
- Main objective: to ensure larger flow of financial and non-financial assistance to the small scale sector.

Thrust on

- Initiating steps for technological up gradation and modernization of existing units.
- Expanding the channels for marketing the products of SSI Sector in domestic and overseas market.
- Promotion of employment oriented industries especially in semi urban areas to create more employment opportunities

  Major Activities: Refinance of loan and advances, discounting and rediscounting of bills, extension of seed capital/soft loans, granting direct assistance, providing services like factoring, leasing and so on.

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses.

In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries.

In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmedabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the ICICI group's financing and banking operations, both wholesale and retail, have been integrated in a single entity.

STATE FINANCIAL CORPORATION’S (SFC’S)

State Financial Corporations are was set up in 1952 In order to provide medium and long term credit to industrial undertakings, which fall outside the normal activities of Commercial Banks. These are the state-level organizations, which provide term finance to medium- and small-scale industries. Here are some important facts about SFCs.

- Its share capital contributed by the state govts, IDBI, scheduled banks, insurance companies and others.
- Control of SFCs is shared by the state government and the IDBI.
- These are helpful in ensuring balanced regional development, higher investment, more employment generation and broad ownership of industries.
- At present, there are 18 SFCs.
- Source of finance: bonds, debentures and borrowings from the IDBI, state government and SIDBI.
- Provide financial assistance in all the four major forms, namely loans and advances, subscription to shares and debentures, underwriting of new issues, and guarantee of loans from third parties and deferred payments.
- The bulk of the SFC finance (about 90%) is made available in the form of loans and advances.
- Liberal assistance is given to technician entrepreneurs and to industrial units in specified backward areas on concessional terms.

The operation of the SFCs suffers from a very high ratio of overdues/defaults, excessive concentration of loan finance, weak promotional role, and delays in sanctioning arid disbursing assistance.

Taxing System in India

Tax Structure in India

India has a well maintained tax structure that clearly differentiate authority between Central, State, and Local Bodies. As the Indian Constitution is quasi federal, the country has three tier government comprising Central Government, the State Government, and the Local Governments. Central Government levy taxes on income, custom duties, service tax, and service tax. State government levy Stamp Duty, Value Added Tax (VAT), state excise, land revenue and profession tax. And Local Government can levy tax on octroi, properties, and utilities like water, electricity and so on.

Indian government has broadly classified the taxes in two types, which are mentioned below:

DIRECT TAX

Direct Taxes are those taxes whose burden to the pay the tax directly lays on the tax payer. It is generally imposed on individual person or property. Direct taxes accounts for more than half of the total tax revenue of the central Government. It includes income tax, wealth tax, house tax etc.

Taxes on Wealth and Income

The central government levies a number of taxes on income and wealth of which only personal income tax and corporation tax are important.

- **Personal Income Tax:** It is levied on the incomes of individual, Hindu Families, unregistered firms and other association of people. For taxation purposes, income from all sources is added.
- **Corporation Tax:** Corporation Tax is levied on the income of registered companies and corporations. The rationale for the corporation tax is that a joint stock company has a separate entity and thus a separate tax different from personal income tax has to be levied on its income.

Taxes on Wealth & Capital

The taxes which have been levied on wealth and capital are mainly three: estate duty, annual tax on wealth, and gift tax

- **Estate Duty:** It was first introduced in India in 1953. It was levied on total property passing on the death of the person. The whole property of deceased constituted the estate and was considered liable to pay the estate duty.

- **Annual Tax on Wealth:** it was first introduced in May 1957 on the recommendation of Kaldor. It is levied on the excess of net wealth over exemption of individual, Joint Hindu Families and companies.

- **Gift Tax** was first introduced in the year 1958. It was treated as complementary to the estate duty and annual tax on wealth. The gift tax was leviable on all donations except the one given by charitable, Government Companies and private companies.

INDIRECT TAX

Indirect Taxes are those taxes, which are collected from intermediary from the individual who bears the ultimate economic burden of tax. In other words, it is the tax whose liability to pay is one person and burden to pay is other individual. Indirect Tax includes sales tax, value added tax, entertainment tax and so on. Some of them are mentioned below:

Custom Duties

While using its constitutional power, the central government levies duties on both import and exports. Import duties in India are generally levied on advalorem basis which implies that they are determined as certain percentage of the price of commodity.

Excise Duties

An excise duty is in true sense a commodity tax because it is levied on production and has absolutely no connection with its actual sale. Excise duties on commodities other than alcoholic liquor and narcotics are levied by the central government

Questions for Practice

1. Financial Inclusion makes people to

(1) access financial markets

(2) access credit markets

(3) learn financial matters

(4) All of the above

(5) None of the above

2. Which of the following sections of people is not financially excluded?

(1) Marginal farmers

(2) Salaried persons

(3) Landless labourers

(4) Self employed and unorganised sector enterprises

(5) Urban slum dwellers

3. The objectives of forming SHG is

(i) to build mutual trust and confidence between the bankers and the rural poor people.

(ii) to encourage banking activities, both on the thrift as well as credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

(iii) to meet the needs of the poor by combining the flexibility, sensitivity and responsiveness of the Informal Credit System with the strength of technical and administrative capabilities and financial resources of the formal credit institutions.

Select the correct answer using the following codes

(1) Only (i)

(2) Both (i) and (ii)

(3) (i) and (iii)

(4) (ii) and (iii)

(5) (i), (ii) and (iii)

4. The best alternative banking service to branch banking to be the part of Financial Inclusion?

(1) Establishment of small branches

(2) Setup ATMs

(3) Issuing of ATM cards

(4) Giving Credit Cards

(5) Mobile banking

5. The Central Government has extended the cover of Rashtriya Swastya Bhima Yozana (RSBY) to Beedi Workers and

(1) Carpenters

(2) Cobblers

(3) School Children

(4) Domestic Workers

(5) All of the above

6. Banks have the lowest lending levels in the……….Part of India.

(1) Central

(2) North-Eastern

(3) Southern

(4) Western

(5) Northern

7. Which of the following is an effort in the direction of financial inclusion?

(1) Internet Banking

(2) Anywhere Banking

(3) No-frills Accounts

(4) Foreign Currency Accounts

(5) All of the above

8. The total number of SHGs as on 1st March, 2010 is

(1) 48.51 lakh

(2) 55.5 lakh

(3) 58.3 lakh

(4) 60 lakh

(5) 62.4 lakh

9. Rashtriya Mahila Kosh (RMK) is working exclusively for

(1) poor women

(2) rural women

(3) urban women

(4) All of the above

(5) None of the above

10. SHG Bank linkage Programme, initially launched by

(1) RBI

(2) NABARD

(3) SBI

(4) RRBs

(5) Finance Ministry

11. What is not a potential limit of group lending?

(1) Monitoring group members can be costly for borrowers

(2) Group lending uses social sanctions instead of collateral foreclosure

(3) Group lending brings added risks for borrowers, those of other members default

(4) Exclusion of all group members after one of them default is too harsh a punishment

(5) None of the above

12. Financial inclusion is a programme of the government to cover the maximum population with bank accounts. What is the current coverage?

(1) 25%

(2) 15%

(3) 40%

(4) 65%

(5) All of the above

13. Kisan Credit Cards are an effective way of reaching out to the farmers by the banks. What assistance does the farmer receive in this way?

(1) Credit facility for crops etc against an approved limit

(2) Short term credit facility against value of his crops

(3) Long term credit is provided against his land holdings

(4) Loan is permissible against crops sold but payment yet to be received by the farmer

(5) None of the above

14. Why are interest rates charged by Micro Finance Institutions higher than lending rates of banks?

(1) MFIs are not allowed co source deposits from public

(2) Banks have the benefit of cheaper funds

(3) MFIs borrow bulk of their funds from banks

(4) MFIs borrow funds from banks at high cost and also their administrative expenses are more

(5) None of the above

15. Passing of tough laws against the Micro Finance Companies by a particular state in India has upset the Micro Finance Sector. Which state are we talking about?

(1) Karnataka

(2) Andhra Pradesh

(3) Tamil Nadu

(4) Rajasthan

(5) None of these

16. RBI has largely accepted the recommendations of which committee set up by it to look into the issues of the Micro Finance Sector?

(1) Damodaran Committee

(2) Nair Committee

(3) Malegam Committee

(4) Narasimham Committee

(5) None of the above

17. RRBs were set up on

(1) 1975

(2) 1985

(3) 1991

(4) 2001

(5) 1965

18. The total authorised capital of Bs was originally fixed at t 1 crore which has since been raised to

(1) Rs. 2 crore

(2) Rs. 3 crore

(3) Rs. 5 crore

(4) Rs. 7 crore

(5) Rs. 10 crore

19. Central Government's contribution towards the capital of RRBs is made through

(1) NABARD

(2) RBI

(3) SBI

(4) Central Cooperative Bank

(5) State Cooperative Bank

20. The Sponsor Banks empowered

(1) to monitor the progress of RRBs

(2) to conduct inspection and internal audit

(3) to suggest corrective measures

(4) All of the above

(5) None of the above

21. Each of the RRBs covers districts ranging from

(1) 1 to15

(2) 2 to 25

(3) 3 to25

(4) 2 to15

(5) 1 to 5

22. RRB are refinanced at

(1) 2 % below the bank rate

(2) 1% below the bank rate

(3) 2% below the repo rate

(4) 1% below the repo rate

(5) repo rate

23. The issued/paid-up capital of a Regional Rural Bank should be

(1) Rs. 60 lakh

(2) minimum Rs. 2S lakh and maximum Rs. 100 lakh

(3) 80 lakh

(4) 90 lakh

(5) None of the above

24. Paid-up share capital of Regional Rural Bank is contributed by

(1) Central Government only

(2) State Government only

(3) Central Government, State Government and the Sponsor Commercial Bank in the ratio of 50 : 15 : 35 respectively

(4) NABARD, the concerned State Government and the Sponsor Commercial Bank in the ratio of 60 : 20 : 20 respectively

(5) All of the above

25. Regional Rural Banks are empowered to transact the business of banking as defined under

(1) Banking Regulation Act, 1949

(2) Negotiable Instruments Act, 1881

(3) Regional Rural Banks Act, 1976

(4) The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

(5) None of the above

26. Regional Rural Banks are managed by

(1) Reserve Bank of India

(2) a Board of Directors

(3) the Sponsor Bank

(4) the State Government

(5) All of the above

27. **For opening a new branch, a Regional Rural Bank requires**

(1) Permission of NABARD

(2) Permission of Director, Institutional Finance

(3) RBI license

(4) All of the above

(5) Approval of DRDA

28. Regional Rural Banks are classified as

(1) scheduled Commercial Banks

(2) subsidiaries of the Sponsor Banks

(3) subsidiaries of NABARD

(4) All of the above

(5) None of the above

29. On the current account balances maintained by the Regional Rural Banks with them, the Commercial Banks may

(1) pay interest up to 9%

(2) waive incidental charges

(3) pay interest as applicable to savings accounts

(4) pay interest at such rates as may be mutually agreed to

(5) all of the above

30. All regional Rural Banks (RRBs) are required to maintain their entire Statutory Liquidity Ratio (SLR) in

(1) Government and other approved securities

(2) Current accounts with Sponsor Banks

(3) Time deposits with Sponsor Banks

(4) Gold holding only

(5) All of the above

31. **The Regulatory Authority for Regional Rural Banks is**

(1) Sponsor Bank

(2) Central Government

(3) State Government

(4) RBI and NABARD

(5) All of the above

32. **Out of total priority sector advances of RRBs, at least ______ should be advanced to weaker sections.**

(1) 25%

(2) 50%

(3) 60%

(4) 75%

(5) 90%

33. **With a view to increase their resource base, RRBs have been permitted to**

(1) issue of credit/debit cards and setting-up of ATMs

(2) open Currency Chests

(3) handle pension and other government business as sub-agents of those banks which are authorised to conduct government business

(4) Both (1) and (2)

(5) All of the above

34. **Co-operation as a form of economic activity was formally recognised in India in the year 1904 when**

(1) Mahatma Gandhi inaugurated the first Indian Co-operative Bank

(2) the first Co-opera rive Societies Act was passed

(3) the first Co-operative Bank was established in Bombay

(4) All of the above

(5) None of the above

35. Which of the following is the most important component of the liabilities of Commercial Bank?

(1) Time deposits

(2) Demand deposits

(3) Inter-bank liabilities

(4) Other borrowings

(5) All of the above

36. As of March 2011, what is the total number of branches of Regional Rural Banks?

(1) 15,000

(2) 14,500

(3) 16,000

(4) 13,600

(5) All of these

37. Which nationalized bank was the first to sponsor a regional rural bank in India?

(1) syndicate Bank

(2) Bank of India

(3) Union Bank of India

(4) Central Bank of India

(5) None of the above

Answers

1) 4
2) 2
3) 5
4) 5
5) 4
6) 2
7) 3
8) 1
9) 1
10) 2
11) 2
12) 3
13) 1
14) 4
15) 2
16) 3
17) 1
18) 3
19) 1
20) 4
21) 2
22) 1
23) 5
24) 2
25) 1
26) 2
27) 3
28) 1
29) 4
30) 1
31) 4
32) 1
33) 5
34) 2
35) 1
36) 3
37) 1

Chapter: Foreign Trade

All the trade that a country does with the other counties can be termed as Foreign Trade of that country. It consists of Import to the country and export from the country. The export earns the foreign currency and import cost us the foreign currency reserve that may be direct and indirect.

The foreign trade is a very important component of the foreign policy in the current scenario because the geopolitics is now-a-days is governed by the geo-economic interest of the world powers.

Balance of Payments

Balance of Payments (BoP) statistics systematically summaries the economic transactions of an economy with the rest of the World for a specific period. The Reserve Bank of India (RBI) is responsible for compilation and dissemination of BoP data. BoP is broadly consistent with the guidelines contained in the BoP Manual of the International

Balance of payment (BoP) comprises of current account, capital account, errors and omissions and changes in foreign exchange reserves. Under current account of the BoP, transactions are classified into merchandise (exports and imports) and invisibles. Invisible transactions are further classified into three categories, namely (a) Services-travel, transportation, insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction, financial, software, news agency, royalties, management and business services); (b) Income; and (c) Transfers (grants, gifts, remittances, ets.) which do not have any quid pro quo.

CURRENT ACCOUNT

The current account includes flows of goods, services, primary income, and secondary income between residents and non-residents and thus constitutes an important segment of BoP. While the "goods and services account" generally forms a major part of the current account, the primary income account reflects amounts payable and receivable in return for providing temporary use of labour, financial resources, or non-produced non-financial assets(natural resources). The secondary income account shows redistribution of income between resident and non-residents, i.e, when resources for current purposes are provided without economic value being exchanged in return (transfers). The net effect of all the transactions under the above accounts is known as the "current account balance". In other words, the current account balance shows the difference between the sum of exports of goods and services as well as income receivable, on the one hand, and the sum of imports and income payable on the other. From a macroeconomic perspective, the value of the current account balance reflects the inflow/outflow of foreign resources bridging the savings-investment gap.

CAPITAL ACCOUNT

Under the Capital Account, capital inflows can be classified by instrument (debt or equity) and maturity (short or long term). The main components of the capital account include foreign investment, loans and banking capital. Foreign investment, comprising Foreign Direct Investment (FDI) and Portfolio investment consisting of Foreign Institutional Investors (FIIs) investment, American Depository Receipts/Global Depository Receipts (ADRs/GDRs) represents non-debt liabilities, while loans (external assistance, external commercial borrowings and trade credit) and banking capital, including non-resident Indian (NRI) deposits are debt liabilities.

The data on merchandise trade are available from two sources namely; (a) from the Directorate General of Commercial Intelligence and Statistics (DGCI&S) on customs basis; and (b) from RBI on payments (which includes both receipts and payments) basis. The Daily Trade Return (DTR) is the primary source of recording exports data at DGCI&S, while RBI relies mainly on the R-return furnished by Authorised Dealers (Ads) to compile the exports and imports data. The data on merchandise exports in BoP are compiled on the basis of information available from the DGCI&S, after adjusting for time and exchange rate differences. The merchandise export data is recorded on free on board (F.O.B.) basis. It may be noted that export of software in physical form is captured by DGCI&S.

1. The customs record data on imports on the basis of the Bill of Entry prepared for goods entering in the customs area. The data on imports under BoP statistics are compiled mainly on the basis of returns submitted by Ads supplemented by information on the transactions not passing through the banking channel such as imports financed through credit taken abroad.

Special Economic Zone

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are:

(a) generation of additional economic activity
(b) promotion of exports of goods and services;
(c) promotion of investment from domestic and foreign sources;
(d) creation of employment opportunities;
(e) development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The **SEZ Act 2005** envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for:

- " Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;

- Simplified compliance procedures and documentation with an emphasis on self certification

SPECIAL ECONOMIC ZONES ACT, 2005

The Special Economic Zones Act was passed on 23rd June, 2005. It provides various definitions related to Special Economic Zones. Some of them are as follows.

EXPORT

(i) taking goods, or providing services, out of India, from a Special Economic Zone, by land, sea or air or by any other mode, whether physical or otherwise; or

(ii) supplying goods, or providing services, from the Domestic Tariff Area to a Unit or Developer; or

(iii) supplying goods, or providing services, from one Unit to another Unit or Developer, in the same or different Special Economic Zone;

FREE TRADE AND WAREHOUSING ZONE

A Special Economic Zone wherein mainly trading and warehousing and other activities related thereto are carried on;

IMPORT

(i) bringing goods or receiving services, in a Special Economic Zone, by a Unit or Developer from a place outside India by land, sea or air or by any other mode, whether physical or otherwise; or

(ii) receiving goods, or services by, Unit or Developer from another Unit or Developer of the same Special Economic Zone or a different Special Economic Zone;

MANUFACTURE

To make, produce, fabricate, assemble, process or bring into existence, by hand or by machine, a new product having a distinctive name, character or use and shall include processes such as refrigeration, cutting, polishing, blending, repair, remaking, re-engineering and includes agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, viticulture and mining;

OFFSHORE BANKING UNIT

A branch of a bank located in a Special Economic Zone and which has obtained the permission under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949;

ESTABLISHMENT OF SPECIAL ECONOMIC ZONE

- A Special Economic Zone may be established under this Act, either jointly or severally by the Central Government, State Government, or any person for manufacture of goods or rendering services or for both or as a Free Trade and Warehousing Zone.
- Any person, who intends to set up a Special Economic Zone, may, after identifying the area, make a proposal to the State Government concerned for the purpose of setting up the Special Economic Zone.

SPECIAL ECONOMIC ZONE AUTHORITY

The Central Government shall, by notification in the Official Gazette, constitute, for every Special Economic Zone established by it before the commencement of this Act or which may be established by it after such commencement by the Central Government, an Authority to be called the ……… (name of the Special Economic Zone) Authority to exercise the powers conferred on, and discharge the functions assigned to, it under this Act:

Provided that in respect of existing Special Economic Zone established by the Central Government, such Authority shall be constituted by the Central Government within six months from the date of commencement of this Act:

Provided further that until such Authority is constituted, the person or the authority including the Development Commissioner exercising control over such existing Special Economic Zones shall continue to exercise such control over the Special Economic Zones till the Authority is constituted.

(2) Every Authority shall be a body corporate by the name aforesaid, having perpetual succession and a common seal, with a power, subject to the provisions of this Act, to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue and be sued.

(3) The head office of every Authority shall be at such place as the Central Government may specify in the notification referred to in sub-section (1).

Bilateral Investment Promotion and Protection Agreements (BIPA)

As part of the Economic Reforms Programme initiated in 1991, the foreign investment policy of the Government of India was liberalised and negotiations undertaken with a number of countries to enter into Bilateral Investment Promotion & Protection Agreement (BIPAs) in order to promote and protect on reciprocal basis investment of the investors. Government of India have, so far, (as on July 2012) signed BIPAs with 82 countries out of which 72 BIPAs have already come into force and the remaining agreements are in the process of being enforced. In addition, agreements have also been finalised and/ or being negotiated with a number of other countries.

The objective of Bilateral Investment Promotion and Protection Agreement is to promote and protect the interests of investors of either country in the territory of other country. Such Agreements increase the comfort level of the investors by assuring a minimum standard of treatment in all matters and provides for justifiability of disputes with the host country.

Chapter: Negotiable Instruments Act

In India, the Negotiable Instruments Act was passed during 1881 and came into force w.e.f Mar 1, 1882. It has 142 sections and 17 Chapters (Section 138 and 142 were added in 1988 and these Section came into effect wef Apr 1, 1989). This Act is applicable to whole India.

Negotiable Instruments (NI)

An NI means and includes promissory note, bill of exchange and cheque payable to order or bearer.

IMPORTANT CHARACTERISTICS OF NEGOTIABLE INSTRUMENTS

Following are the important characteristics of negotiable instruments:

(1) The holder of the instrument is presumed to be the owner of the property contained in it.

(2) They are freely transferable.

(3) A holder in due course gets the instrument free from all defects of title of any previous holder.

(4) The holder in due course is entitled to sue on the instrument in his own name.

(5) The instrument is transferable till maturity and in case of cheques till it becomes stale (on the expiry of 6 months from the date of issue).

(6) Certain equal presumptions are applicable to all negotiable instruments unless the contrary is proved.

Originally these three instruments were included in NI Act and the following instruments are considered as NIs due to usage, practice and various judgments of courts:

- Bank draft/pay order or banker's cheque
- Govt promissory note
- Bill of lading
- Railway Receipts
- Dock warrant

- Warehouse Receipt
- Certificate of Deposit
- Commercial Paper
- Treasury bills
- Hundi

PROMISSORY NOTE (PN)

PN is an instrument in writing, containing an unconditional undertaking, signed by the maker, to pay a certain sum of money, to or to the order of a certain person or to the bearer of the instrument.

It needs to be noted that the matters of form like no., place date etc are usually given in promissory notes but they are not essential in law.

There are two types of PNs:

(a) Demand Promissory Note (which is payable immediately on demand)

(b) Usance promissory Note (payable after a predecided definite period).

BILL OF EXCHANGE (BOE)

A Bill of Exchange is an instrument in within containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

CHEQUE

A cheque is a bill of exchange drawn a specified bank and not expressed to be payable otherwise than on demand.

Parties to a cheque are *drawer* (the account holder), *drawee* (the bank with whom the account is maintained), *payee* (the person named in the cheque). There are other parties also which come into picture subsequently and include holder, in due course, endorser and endorsee.

BANK DRAFT

It is a bill of exchange drawn by a bank on another or by itself on its other branch. It is very nearly allied to a cheque. However, it can be drawn by a bank only and not by an individual. It cannot be easily countermanded like a cheque and it cannot be made payable to bearer

AMBIGUOUS INSTRUMENT

Where the instrument is drawn in such a manner that it can be construed both as a promissory note or bill of exchange, it is called ambiguous and may be treated by the holder as anyone of these.

ESCROW

When an NI is delivered subject to fulfillment of some condition or for a special purpose as collateral security or not for the purpose of transferring absolutely, the property there in, it is called escrow. For instance, a cheque delivered to a person, with the condition that it should be encashed only if some 3rd party, complies with a condition.

ACCOMMODATION BILL

All bills are not genuine trade bills, as they are often drawn for accommodating a party. An accommodation bill is a bill in which a person lends or gives his name to oblige a friend or some person whom he knows or otherwise. In other words, a bill which is drawn, accepted or endorsed without consideration is called an accommodation bill. The party lending his name to oblige the other party is known as the accommodating or accommodation party, and the party so obliged is called the party accommodated.

BANKER

A banker is one who does banking business. Section 5(b) of the Banking Regulation Act, 1949 defines banking as, "accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft or otherwise." This definition emphasises two points: (1) that the primary function of a banker consists of accepting of deposits for the purpose of lending or investing the same; (2) that the amount deposited is repayable to the depositor on demand or according to the agreement. The demand for repayment can be made through a cheque, draft or otherwise, and not merely by verbal order.

CUSTOMER

The term "customer" is neither defined in Indian nor in English statutes. The general opinion is that a customer is one who has an account with the bank or who utilises the services of the bank.

The special features of the legal relationship between the banker and the customer may be termed as the obligations and rights of the banker. These are:

1. Obligation to honour cheques of the customers.

2. Obligation to collect cheques and drafts on behalf of the customers.

3. Obligation to keep proper record of transactions with the customer.

4. Obligation to comply with the express standing instructions of the customer.

5. Obligation not to disclose the state of customer's account to anyone else.

6. Obligation to give reasonable notice to the customer, if the banker wishes to close the account.

7. Right of lien over any goods and securities bailed to him for a general balance *of account.*

8. Right of set off and right of appropriation.

9. Right to claim incidental charges and interest as per rules and regulations of the bank as communicated to the customer at the time of opening the account.

LIABILITY OF A BANKER

By opening a current account of a customer, the banker becomes liable to his debtor to the extent of the amount so received in the said account and undertakes to honour the cheques drawn by the customer so long as he holds sufficient funds to

the customer's credit. If a banker, without justification, fails to honour t1is customer's cheques, he is liable to compensate the drawer for any loss or damage suffered by him. But the payee or holder of the cheque has no cause of action against the banker as the obligation to honour a cheques is only towards the drawer.

The banker must also maintain proper and accurate accounts of credits and debits. He must honour a cheque presented in due course. But in the following circumstances, he *must* refuse to honour a cheque and in some others he *may* do so.

WHEN BANKER MUST REFUSE PAYMENT

In the following cases the authority of the banker to honour customer's cheque comes to an end, he *must* refuse to honour cheques issued by the customer:

(a) When a customer countermands payment Le., where or when a customer, after issuing a cheque issues instructions not to honour it, the banker must not pay it.

(b) When the banker receives notice of customer's death.

(c) When customer has been adjudged an insolvent.

(d) When the banker receives notice of customer's insanity.

(e) When an order (e.g., Garnishee Order) of the Court, prohibits payment.

(f) When the customer has given notice of assignment of the credit balance of his account.

(g) When the holder's title is defective and the banker comes to know of it.

(h) When the customer has given notice for closing his account.

WHEN BANKER MAY REFUSE PAYMENT

In the following cases the banker may refuse to pay a customer's cheque:

(a) When the cheque is post-dated.

(b) When the banker has not sufficient funds of the drawer with him and there is no communication between the bank and the customer to honour the cheque.

(c) When the cheque is of doubtful legality.

(d) When the cheque is not duly presented, e.g., it is presented after banking hours.

(e) When the cheque on the face of it is irregular, ambiguous or otherwise materially *altered.*

(f) When the cheque is presented at a branch where the customer has no account.

(g) When some persons have joint account and the cheque is not signed jointly by all or by the survivors of them.

(h) When the cheque has been allowed to become stale, Le., it has not been *presented within six months of the date mentioned on it.*

PROTECTION OF PAYING BANKER (SECTIONS 10, 85 AND 128)

Section 85 lays down that where a cheque payable to order purports to be endorsed by or on behalf -of the payee the banker is discharged by payment in due course. He can debit the account of the customer with the amount even though the endorsement turns out subsequently to have been forged, or the agent of the payee without authority endorsed it on behalf of the payee. It would be seen that the payee includes endorsee. This protection is granted because a banker cannot be expected to know the signatures of all the persons in the world. He is only bound to know the signatures of his own customers.

Therefore, the forgery of drawer's signature will not ordinarily protect the banker but even in this case, the banker may debit the account of the customer, if it can show that the forgery was intimately connected with the negligence of the customer and was the proximate cause of loss.

I n the case of bearer cheques, the rule is that once a bearer cheque, always a bearer cheque. Where, therefore, a cheque originally expressed by the drawer himself to be payable to bearer, the banker may ignore any endorsement on the cheque. He will be discharged by payment in due course. But a cheque which becomes bearer by a subsequent endorsement in blank is not covered by this Section. A banker is discharged from liability on a crossed cheque if he makes payment in due course.

COLLECTING BANKER

Collecting Banker is one who collects the proceeds of a cheque for a customer. Although a banker collects the proceeds of a cheque for a customer purely as a matter of service, yet the Negotiable Instruments Act, 1881 indirectly imposes statutory obligation, statutory in nature. This is evident from Section 126 of the Act which provides that a cheque bearing a "general crossing" shall not be paid to anyone other than banker and a cheque which is "specially crossed" shall not be paid to a person other than the banker to whom it is crossed. Thus, a paying banker must pay a generally crossed cheque only to a banker thereby meaning that it should be collected by another banker. While so collecting the cheques for a customer, it is quite possible that the banker collects for a customer, proceeds of a cheque to which the customer had no title in fact. In such cases, the true owner may sue the collecting banker for "conversion". At the same time, it cannot be expected of a banker to know or to ensure that all the signatures appearing in endorsements on the reverse of the cheque are genuine. The banker is expected to be conversant only with the signatures of his customer. A customer to whom a cheque has been endorsed, would reque~t his banker to collect a cheque. In the event of the endorser's signature being proved to be forged at iater date, the banker who collected the proceeds should not be held liable for the simple reason that he has merely collected the proceeds of a cheque. Section 131 of the Negotiable Instruments Act affords statutory protection in such a case where the customer's title to the cheque which the banker has collected has been questioned.

PAYMENT IN DUE COURSE (SECTION 10)

Any person liable to make payment under a negotiable instrument, must make the payment of the amount due thereunder in due course in order to obtain a valid discharge against the holder.

A payment in due course means a payment in accordance with the apparent tenor of the instrument, in good faith and without negligence to any person in possession thereof.

A payment will be a payment in due course if:

(a) it is in accordance with the apparent tenor of the instrument, i.e. according to what appears on the face of the instrument to be the intention of the parties;

(b) it is made in good faith and without negligence, and under circumstances which do not afford a ground for believing that the person to whom it is made is not entitled to receive the amount;

(c)it is made to the person in possession of the instrument who is entitled as holder to receive payment;

(d) payment is made under circumstances which do not afford a reasonable ground believing that he is not entitled to receive payment of the amount mentioned in the instrument; and

(e) payment is made in money and money only.

Under Sections 10 and 128, a paying banker making payment in due course is protected.

ENDORSEMENT (SECTIONS 15 AND 16)

Where the maker or holder of a negotiable instrument signs the same otherwise than as such maker for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto (called Allonge), or so, signs for the same purpose, a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same (Section 15), the person to whom the instrument is endorsed is called the endorsee.

In other words, 'endorsement' means and involves the writing of something on the back of an instrument for the purpose of transferring the right, title and interest therein to some other person.

CLASSES OF ENDORSEMENT

An endorsement may be (a) Blank or General, (b) Special or Full, (c) Restrictive, (d) Partial, and (e) Conditional or Qualified.

BLANK OR GENERAL

An endorsement is to be blank or general where the endorser merely writes his signature on the back of the instrument, and the instrument so endorsed becomes payable to bearer, even though originally it was payable to order. Thus, where bill is payable to "Mohan or order", and he writes on its back "Mohan", it is an endorsement in blank by Mohan and the property in the bill can pass by mere delivery, as long as the endorsement continues tobe a/blank. But a holder of an instrument endorsed in blank may convert the endorsement in blank into an endorsement In full, by writing above the endorser's signature, a direction to pay the instrument to another person or his order.

SPECIAL OR FULL

If the endorser signs his name and adds a direction to pay the amount mentioned in the instrument to, or to the order of a specified person, the endorsement is said to be special or in full. A bill made payable to Mohan or Mohan or order, and endorsed "pay to the order of Sohan" would be specially endorsed and Sohan endorses it further. A blank endorsement can be turned into a special one by the addition of an order making the bill payable to the transferee.

RESTRICTIVE

An endorsement is restrictive which prohibits or restricts the further negotiation of an instrument. Examples of restrictive endorsement: "Pay A only" or "Pay A for my use" or "Pay A on account of B" or "Pay A or order for collection".

PARTIAL

An endorsement partial is one which purports to transfer to the endorsee a part only of the amount payable on the instrument. A partial endorsement does not operate as negotiation of the instrument. A holds a bill for Rs. 1,000 and endorses it as "Pay B or order Rs. 500". The endorsement is partial and invalid.

CONDITIONAL OR QUALIFIED

An endorsement is conditional or qualified which limits or negatives the liability of the endorser. An endorser may limit his liability in any of the following ways:

(i) *By sans recourse endorsement,* Le. by making it clear that he does not incur the liability of an endorser to the endorsee or subsequent holders and they should not look to him in case of dishonour of instrument. The endorser excludes his liability by adding the words "sans recourse" or "without recourse", e.g., "pay A or order same recourse".

(ii) By making his liability depending upon happening of a specified event which may never happen, e.g., the holder of a bill may endorse it thus: "Pay A-or order on his marrying B". In such a case, the endorser will not be liable until. A mafries B.

It is pertinent to refer to Section 52 of the Negotiable Instruments Act, 1881 here. It reads "The endorser of a negotiable instrument may, by express words in the endorsement exclude his own liability thereon, or make such liability or the right of the endorsee to receive the amount due thereon depend upon the happening of a specified event, although such event may never happen.

Questions for Practice

1. **Which of the following is not a negotiable Instrument?**

    (1) Promissory note

    (2) Bill of Exchange

    (3) Cheque

    (4) Bank Draft

    (5) Share Certificate

2. **Those instruments which can be transferred by endorsement and delivery, but the transferee does not get a better title than that of the transferor is called**

    (1) Negotiable Instruments

    (2) Quasi Negotiable Instruments

    (3) Non Negotiable Instruments

    (4) All of the above

    (5) one of the above

3. **Which of the following statements is not correct about Negotiable Instruments?**

    (1) Pay A or Order

    (2) Pay to Order of A

    (3) Pay A and B

    (4) Pay A only

    (5) Pay Bearer

4. **Transfer of any instrument to another person by signing on its back or face or on a slip of paper attached to it is known as**

    (1) Promissory Note

    (2) Bill of Lading

(3) Bill of Exchange

(4) Endorsement

(5) None of the above

5. Which of the following is not a prerequisite for a promissory note?

(1) Drawn on a specified banker

(2) It should be unconditional

(3) It should be in writing

(4) It should be made and signed by the debtor

(5) It should be payable in the currency of the country

6. A Bill of Exchange in which a bank orders its branch or another bank, as the case may be, to pay a specified amount to a specified person or to the order of the specified person is called

(1) Cheque

(2) Bank Draft

(3) Promissory Note

(4) Bill of Exchange

(5) None of the above

7. Which of the following is/are the right(s) of customer towards his banker?

(1) To receive a statement of his account from a banker

(2) To sue the bank for any loss damages

(3) To sue the banker for not maintaining the secrecy of his account

(4) All of the above

(5) None of the above

8. When an endorser waives presentment and notice of dishonour he increases his liability. His endorsement is

(1) facultative endorsement

(2) qualified endorsement

(3) alternative endorsement

(4) restrictive endorsement

(5) None of the above

9. Which of the following is not the essential requirement for the endorsement as per Negotiable Instrument Act, 1881?

(1) It should be on the instrument

(2) It should be made by the holder or the maker

(3) Signatures should be in ink and not by pencil or rubber stamp

(4) It should contain unconditional order

(5) The endorser should sign the endorsement in the same style and with the same spellings as written in the instrument

10. All of the following are examples of Quasi Negotiable Instruments, under the Negotiable Instrument Act, 1881, except

(1) Dividend Warrants

(2) Share Warrants

(3) Bearer Debentures

(4) Promissory Note

(5) None of the above

11. Section 131 of Negotiable Instrument Act, 1881 extends protection to the

(1) Paying Banker

(2) Collecting Banker

(3) Advising Banker

(4) Issuing Banker

(5) All of the above

12. **A cheque is dated 12/05/11. It is valid till**

    (1) 12/08/05

    (2) 14/09/05

    (3) 12/11/05

    (4) 11/08/11

    (5) None of these

13. **Which of the following is not considered as negotiable instrument under the Negotiable Instruments Act, 1881?**

    (1) Bill of Exchange

    (2) Promissory Note

    (3) Share Certificate

    (4) Cheque Payable to Bearer

    (5) Cheque with 'Not Negotiable' crossing

14. **Which of the following is not considered as an Instrument Negotiable be custom or usage?**

    (1) Delivery orders for goods

    (2) Railway receipts for goods

    (3) Hundi

    (4) Government promissory notes

    (5) Cheques

15. **Under the Negotiable Instrument Act, 1881, an instrument which is incomplete in some respects, is called a/an**

    (1) Foreign instrument

    (2) Inland instrument

    (3) Inchoate instrument

    (4) Ambiguous instrument

(5) Fictitious instrument

16. Which of the following is an example of 'restrictive crossing'?

(1) Not Negotiable

(2) State Bank of India

(3) A/c Payee

(4) Company

(5) Two transverse parallel lines simply drawn across the face of the cheque

17. Which of the following is not a payment in due course?

(1) Payment made in accordance with the apparent tenor of the instrument

(2) A payment is made on an instrument before the date of maturity

(3) Payment is made to a person who is in possession of the instrument either as a holder or a person authorized to receive payment on behalf of holder

(4) Payment made in good faith and without negligence

(5) Payment made to a person in possession of an instrument payable to bearer or one that is endorsed in blank

18. When a bill is drawn, accepted or endorsed for consideration, it is called a/an

(1) Accommodation Bill

(2) Genuine Trade Bill

(3) Escrow

(4) Ambiguous Instrument

(5) Inchoate Instrument

19. Which of the following is an prerequisites for transfer of a negotiable instrument?

(1) Crossing

(2) Acceptance

(3) Noting with a Notary

(4) Blank Indorsement

(5) Mere delivery or indorsement and delivery

20. Which of the following statements is correct about promissory note?

(1) It need not be in writing

(2) An implied promise is enough to constitute a valid promissory note

(3) The promise to pay must be definite and unconditional

(4) The name of the payee need not be mentioned

(5) The payment can be in kind

21. The working and operations of NBFCs are regulated by

(1) SEBI

(2) RBI

(3) Finance Ministry, GOI

(4) IRDA

(5) None of the above

22. Which of the following is a kind of Non-Banking Financial Institutions?

(1) Equipment Leasing Company

(2) Hire Purchase Company

(3) Loan Company

(4) Investment Company

(5) None of the above

23. Which of the following is not correct about the acceptance of deposits by the NBFCs?

(1) They are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months

(2) They cannot accept deposits repayable on demand

(3) They should have minimum investment grade credit rating

(4) Their deposits are not insured

(5) The payment of deposits by NBFCs is guaranteed by RBI

24. Any financial intermediary whose principal business is that of buying and selling of securities is called

(1) Equipment Leasing Company

(2) Hire Purchase Company

(3) Loan Company

(4) Investment Company

(5) None of the above

25. Which of the following statements about Insurance Business in India is not correct?

(1) Oriental Life Insurance Company was the first Life Insurance Company on Indian Soil

(2) Bombay Mutual Life Assurance Society was the first Indian Life Insurance Company

(3) The Life Insurance Companies Act and the Provident Fund Act were passed 1949

(4) The Insurance Regulatory and Development Authority was established in the year 1999

(5) From 21st March, 2003, GIC ceased to be a holding company of its subsidiaries

26. Which year did the Insurance Regulatory and Development Authority come into force?

(1) 1999

(2) 2000

(3) 2001

(4) 1991

(5) 1993

27. By taking out insurance cover an individual

(1) reduces the cost of an accident

(2) reduces the risk of an accident

(3) transfers the risk to someone else

(4) converts the possibility of large loss to certainty of a small one

(5) reduces the certainty of major loss

28. A company which pools money from investors and invests in stocks, bonds, shares is called

(1) A bank

(2) An insurance company

(3) Bank assurance

(4) Mutual fund

(5) None of the above

29. Which was the first mutual fund started in India?

(1) SBI Mutual Fund

(2) Indian Bank Mutual Fund

(3) Kotak Pioneer Mutual Fund

(4) Unit of India

(5) None of the above

30. The regulator of mutual fund in India is

(1) FIMMDA

(2) AMFI

(3) RBI

(4) SEBI

(5) None of these

31. Which is the principal institution for promotion, financing and development of Small Scale Industries in the country?

(1) RBI

(2) SBI

(3) IDBI

(4) SIDBI

(5) None of these

32. The UTI was established in

(1) 1956

(2) 1964

(3) 1972

(4) 1976

(5) None of these

33. Which of the following mobilise/s the savings of the public to specifically invest in the industrial securities?

(1) UTI

(2) LIC

(3) GIC

(4) All of these

(5) None of these

34. Which of the following is not correct about Non-Banking Financial Companies (NBFCs)?

(1) NBFC cannot accept demand deposits

(2) NBFC is not a part of the payment and settlement system

(3) NBFC can issue cheques drawn on itself

(4) NBFCs e fast emerging segment of Indian financial system

(5) None of the above

35. The working and operations of NBFCs are regulated by

(1) SBI

(2) RBI

(3) Finance Ministry

(4) All of these

(5) None of these

36. Which of the following is true?

(1) NBFCs can accept deposits from the public

(2) NBFCs cannot offer deposit schemes to the public

(3) Deposits of NBFCs are insured with DICGC

(4) NBFCs can accept deposits from public if they are registered and permitted by RBI

(5) None of the above

Answers

1) 4
2) 2
3) 4
4) 4
5) 1
6) 2
7) 4
8) 1
9) 4
10) 4
11) 2
12) 4
13) 3
14) 5
15) 3
16) 3
17) 2
18) 2
19) 5
20) 3
21) 2
22) 5
23) 5
24) 4
25) 3
26) 2
27) 3
28) 4
29) 4
30) 4
31) 4
32) 2
33) 4
34) 3
35) 2
36) 3

Chapter: Important Committees

List of Committees

Name of committee	Subject
Bhagwati Committee	Public Welfare
Bhagwati Committee	Unemployment
Bhide Committee	Co-ordination between commercial banks and SFCs
AK Bhuchar Committee	Co-ordination between term lending institutions and commercial banks.
Bothalingam Committee	Wage, Income and Prices
Sukhmoy Chakravarty Committee	To review the working of the monetary system
Raja Chelliah Committee	Tax reforms
Cheshi Committee	Direct Taxes
SC Chokshi Committee	Direct Tax Law
KB Chore Committee	To review the system of Cash Credit
Cook Committee (on behalf of Bank for International Settlements - Basle Committee)	Capital Adequacy of banks
VT Dehejia Committee	To examine the extent to which the credit needs of industry and trade which are likely to be inflated and how such trends could be checked
GS Dahotre Committee	To examine the credit requirements of Leasing industry

ML Dantwala Committee	RRBs
Dharia Committee	Public Distribution System
Dutta Committee	Industrial Licensing
Gadgil Committee	Lead Bank Scheme (1969)
Shankarlal Gauri Committee	Agricultural Marketing
A Ghosh Committee	Frauds and malpractices in banks
A Ghosh Committee	Final Accounts
A Ghosh Committee	Modalities of Implementation of New 20-Point programme
Goiporia Committee	Customer service in banks
Omkar Goswami Committee	Industrial sickness and corporate restructuring
RK Hajare Committee	Differential Interest Rates (DIR) Scheme
Hazari Committee	Industrial Policy (1967)
Janakiraman Committee	To enquire into the securities transactions of banks and financial institutions
LK Jha Committee	Indirect Taxes
Rashid Jilani Committee	Review of the system of cash credit
SK Kalia Committee	Role of NGOs and Self-Help Groups on credit
Kalyanasundaram Committee	To examine introduction of factoring services in India
CE Kamath Committee	Multi-agency approach in Agricultural Finance
Karve Committee	Small Scale Industry
PR Khanna Committee	To develop appropriate supervisory framework for Non-Banking Financial Companies (NBFCs) operating essentially in Credit market
Khusro Committee	Agricultural Credit
KS Krishnaswamy Committee	Role of banks in Priority sector and

	20-Point Economic Programme
G Lakshminarayan Committee	Extension of Credit limits on Consortium basis
PC Luther Committee	Productivity, Operational Efficiency, Profitability of banks
Mahalanobis Commitee	To review Income distribution
YH Malegam Committee	To look into disclosure norms for public issues
RN Malhotra Committee	Reforms in the Insurance sector
Marathe Committee	Licensing of New Banks
DR Mehta Committee	To review the progress of IRDP and recommend measures for improvement
Ram Nivas Mirdha Committee (JP C)	To enquire into the securities scam
Nadkami Committee	To evolve improved procedures for transactions in PSU bonds and units
Narasinnham Committee	Financial System
PR N ayak Committee	To examine the adequacy of Institutional Credit to SSI sector and other related aspects
S Padmanabhan Committee	To review the on-site supervision function of banks
S Padmanabhan Committee	Inspection of banks by the RBI
Pandey Committee	Regional Planning
GS Patel Committee	To review the Carry-forward System on Stock Exchanges
Pendarkar Committee	To review the existing system of Inspections of Commercial Banks, RRBs & Urban Co-operative Banks.
JC Puri Committee	To examine bank credit to SSI
James Raj Committee	Functioning of Public Sector Banks
Raj Committee	Agricultural Holding Tax
Rajmannar Committee	Centre-State Fiscal Relation
Rakesh Mohan Committee	Petro-Chemical Sector
Rangarajan Committee - I & II	Computerisation of Banking Industry
Rangarajan Committee	Public Sector Disinvestment'

Ray Committee	Industrial Sickness
Jaybharat Reddy Committee	Reforms in Insurance Sector
Rekhi Committee	Indirect Taxes
WS Saraf Committee	Technology Issues in the Banking Industry
RG Saraiya Committee	Banking Commission (1972)
Dr AC Shah Committee	Non-Banking Financial Companies
Mrs KS Shere Committee	To study all aspects of Electronic Funds Transfer
JV Shetty Committee	Consortium advances
B Sivaraman Committee	To review arrangements for institutional credit for Agriculture and Rural Development
OP Sodhani Committee	Foreign Exchange Markets and NRIs' investment in India
Dr G Sundaram Committee	Structure of Export Credit
PL Tandon Committee	Export Strategy
RK Talwar Committee	Customer service
RK Talwar Committee	State enactment having a bearing on Commercial banks' lending to Agriculture
Tandon Committee	To frame guidelines for follow-up of bank credit
Tandon Committee	Industrial Sickness
NK Thingalaya Committee	To examine major issues relating to restructuring of RRBs
Tiwari Committee	Rehabilitation of Sick Industrial

	undertakings
Vaghul Committee	Money Market (Mutual Fund Scheme)
B Venkatappaiah Committee	All India Rural Credit Review
Wanchoo Committee	Direct Taxes
BN Mitra Committee	Central Banking Functions and Agr Finance Coordination between
DR Gadgil Committee	Agricultural finance
RS Saria Committee	Agr Finance & Coop Societies
Purshottam Das Committee	Agr Finance & Coop Societies
AD Gorwala Committee	Study of rural finance
RN Mirdha Committee	Coop Societies
B Venketaiya Committee	Review of rural finance system
FKF Narirnan Committee	Branch expansion programme
Chatalier Committee	Finance to small scale industry
Dandekar Committee	Regional imbalances
Hathi Committee	Soiled notes
BD Thakar Committee	Job criteria approach in bank loans
Rajamannar Committee	Banking Laws changes (cheque bouncing - an offence)
Varshney Committee	Revised method for loans of Rs 2 lac or more
N Narsimhan Committee	Establishment of RRBs
Lakshmi Narayan Committee	Consortium lending
Dr RK Hajari Committee	Coordination between co-operative

	credit institutions
Baldev Singh Committee	Simplification of loan procedures and documentation relating to agricultural and allied activities
K Madhav Das Committee	Urban Coop Banks
Tambe Committee	Composite term loan to SSIs
Thakkar Committee	Credit schemes to self-employed
Pillai Committee	Pay scales of Bank officers
YB Damle Committee	MICR introduction
UK Sharma Committee	Review of lead bank scheme
SM Kelkar Committee	RRB and its relative Acts
Abid Hussain Committee	Development of capital market
PD Ojha Committee	Service Area Approach
Mahadeven Committee	Consortium lending Single window system
SA Dave Committee	Functioning of Mutual Funds
C Rao Committee	Agricultural policy
Nadkarni SS Committee	Trading in public sector bonds
IT Vaz Committee	Norms for working capital finance by banks
R Jilani Committee	Inspections system in Banks
BD Shah Committee	Stock lending scheme
SS Tarapore Committee	Capital account convertibility
Pannir Selvam Committee	NPAs of banks
RV Gupta Committee	Agricultural Credit Delivery

SL Kapoor Committee	Institutional credit to SSIs
RH Khan Committee	Harmonisation of role of FIs & Banks
Bhave Committee	Share transfer reforms
YV Reddy Committee	Financial aggregates system
LC Gupta Committee	Financial derivatives
Balakrishna Eradi Committee	Insolvency Law/winding up
MS Verma Committee	Measures for Weak Banks
SS Kohli Committee	Rationalisation of staff-strength in Banks
Vyas Committee	Rural credit
Dave Committee	Pension sector reforms
VS Raghavan Committee	Competition law
Adhyarjuna Committee	Changes in key laws relating to banking and finance (NI Act, Stamp Act etc)
RJ Kamath Committee	Revised Education Loan Scheme
YV Reddy Committee	Reforms in Small Savings
SS Kohli Committee	Rehabilitation of sick SSI units
SS Kohli Committee	Wilful defaulters
PR Khanna Committee	Clarifications relating to NPAs
Vipin Malik Committee	Consolidated Accounting by banks
MVS Chalpati Rao Committee	Restructuring of RRBs
B Samal Committee	IBA Committee on Rural Credit

Questions for Practice

1. **The Narasimham Committee- I was set up in**

    (1) 1990

    (2) 1991

    (3) 1992

    (4) 1998

    (5) 2000

2. **The Narasimham Committee-I was set up to suggest some recommendations for Improvement in the**

    (1) efficiency and productivity of the financial institution

    (2) banking reform process

    (3) export of IT sector

    (4) fiscal reform process

    (5) None of the above

3. **Which of the following is not correct about the recommendations of Narsimham Committee Report, 1998?**

    (1) Reduced CRR and SLR

    (2) Deregulation of Interest Rate

    (3) Establishment of the ARF Tribunal

    (4) Fixing Prudential Norms

    (5) Capital Adequacy Norms

4. **Presently SLR is fixed at**

    (1) 24%

(2) 25%

(3) 26%

(4) 15%

(5) 35%

5. Presently CRR is fixed at

(1) 4.75%

(2) 5%

(3) 7.5%

(4) 15%

(5) 24%

6. Basel I, which was issued in 1988, focuses on the

(1) capital adequacy of financial institutions

(2) improvement of the banking sector's ability to deal with financial and economic stress

(3) technology upgradation

(4) training of banking staff

(5) professionalism in banking

7. Capital to Risk Assets Ratio (CRAR) of all the Scheduled Commercial Banks under Basel-I framework improved to by end-March, 2010.

(1) 10.0%

(2) 13.6%

(3) 14.5%

(4) 9.6%

(5) 7.5%

8. Which of the following is not a recommendation of the Narasimham Committee, 1991?

(1) Reduction of CRR and SLR

(2) Phasing out directed credit programme

(3) Reduction of Capital Adequacy Ratio

(4) Establishment of ARF Fund

(5) Autonomy to Public Sector Bank

9. The **RBI has prescribed that a new Private Sector Bank**

(1) shall be subject to prudential norms in regard to income recognition, asset classification and provisioning, capital adequacy, etc.

(2) shall have to observe priority sector lending targets as applicable to other domestic banks

(3) will be required to open rural and semi-urban branches also as may be laid down by RBI

(4) None of the above

(5) All of the above

10. What does EBT stands for?

(1) Electronic Belated Transfer

(2) Electric Beginners Transaction

(3) Electronic Benefit Transfer

(4) Electronic Beginning Transaction

(5) None of the above

11. The rate of interest banks charge to its customers is linked to

(1) risk premium rate

(2) base rate lending

(3) benchmark prime lending rate

(4) reverse repo rate

(5) All of the above

12. Third party usage of ATMs has been restricted to certain number of withdrawals/balance enquiries per month. What does it mean?

(1) Only card holders can use ATMs and nor their representatives

(2) Use of ATMs of all banks restricted to specified number

(3) Customer of one bank call use ATMs of other banks upto a specified number without any charge

(4) ATMs of other banks can be used within a limit on payment of fees

(5) All of the above

13. The rate of interest payable on a bank deposit is determined by

(1) Indian Banks' Association

(2) The bank concerned

(3) RBI

(4) Finance ministry

(5) None of the above

14. The maximum period for which a fixed deposit can be accepted by a Commercial Bank is

(1) 10 years

(2) 15 years

(3) No limit

(4) 8 years

(5) None of the above

15. Which of the following instruments cannot be presented for payment in a clearing house?

(1) Demand draft

(2) Dividends

(3) Fixed deposit receipt

(4) All of the above

(5) None of the above

16. An average citizen cannot open a savings account in which of the following?

(1) Commercial Bank

(2) Post office

(3) Cooperative Bank

(4) RBI

(5) None of the above

17. Which of the following cannot open a bank account?

(1) Person of unsound mind

(2) A minor

(3) An illiterate person

(4) A blind individual

(5) None of the above

18. Which of the following schemes is not meant for investment purposes?

(1) National savings certificates

(2) Infrastructure bonds

(3) Mutual funds

(4) Letter of credit

(5) None of the above

19. Savings account with zero balance can be opened for

(1) persons of high net worth

(2) employees of IT companies

(3) weaker sections of society

(4) women customers

(5) None of the above

20. Systematic Investment Plans are a facility by which of the following?

(1) Mutual funds

(2) Life insurance companies

(3) Commercial Banks

(4) Post office savings schemes

(5) None of the above

21. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?

(1) Customer Analysis and Savings Pattern

(2) Cost Appreciation and Selling Analysis

(3) Current Account and Savings Account

(4) Credit and Savings Aggregate

(5) None of the above

22. Banks are authorized to sell third party products. Which are these products?

(1) Mutual funds

(2) Term deposits

(3) Debit cards

(4) Gift cheques

(5) None of the above

Answers

1) 2
2) 1
3) 3
4) 1
5) 1
6) 1
7) 2
8) 3
9) 5
10) 3
11) 2
12) 3
13) 2
14) 1
15) 3
16) 4
17) 1
18) 4
19) 3
20) 1
21) 3
22) 1

Chapter: International and National Organizations

International Bank for Reconstruction and Development (IBRD)

International Bank for Reconstruction and Development is also known as World Bank. World Bank was established in December 1945 and started its operation in June 1946. The establishment of IBRD was agreed upon by the representative of forty four countries at the UN Monetary and Financial Confrence at Bretton Woods in July 1944.

OBJECTIVES

According to the Clause I of the Agreement made at the time of establishment of World Bank, it was assigned the following objective:

- To provide long run capital to member countries for economic reconstruction and development. World Bank provides capital mainly for rehabilitation of war ruined economies, finance productive efforts according to peace time requirement.
- To induce long run capital investment for assuring Balance of Payment Equilibrium and balanced development of international trade
- To provide guarantee for loan granted to small and large units and projects of member countries.
- To ensure implementation of development projects so as to bring about smooth transference from a war to peace economy.

International Monetary Fund (IMF)

- International Monetary Fund was established on 1 April 1978 for promoting international economic stability by encouraging balanced growth, free international trade and the multi-convertibility of national currencies. The Fund is a pool of central bank reserves and national currencies which are made available to the Fund members under certain conditions. In a way, the pool may be regarded as an extension of member countries' central bank reserves.

- Purpose: According to the Second Amendment of the Article of Agreement of the International Monetary Fund was incepted for following purposes:
- To promote international monetary co-operation through a permanent institution, this provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions, which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance of payments without resorting to measures destructive of national or international prosperity.
- In accordance with the above, to shorten the duration and lessen the duration and lessen the degree of disequilibrium in the international balance of payments of members.

World Trade Organization (WTO)

World Trade Organization was established on 1 January 1995 under the Marrakech Agreement. World Trade Organisation (WTO) was considered as an offspring of the Uruguay Round multilateral trade negotiations held under the General Agreement on Tariffs and Trade (GATT). WTO was created replacing GATT with its head quarters in Geneva, Switzerland and has 144 countries including India as member. The highest decision making level under WTO is Ministerial Conference of designated ministers of members countries held atleast every two years. WTO is headed by Director General. WTO offers a framework for negotiating and formalizing trade agreements, and a dispute resolution process that are aimed to enforce adherence of participants as per WTO agreements.

International Finance Corporation

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.

Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Our work in more than a 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities.

Multi Investment Guarantee Agency

MIGA is a member of the World Bank Group. Our mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives.

MIGA's operational strategy plays to our foremost strength in the marketplace—attracting investors and private insurers into difficult operating environments. We focus on insuring investments in the areas where we can make the greatest difference

- Countries eligible for assistance from the International Development Association (the world's poorest countries)
- Conflict-affected environments
- Complex deals in infrastructure and extractive industries, especially those involving project finance and environmental and social considerations
- South-South investments (from one developing country to another)

International Center for Settlement of Investment Disputes (ICSID)

ICSID is an autonomous international institution established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID or the Washington Convention) with over one hundred and forty member States. The Convention sets forth ICSID's mandate, organization and core functions. The primary purpose of ICSID is to provide facilities for conciliation and arbitration of international investment disputes.

The ICSID Convention is a multilateral treaty formulated by the Executive Directors of the International Bank for Reconstruction and Development (the World Bank). It was opened for signature on March 18, 1965 and entered into force on October 14, 1966.

International Development Association (IDA)

IDA's purpose is to promote economic development and raise standards of living in the less developed areas of the world by providing financing on flexible terms, including interest-free grants and loans.

With $912.7 million in initial funding, IDA is established with 15 signatory countries. Today, IDA is one of the largest sources of assistance for the world's 79 poorest countries and the largest single source of donor funds for basic social services in these countries.

Asian Development Bank

- The Asian Development Bank, popularly known as the ADB, is a multinational regional development bank was established in December 1966 in Manila. It was established for the purpose of lending funds, promoting investment, and providing technical assistance to the developing member countries, and generally for fostering economic growth and co-operation in the Asia region. The Charter of the Bank was ratified by the majority of the signatory countries in early 1966. The Bank operates under the aegis of Economic Commission for Asia and the Far East (ECAFE). Since the idea of the ADB was first proposed by the ECAFE in 1963, the speed with which it has been established represents good achievement by its architects and sponsors. The ADB has two significant features. Firstly, it is an Asian Bank, conceived by the United Nations Economic Commission for Asia and the Far East (ECAFE). Its headquarters are located in the ECAFE region in Manila in Philippines. More than 60 per cent of the ADB's capital is subscribed by its 32 regional member. The President and seven of the ten directors also come from the region. Secondly, unlike certain regional financial institutions, the membership of the Bank extends beyond the region.

FUNCTIONS AND OBJECTIVES OF ADB

- To promote investment in the ECAFE region of public and private capital for development purposes.
- To utilise the available resources for financing development, giving priority to those regional and sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region.
- To meet requests from members in the region to assist them in coordination of their development policies and plans with a view to achieving better utilisation of their resources,

making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular intra-regional trade,

- To provide technical assistance for preparation, financing and execution of development projects and programmes, including the formulation of specific proposals.
- To cooperate with the United Nations and its organs and subsidiary bodies, including, in particular, ECAFE, and with public international organisations and other international institutions as well as national entities, whether public or private, and to interest such institutions and entities in new opportunities for investment and assistance; and
- To undertake such other activities and to provide such other services as may advance its purpose.

Organisation for Economic Co-operation and Development (OECD)

The Organisation for European Economic Cooperation (OEEC) was established in 1948 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war. By making individual governments recognise the interdependence of their economies, it paved the way for a new era of cooperation that was to change the face of Europe. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the US joined OEEC members in signing the new OECD Convention on 14 December 1960. The Organisation for Economic Co-operation and Development (OECD) was officially born on 30 September 1961, when the Convention entered into force.

Other countries joined in, starting with Japan in 1964. Today**, 34 OECD member countries** worldwide regularly turn to one another to identify problems, discuss and analyse them, and promote policies to solve them. The track record is striking. The US has seen its national wealth almost triple in the five decades since the OECD was created, calculated in terms of gross domestic product per head of population. Other OECD countries have seen similar, and in some cases even more spectacular, progress.

Bank for International Settlements (BIS)

Established on **17 May 1930**, the BIS is the world's oldest international financial organisation. The head office is in **Basel, Switzerland** and there are two representative offices: in the Hong Kong Special Administrative Region of the People's Republic of China and in Mexico City.

The BIS was established in the context of the Young Plan (1930), which dealt with the issue of the reparation payments imposed on Germany by the Treaty of Versailles following the First World War. The new bank was to take over the functions previously performed by the Agent General for Reparations in Berlin: collection, administration and distribution of the annuities payable as reparations. The Bank's name is derived from this original role. The BIS was also created to act as a trustee for the Dawes and Young Loans (international loans issued to finance reparations) and to promote central bank cooperation in general.

In broad outline, the BIS pursue its mission by:

- promoting discussion and facilitating collaboration among central banks;
- supporting dialogue with other authorities that are responsible for promoting financial stability;
- conducting research on policy issues confronting central banks and financial supervisory authorities;
- acting as a prime counterparty for central banks in their financial transactions; and
- serving as an agent or trustee in connection with international financial operations.

AFRICAN DEVELOPMENT BANK (AfDB)

Established to help development efforts on the continent, the African Development Bank (AfDB) Group comprises three distinct entities under one management: the African Development Bank (ADB) which is the flagship or parent institution, established on **August 4, 1963** in **Khartoum, Sudan,** by the then 23 newly independent African countries; as well as two concessionary windows - the African Development Fund (ADF), established on November 29, 1972, by the African Development Bank and 13 non-African countries, and the Nigeria Trust Fund (NTF), set up in 1976 by the Federal Government of Nigeria.

The inaugural meeting of the Board of Governors of the Bank was held from November 4-7, 1964, in Lagos, Nigeria, and the headquarters was opened in Abidjan, Côte d'Ivoire, in March 1965. Its operations commenced on July 1, 1966. Since early 2003, the Group operates from its Temporary Relocation Agency (TRA) in Tunis, Tunisia.

Membership of the AfDB Group, as at the end of December 2007, includes 53 independent African countries and 24 non-African countries. Turkey is finalizing procedures to become members of the Bank Group. To become an AfDB member, non-regional countries must first be ADF members.

SAARC

Pakistan, Bangladesh, India, Maldives, Sri Lanka, Bhutan and Nepal constituted an organisation known as SAARC. It was founded on the recommendations of Dhaka Conference on 7-8 December 1985. Its headquarters has been established at Kathmandu. A conference of SAARC is held between the heads of the country every year. The mutual misunderstanding among member nations has created a big question mark in achieving its objectives.

SAPTA

South Asia Preferential Trade Agreement (SAPTA) was incepted in on 7 December 1995. It was held among SAARC Countries. It was the success of Eighth SAARC Conference held in New Delhi in 1995, where new concessional trade system of SAPTA was approved. Among SAARC Countries, concessional tariffs rates have been introduced for 226 trade items. These concessional rates range between 10% and 100 %. India gave this concession to 106 items, which is highest among all SAARC countries.

South Asian Preferential Trade Arrangement (SAPTA): Sri Lanka was the first country to propose SAPTA in Sixth SAARC Conference held in December 1991. This proposal was accepted and it was decided to start SAPTA by the end of 1997.

ASEAN

ASEAN is a union of South East Asian Nations. Indonesia, Philippines, Malaysia, Singapore and Thailand constituted this association on August 8, 1967. Brunei also joined this ASEAN in 1984. In July 1995, Vietnam was also given its membership. Laos and Myanmar got its membership in 1997. On April 30, 1999, Cambodia also became the member of ASEAN. At present, 10 countries are the member of ASEAN. The main objective ASEAN is to promote economic co-operation in South East Asia and also to ensure economic stability in the region. Its headquarters is in Jakarta but a Secretary of ASEAN resides in capital of each member country. The Post of General Secretary of ASEAN is rotated among each member country alphabetically, after every two years.

On July 23, 1996, ASEAN gave advisory status to India. Besides India, China and Russia also got this status earlier. India cannot join the ASEAN as a member due to its geographical location. Lndia is a part of south-Asia while ASEAN is an organisation of South East Asian Nations: It is planned to establish AFTA (ASEAN Free Trade Area) by 2003 AD.

Asia Pacific Economic Co-Operation (APEC)

APEC was founded in November 1989 to devise programmes of co-operation between member nations, through the establishment of meetings of economic leaders' trade and foreign ministers. It was institutionalised in June 1992, after a meeting in Bangkok, at which it was agreed to set up a secretariat in Singapore. APEC is a new commercial group appearing on World forum after EEC and NAFTA. APEC was constituted on the initiative of Australian Prime Minister Mr. Bob Hawk., who called APEC as 'Voice for the Asia Pacific in World Affairs'. Member countries are making all efforts to develop APEC as free trade zone like EEC and NAFTA.

The present membership of APEC is 21. Chile joined the APEC in 199. Bogor summit as its 18th member Russia, Vietnam and Peru also joined APEC in 1998. Members of APEC are Australia, America, Canada, Mexico, Japan, China, Hong Kong, Taiwan, South Korea, Indonesia, Brunei, Philippines, Singapore, Malaysia, Thailand, Papua New Guinea, New Zealand, Chile, Russia, Vietnam and Peru.

G-8

G-7 was an organisation of seven non-socialist countries that were highly industrialized in the world. G-7 included Britain, USA, Canada, Germany, France, Italy and Japan. After adoption of free market policies in the economy, Russia was also made member of the organisation on June 21, 1997. The first G-7 summit was held at Rambonilet near Paris in November 1975. Earlier, only 5 industrialized countries USA, UK, West Germany, France and Japan were its members. Later on, Canada and Italy also joined it in 1976.

G-15

G-15 is an organization of 17 Non-Aligned Developing Countries. The membership of G-15 was enhanced to 17 after including Sri Lanka into the group. It was established in September 1989 in Non-aligned Summit (NAM) at Belgrade, Yugoslavia. The member countries are Mexico, Jamaica, Venezuela, Peru, Brazil, Argentina, Senegal, Algeria, Nigeria, Zmbabwe, Egypt, India, Malaysia, Indonesia, Yugoslavia, Kenya and Sri Lanka.

The Secretariat of G-15 is located in Geneva but the headquarters are rotated on the basis of residing country of chairman of the group. All the countries except Brazil and Mexico in G-15 organisation are non-aligned countries. Actually speaking, it is not a correspondingly opposite institution to G-7. It is mainly an attempt to make G-77 (group of 77 developing countries) stronger at international forum.

G-24

G-24 is the group of 24 developing countries which initiates and demands more benefit for developing countries in the meetings of World Bank, IMF and UNCTAD. India is also a member ofG-24. The last meeting of G-24 was held in April 1999 at Washington DC. This group demanded more assistance to developing countries of this group in Development meeting of IMF and IBRD held in Washington.

G-24 members held a meeting on October 3, 1998 in Washington which was attended by Finance Ministers & Chiefs of Central Banks of member nations, including India. This summit called for lower interest rates charged by industrialised advanced nations. Sh GL Peiris, Finance Minister War made the coperative.

G-20

The Finance Minister of the Group of Seven (G-7) countries established in September 1999, the G-20 as an international forum to promote informal dialogue and cooperation among systematically important countries within the framework of the Bretton Woods institutional system with a view to preserving international financial stability.

An important distinguishing characteristic of the G-20 from the G-7 is its broader participation from among both the industrialised countries as well as key emerging markets, thereby representing a wider range of viewpoints.

Member of the G-20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom the United States, the European Union and the Bretton Woods institutions.

During the inaugural meeting of the G-20, held in Berlin during December 15-16 1999, the Group deliberated on various prerequisites for a sound international financial system and highlighted the importance of the varied initiatives to avert global financial crisis.

The group welcomed the work of the Bretton Woods Institutions and other bodies in the areas of codes and standards and agreed to undertake the completion of Reports on Observance of Standards & Codes and Financial Sector Assessments.

The members of the Group advised their Deputies to consider existing work in other forums, and to examine further avenues to mitigate vulnerabilities to crisis.

The Group affirmed its commitments to progress towards multilateral trade liberalisation within the WTO framework.

G-77

This group was constituted under the banner of UNO in 1964 which include 130 countries belonging to 3rd world - Asia, Africa and Latin America. It is an international economic community of developing countries aiming at protecting economic interest of the member countries.

NAFTA

North American Free Trade Agreement (NAFTA) is a trilateral agreement between USA, Canada and Mexico to declare North American Region as Free Trade Area. This agreement was took place on 12 August 1992. It was constituted to meet the challenges of EEC and Japanese economic policies. Before NAFTA, Free trade was already taking place between USA and Canada and now it was extended to Mexico. Under this agreement, Rule of Origin was made implying that economic resources of the countries in the political region should be utilized for economic development of the people belonging to that country only. With NAFTA, it was planned to utilize economic resources of North American Region for developing area in better way.

Banking Terminology

SELF HELP GROUP

Self help group is a small volunteer association of poor people preferably from the same socio Economic background. They come together for the purpose of solving their common problems through self help and mutual help. The self help group promotes small saving among the members. The savings are kept with the Bank. This common fund is in the name of SHG. Usually the number of members in one SHG doesn't exceed 20. The NABARD and NGOs the promoters of this group.

KISAN CREDIT CARD

Provision timely and adequate credit has one of the major challenges for Banks in India in dispension of agriculture and rural credit to the farmers in order to achieve the AIM. KCC are now a new concept in the field of agriculture banking in India. The KCC scheme was started by the GOI in conciliation with the RBI and NABARD in 1998-99. The eligibility criteria for KCC is the borrower must be with a good track record of the 2 years would be the prime customer and a farmer who has the operational land holding certificate from the PATWARI.

The maximum amount of KCC is up to Rs. 10000 and each withdrawal to be paid within 12 months and KCC is valid for 3 years subject to annual renewal. All branches engaged in agriculture banking could issue KCC. In very special conditions Bank can provide up to Rs. 25000 loan and the interest rate on KCC is 11%.

KISAN GOLD CARD

This is hassle free term loan card that enable to avail loan for agricultural implements, land development, repair of farm machinery and consumption need farmers have the choice in regard to amount, time and purpose. The amount of loan is 5 times the annual form income with the maximum limit of Rs. 5 Lakhs. For the consumption purpose is should not exceed 20% of the limit.

MICROCREDIT OR MICROFINANCE

Micro credit is the extension of very small loans to the unemployed to poor Endeavour and to others living in poverty who are not considered bankable. These individuals lack collateral steady employment and variable credit history and therefore cannot meet even the most minimal qualification to gain excess to traditional credit.

Microcredit is a part of microfinance which is the provision of the wider range of the financial services to the very poor. Microcredit is the financial innovation which originated in Bangladesh where it has successfully enabled to extremely impoverish people to engage itself employment project. The founder of this microcredit is Prof. Mohammad Yunus in mid 1970s. He is also the founder of grami8n bank of Bangladesh with which Mr. Yunus has received the Noble Peace Price 2006 and to pay respect towards microcredit the united nation organization has declared year 2005 "The International Year of Microcredit."

MUTUAL FUND

A Mutual Fund is the professionally manage firm of collective investments that pools money from many investors in stock market, bonds, short term, money market instruments and in other securities. In mutual fund is a fund manager who is also called Portfolio manager trades the fund underlined Securities.

The value of the share of mutual fund is called the net asset value which is calculated daily wage on a total value divided be a number of shares, issued and outstanding there are two types of Mutual Fund.

- Open Ended Mutual Fund
- Closed Ended Mutual Fund

BULLION MARKET

A market where the trading of precious metals held like: Gold, Silver, Diamond, Platinum and Crystal.

STOCK MARKET

A stock market is a private or public market for trading of company, stock and derivatives of company stock at an agreed price. Both of these are securities listed on stock exchange as well as those only traded privately.

BULL

Bull is an investor who thinks the market a specific security or an industry will raise. Bulls are the optimistic investors presently predicting good things of the market and bullish is a habit to purchase that share which is in profit they are responsible to Rose in stock exchanges.

BEAR

It is an investor who believes that a particular security or market is headed downward. Bears attempt to profit from a decline in prices. A Bear is generally pessimistic about the state of the given market.

STAG

A Stag is an investor or speculator who subscribes to a new issue with the intention of selling them soon after allotment to realize for quick profit.

ADR (AMERICAN DEPOSITORY RECEIPTS)

An ADR represents an ownership in the share on Owner Company trading in US trading in US financial market. ADR enable US investors to buy share in foreign companies without undertaking cross border transaction. ADR's carry prices in US Dollars and can be traded as share of US based company.

GDR (GLOBAL DEPOSITORY RECEIPT)

GDR is a bank certificate issued in more than one country for shares in a foreign company. These shares are held by a foreign branch of an International bank. These shares are trades as domestic shares but are offered for sale globally through the various bank branches. A GDR is a very similar to an American Depository Receipt.

SDR (SPECIAL DRAWING RIGHTS)

This is the depth instrument credit be IMF in 1969 to provide the assistance and loan to their member countries. The value of the SDR was initially defined as equivalent to 0.8888671 gram of fine gold which was at that time equivalent to 1 US$.

MONEY MARKET

Money Market is the global financial market for short term borrowings and lendings. It provides short term liquid funding for global financial system. In Money Market short term obligations such as treasury bills, commercial papers and Banker's acceptance are bought and sold. The Money Market instruments are bank drafts, time deposits, time deposits, short term loans, promissory notes, ADR, GDR, Municipal notes, treasury bills and mutual funds.

CAPITAL MARKET

The Capital Market is the market for securities where companies and government can raise long term fund. The Capital Market includes the stock market and the Bond Market.

CALL MONEY

Cal Money Market is the market in which broker and dealers borrow money to satisfy their credit needs either to finance their own inventory or to cover their customer margin Accounts.

ICOR (INCREMENTAL CAPITAL OUTPUT RATIO)

ICOR is the Ratio of investment to growth which equals to one, divided by the marginal product of Capital. The higher the ICOR indicates lower the productivity of capital and lower the ICOR reflects high productivity of Capital. ICOR is the topic or instrument by which the Economic growth rate of company decided.

DEBIT CARD

Debit Card is also known as gift card. It is a type of plastic money which provides an alternative payment method for cash withdrawals through automated tailor machine and this is a prepaid ATM card.

CREDIT CARD

A Credit Card allows you to borrow money when you purchases. It doesn't directly debit from your bank account at the time of purchase instead you are sent a bill every month for the sum of total of your purchase. In other words this Post Paid Money Card.

SMART CARD

A Smart Card or chip card or integrated circuit card is defined as a pocket sized card with embedded integrated circuit which can process information. This is a card with all personal information of any individual in financial and Money Market.

MASTER CARD

Master Card international is a multinational corporation based in purchase throughout the world. Its principal business is to process payment between bank of merchants and the bank of purchase that used its master card I.E. Master Card is a service provider company Master Card international incorporated has been a publicity traded company since 2006 with the brand name Master Card. All financial institutions in banks are the member of this Master Card international for service providing except bank of America. Bank of America has its own service proving company named as VISA international.

VISA CARD

Visa Card is a type of debit card on Visa network. It has VISA logo and can be accepted to pay for the things and the money is drawn directly from your account. These are the debit cards, which are subject to a daily limit, and/or a maximum limit equal to the current/checking account balance from which it draws funds.

KYC (KNOW YOUR CUSTOMERS)

KYC is a term commonly used for customer identification process or these are the guidelines issued by the RBI and SEBI for financial institutions. The intention behind the KYC is to check the money laundering. For the mutual funds MIN (Mutual Fund Identification Number) is the tool of KYC. For Demat Account Pan Card is essential and for band account-

- Residential Proof
- Identity Proof
- Referee/Introducer
- Signature Attestation

RTGS

Real time gross settlement is a fund transfer mechanism where transfer of money takes place from one bank to another on a real time and on gross basis. This is the fastest possible money transfer system through the banking channel. The RTGS system is primary for large value transaction. The minimum amount is Rs. 1 Lakh and there is no upper ceiling for RTGS transaction while the minimum and maximum stipulation has been fixed for EFT and NEFT.

NEFT

NEFT is nationwide fund transfer system to facilitate transfer of funds from any bank branch to any other bank. As on Dec 29, 2007 34510 bank branches of 82 banks where the member of NEFT system. The NEFT is an electronic fund system to transfer funds from any part of country to any other part of country and work on net settlement.

CBS

Core or centralized banking solution is a heart of banking system. This is a process by which a bank has interconnect their maximum branches through wide area network and only this system provide a facility of any branch or any time banking.

FINANCIAL INCLUSION

It is a delivery of banking services at an affordable cost to the vast section of disadvantage or low income group or this is a facility provided by the banking sector to connect each and every individual to the financial network and the main component of this financial inclusion is no-full account and simplification of know your customers.

LIBOR

London Interbank Offered Rate.

MIBOR

Mumbai Interbank Offered Rate.

MIBID

Mumbai Interbank Bid Rate

SARFAESI ACT

Securisation and reconstruction of financial assets and enforcement of securities interest Act.

BOND

Bond is a debt security in which the authorized issuer owes the holders a debt and s oblique to repaid the principal with interest at the later date and termed maturity.

DEBENTURES

It is a long term debit instrument issued by government and large companies to obtained funds. It is very similar to bonds except the securisation condition is different.

CAMELS

This is the rating system of RBI for banking recommended by Padmanabhan Committee.

- C- Capital Adequacy
- Assets Quality or Level of NPA.
- M- Management Effectiveness.
- E- Earning of Profitability.

- L- Liquidity
- S- System and Controls.

Rear-real effective exchange rate.

RECENT DEVELOPMENT ON FINANCIAL INCLUSION

- Recently Rangarajan committee on financial inclusion has submitted their report to finance Minister and committee has suggested that GOI is bound to setup 2 funds on financial inclusion and funds are named as-
- Financial Inclusion Development Fund
- Financial Inclusion Technology Fund
- Each fund will have there corpus of Rs.500cr contributed by RBI, GOI and NABARD. The commission has also suggested that branch of every bank is bound to open at least 250 accounts in a single financial year and the commission has also suggested that RBI and SEBI must liberised KYC norms. Banks are bound to open no-frill account for the poorer people.

EFT- ELECTRONIC FUND TRANSFER

- It refers to computer based system use to perform financial transaction electronically. This term is use for the number of different concept
- Card holder initiated transaction, where the card holder makes use of a payment card.
- Electronic payment by business including salary payment
- Electronic cheque clearing.

SUB PRIME CRISES

The Sub Prime Crises were a sharp rise in home loans which started in United States in late 2006 and became a global financial crisis during 2007-08. The damage of this Sub Prime Crisis is US$ 200-300 billion in 2007. And this Sub Prime Crises has a little bit impact on Indian Economy according to release of ICICI bank annual result, the bank faces Rs 1000cr as a business loss.

MORTGAGE

A Mortgage is a method of using property as a security for the performance of an obligation, usually the payment of a debt. The term Mortgage refers to a legal device used for this purpose and it is also commonly used to refer to a debt secure by the Mortgage.

REVERSE MORTGAGE

These are the powerful tools that help eligible home loaners to obtain tax free cash flow.

BANK

According To Banking Encyclopedia Bank Is A Financial Institution Which Receives Deposits From The Public And Lends Them For Investment Purpose I.E, Deposits Of Money And Advances of The Main Function Of Banks, But In The Era of Globalization Banks Indulges Themselves In Many Activities Like Insurance, Mutual Fund Business And Investment In Stock Exchanges, These Activities Of Banking Considered as Para Banking Activities, There are Many Types Of Banking,

UNIVERSAL BANKING

It is an Expansion of Banking Activities in Different area in a Single Roof.

- GLOBAL BANKING - The Banking with Global Operations.
- OVERSEAS BANKING - Banking With the Sea Touching Countries.
- OFFSHORE BANKING - Off shoring of banking facilities with foreign Banks.
- MERCHANT BANKING - The Banking activities with trade and commerce.
- VIRTUAL BANKING - Whole Banking Activities through Computer.
- ISLAMIC BANKING - Zero Interest Banking
- E-BANKING- Whole Banking Based On Electronics.
- NET BANKING- Internet Banking
- TELE BANKING- Banking through Telephone
- COLORFUL BANKING- Banking with Attraction' (After Sale Services) OR Glamorization of Banking Industry",
- DOOR TO DOOR BANKING - Retail Banking
- DISTANCE BANKING - CBS or Net Banking
- RETAIL BANKING - Banking with All

OVERSEAS BANKING

Banking with Foreign operation that means if a domestic Bank is working in abroad with his many branches.

OFFSHORE BANKING

An offshore Bank Account will allow you to safely and privately explore, with few restrictions, the far reaches of the vast and diverse financial universe.

An offshore bank is a bank located outside the country of residence of the depositor, typically in a low tax jurisdiction (or tax haven) that provides financial and legal advantages. These advantages typically y include some or all of

- Strong Privacy (see also bank secrecy, a principle born with the 1934 Swiss Banking Act)
- Less Restrictive Legal Regulation
- Low or No Taxation (i.e. tax havens)
- Easy access to deposits (at least in terms of regulation)
- Protection against Local Political or Financial Instability

PARALLEL BANKING

Parallel banks are defined as banks licensed in different jurisdictions that, while not being part of the same financial group for regulatory consolidation purposes, have the same beneficial owner (s), and consequently, often share common management and interlinked businesses. The owner(s) may be an individual or a family, a group of private shareholders, or a holding company or other entity that is not Subject to banking supervision.

Parallel banking relationships may exist, unknown to the supervisors of the parallel banks.

Such structures may be established for a variety of reasons, among others to take advantage of different tax arrangements; to avoid legal restrictions in some countries on the ownership of foreign subsidiaries by domestic banks; or to diversify risk outside countries that are considered economically or politically unstable. In some cases, the motivation may be an attempt to evade regulatory constraints or consolidated supervision from the home country.

MERCHANT BANKING

In banking, a merchant bank is a traditional term for an investment bank. It can also be used to describe the private equity activities' of banking developed by merchants, from the Middle Ages onwards.

DOOR TO DOOR BANKING

Doorstep banking is to deliver Banking and Financial Services at the doorsteps of the common man.

ISLAMIC BANKING

Islamic banking refers to a system of banking or banking activity that is consistent with Islamic law (SHARIA) principles and guided by Islamic economics. Particular Islamic law Prohibits usury, the Collection and payment of interest, also commonly called RIBA in Islamic discourse in addition, Islamic law prohibits investing in businesses' that are considered unlawful, or HARAAM (such as Businesses that sell alcohol or pork, or businesses that produce media such as gossip columns or pornography, which are contrary to Islamic values). In the late 20th century, a number of Islamic Banks were created, to cater to this particular banking market.

RELATIONSHIP BANKING

Relationship banking is an attempt to advance the sales culture in bank marketing beyond order taking to a more pro-active form of direct selling instead of selling financial services. One at a Time, an account officer attempts to gain an understanding of the consumer's needs and offer services that fulfill those needs. Commercial banks and other financial institutions have attempted to apply the concept of relationship banking through personal banker and private banking.

UNIVERSAL BANKING

Banking that includes investment services in addition to services related to savings and loans.

VIRTUAL BANKING

A virtual bank is a bank with a very small or nonexistent branch network. It offers financial Services by:

- Telephone Banking
- Online Banking
- Automated Teller Mac Hines (Often Through Interbank Network Alliances)
- Mail Banking
- Mobile Banking

By Eliminating The Costs Associated With Retail Banking, Particularly Bank Branches, Virtual Banks May Offer Higher Interest Rates And Lower Service Charges On Their Savings Accounts Than Their Competitors.

GLOBAL BANKING

International Banking activities frequently result in financial instability and serious economic downturns as financial markets become more open and deregulated.

Competition from multinational bank has reduced the availability of credit to small- and medium- sized enterprises, to low- and middle-income consumers, and to farmers.

While Economies experience financial instabilities and declining credit, governments are losing the means to protect their domestic markets.

ACCOUNTS

It is a record of financial transaction in the form of stock or flows. It is an arrangement between seller and a buyer under which a period of credit is allowed before payment.

There are two types of accounts in the banking sector:'

DEPOSIT ACCOUNT

It is a bank account in which deposits earn interest, and withdrawal from which require notice. There are two types of deposits account.

DEMAND DEPOSITS

The money which is kept in our saving accounts is like a medium of exchange and this is called Demand Deposits. It is also known as CASA (Current Account and Saving Account)

- Current Account
- Saving Account

SAVING ACCOUNT

Saving account are made for the household saving purpose and interest rate of this account is decide by the RBI and presently it is 3.5%. the saving account are also known as individual account. Through this account, the account holders get cheque. There is lot of flexibility for deposits and withdrawal of funds from the these types of account

CURRENT ACCOUNT

Current accounts are made for the business class persons and account holders can made many transaction in a day. The current account attracts no interest rate sometimes Banks can charge some charges from this account. The deposits in current account are the most liquid deposits and there are no limits for number of transactions or the amount of transactions in a day.

LOAN ACCOUNT OR ADVANCES OF BANK

There are two types of lending or advances in the banking sector.

1. **SHORT TERM LENDING**- up to 4 years. Like – Priority Sector Lending
    - Consumer loan
    - Vehicle loans and personal loans
2. **LONG TERM LENDING**- 4 years and above. Like-
    - Industrial Lending
    - Housing Loans
    - Commercial Lending
    - Educational Loan

PRIORITY SECTOR LENDING [PSL'S]

As India is a democracy so Government of India has some social responsibilities and the fulfillment of these Social responsibilities the GOI has set some priorities, so the sectors decided for GOI by Landings are known as priority sector lending and The Some Sectors are

- Agriculture
- Minority Education
- Animal Husbandry
- Fisheries
- Agriculture Allied
- Small Scale Industries
- Cottage Industries
- Handicrafts
- Houses for the Poor

The Bankers are bound to lend their 40% of the total lending in priority sector r and 18% of their total lending for agriculture.

The PSL attract very reduced or less interest rate and if farmers are unable to repay this, loan GOI is bound to waive this loan because of Social Responsibility.

REPO RATE

Repo Rate is the Tool by which RBI in flews liquidity in the financial system. Or it is the rate of interest at which RBI. Provide short term loans to the scheduled commercial Bank against the government securities. (Maximum-90 days)

BANK RATE

Bank Rate is the rate of interest at which RBI provide loan to the scheduled Commercial banks for productive purpose & for long term period (more than 4 year]

CRR

CRR is the ratio of banks total deposits for which they are bound to keep with the RBI. It could be between minimum 3% to maximum 15% & CRR is the most effective measure to check inflation if CRR increases bank are bound to keep more money with the RBI & the liquidity in market decreases & the value of money increases & inflation come down.

SLR

SLR is the ratio of banks total deposits for which banks are required to keep with themselves If might be in form of cash, gold, government securities and deposits in other banks as current account.

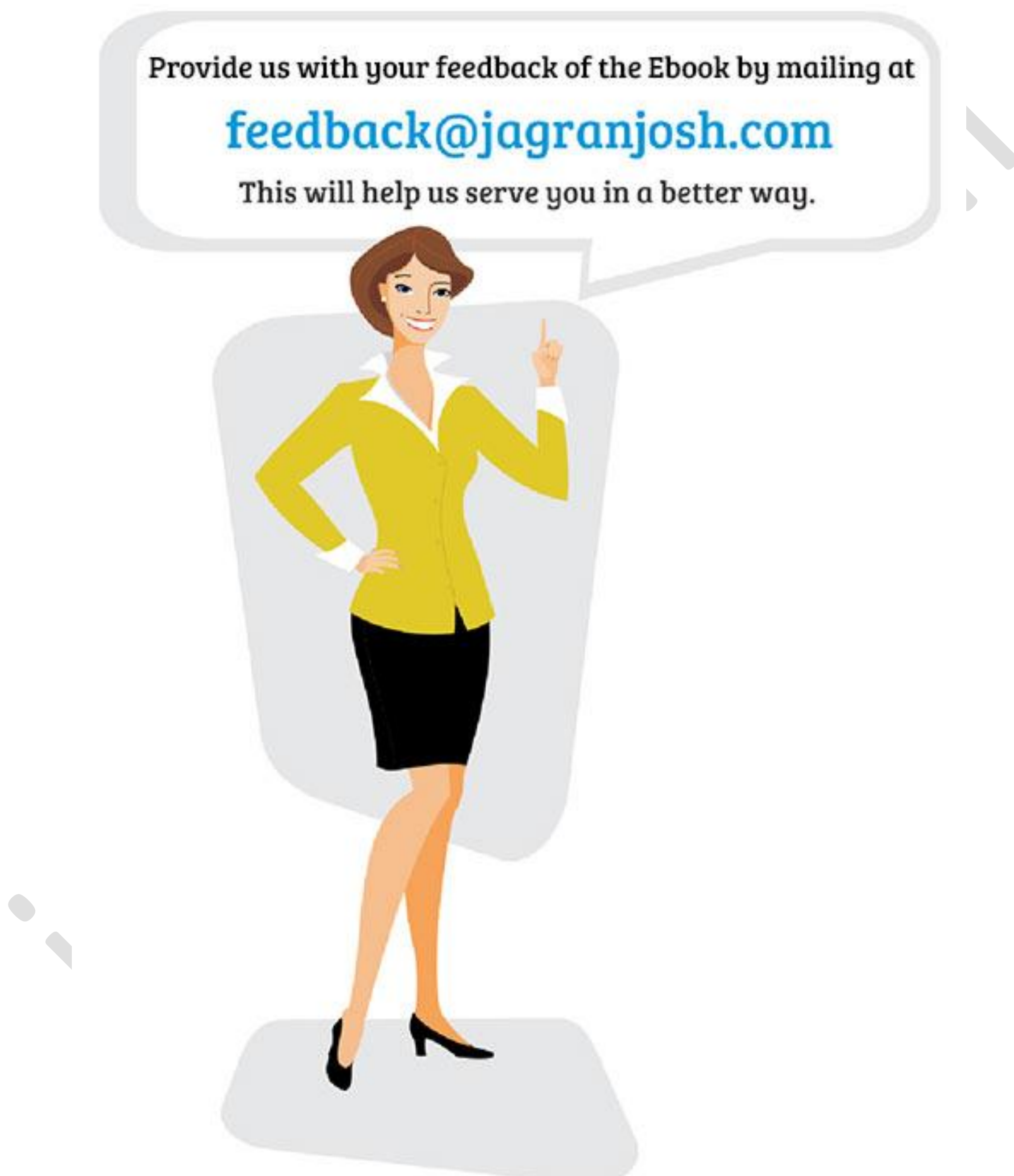
DEFICIT FINANCING

The concept of deficit financing is propounded by Prof. J. M. Kenes in his book "how to pay for war 1940"

Deficit financing is a practice adopted by all popular government for bridging the gap between their revenue and expenditure i.e. it is plan excess of expenditure over revenue.

Deliberately budgeting for deficit is deficit financing. Deficit financing is only fulfilled by the Borrowings and never by printing of new notes.

FEEDBACK


Provide us with your feedback of the Ebook by mailing at
feedback@jagranjosh.com
This will help us serve you in a better way.