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JAIIB

PAPER 1

ILLUSTRATED STUDY GUIDE

Indian Economy & Indian Financial System

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ABOUT THIS BOOK

Clerk2Officer | JAIIB Paper 1 | Indian Economy & Indian Financial System. Evergreen learning guide with dated update notes.

Publication and update details will be confirmed at release. Historical source statements and current corrections should be read together where marked.

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Overview: measure first, then memorise

A 01 / Module A. Learn the economic timeline, the facts behind each change, and the distinction between output, income and living standards. Historical tables retain their own periods and price bases; later revisions are not silently substituted.

Fact anchor	Essential fact / condition
GDP	Production within an economy during a period. Foreign ownership does not by itself remove domestic production from GDP.
GNI	GDP plus net primary income from abroad. Economic residence matters; citizenship alone is not the test.
Income per person	Income aggregate divided by population: an average, not a measure of equality.
PPP	Cross-country price adjustment for comparing output volumes; different from conversion at market exchange rates.
Real versus nominal	Real output controls for price changes using a stated series/base; nominal output uses current prices.

LARGE TOTAL ≠ HIGH INCOME FOR EACH PERSON



The original source calls India third by PPP GDP while describing low per-person income. The 2021 ICP comparison places China, the US and India first, second and third in aggregate PPP GDP. Keep the reference year: an aggregate rank is not a household-income rank.

CHAPTER ROUTE
Historical scale;colonial systems;growth and shocks;structural change;historical macro tables;measurement checks;practice;28-fact recall. Use the linked navigation and module index to locate a topic.

Income groups: category, measure and date

World Bank income groups use Atlas-method GNI per person in US dollars. FY 2027 (July 2026-June 2027) uses 2025 income data. India is in the lower-middle-income group. This July update is supplementary when an exam cutoff precedes it.

Group	FY 2027 US$ per person	Boundary
Low	1,175 or less	≤1,175

Primary references / see chapter notes

Income groups: category, measure and date / continued

Group	FY 2027 US$ per person	Boundary
Lower-middle	1,176-4,635	Includes 4,635
Upper-middle	4,636-14,375	Includes 14,375
High	Above 14,375	>14,375

CLASSIFY IN THE RIGHT ORDER

GNI → **Atlas conversion** → **Divide by population** → **Dated thresholds**

Fact anchor	Essential fact / condition
Source diagram	Its 996-3,895 band is historical, not the FY 2027 band. Replacing the band must not replace the classification concept.
Poverty and capabilities	Low purchasing power can restrict nutrition, education and saving. Unemployment and limited skills can in turn restrict earnings. These are interacting development constraints, not identical measures.
Original boundary example	US$4,635 Atlas GNI per person is lower-middle in FY 2027; US$4,636 is upper-middle. A PPP GDP-per-person value cannot substitute for the Atlas measure.

Six characteristics: learn the distinctions

Fact anchor	Essential fact / condition
Low real income	Low average purchasing power per person; distinguish a price-adjusted measure from a current-money amount.
Population growth	Per-person gains depend on output growth relative to population. With income+5% and population+3%, exact per-person growth is 1.05/1.03−1=1.94%.
Unemployment	No work while seeking/available under the selected statistical definition. A level is different from a change in that level.
Underemployment	Workers have less work than they want/can perform; it need not mean zero employment.
Disguised unemployment	Removing an extra worker does not reduce output in the example. Five people doing work requiring four illustrates the idea.

Primary references / see chapter notes

Six characteristics: learn the distinctions / continued

Fact anchor	Essential fact / condition
Primary-sector reliance	A large livelihood dependence on farming/resources can coexist with a smaller share in output. Output and employment shares use different denominators.
Poverty feedback	Low income can constrain saving, investment, health and skills; low productivity can then hold future income down. Illiteracy can restrict training/job access; low earnings can limit schooling.
Rising unemployment	A historical concern is not proof that a rate always rises. State the period, survey and comparable definition.

A POSSIBLE POVERTY LOOP-NOT AN INEVITABLE DESTINY



After independence, Five-Year Plans sought to organise scarce resources through objectives, sector targets and allocations. Jobs, education, health and infrastructure can weaken the poverty loop.

Historical scale: one named series at a time

Historical estimates reconstructed by Maddison and reproduced in NCAERWP 163 use a 1990 international Geary-Khamis-dollar framework. Shares measure economic scale, not income equality or living standards.

Year	India%	China%	Combined%	Reconciliation
1000	28.9	22.7	51.6	Capsule combined 50.5 differs.
1600	22.4	29.0	51.4	Capsule India 23/combined 52 differs.
1700	24.4	22.3	46.7	India rises; China falls versus 1600.
1820	16.0	32.9	48.9	This series 16.0; capsule 16.1.
1950	4.2	4.5	8.7	Territory and year must accompany comparisons.

Year	GDP: million 1990 int$	GDP per person: same$	Population: crore
Ancient b enchmark	33,750	450	7.5
1000	33,750	450	7.5
1600	74,250	550	13.5
1820	111,417	533	20.9

Primary references / see chapter notes

Historical scale: one named series at a time / continued

Year	GDP: million 1990 int$	GDP per person: same$	Population: crore
1870	134,882	533	25.3
1913	204,241	673	30.4
1950	222,222	619	35.9

OECD 2001 Tables B 10/B 18/B 21 corroborate these reconstructed benchmarks. Its earliest label is 0 AD; this is a model benchmark, not a claim that the conventional AD calendar contains year 0. Population 7.5 crore corrects the capsule 5.5 crore. Territory changes across historical benchmarks;1820-1913 includes undivided India.

Colonial chronology and land-revenue systems

Source phase	Period	What to distinguish
Early Company trade	1600-1757	Trading presence did not mean uniform territorial rule.
Company expansion	1757-1857	Plassey 1757; expanding political/revenue power.
Crown administration	1858-1947	1857 rebellion precedes transfer to Crown 1858.

Fact anchor	Essential fact / condition
Economic inheritance	Low incomes, weak human capabilities, agrarian dependence and limited broad industrial development made post-independence economic organisation difficult.
Colonial orientation	Policies favoured British commercial interests; capital/raw-material transfers and trade patterns affected investment and local production.
Commercialisation	Cultivation became more exposed to markets, cash taxes and commodity prices; intermediaries, debt and food insecurity could transmit shocks.
Dispossession and famine	Revenue pressure and adverse markets could worsen landlessness and famine vulnerability. Neither landless labour nor famine originated exclusively under colonial rule.

System	Revenue relationship	Learning anchor
Zamindari	Intermediary/landholder between cultivator and state	Who receives/collects rent?
Ryotwari	Settlement linked to individual cultivator/ryot	The cultivator is central.
Mahalwari	Estate/village/mahal assessment	The village/estate is central.

Primary references / see chapter notes

Deindustrialisation: a chain of pressures

Fact anchor	Essential fact / condition
Meaning	Weakening of established manufacturing/craft livelihoods without an equivalent broad industrial replacement.
Mughal decline	Loss of elite patronage and changing markets weakened some luxury crafts.
Agricultural pressure	Low rural productivity/income constrained demand and artisan livelihoods.
Wages and competitiveness	The source mentions rising nominal wages and declining textile competitiveness. Nominal wages alone do not establish real labour costs or productivity; relative prices and technology matter.
Imported manufactures	Machine-made competition, adverse trade arrangements and changing tastes affected local producers.
Transport	Railways linked hinterlands and ports, facilitating exports of raw material and entry of imports. Reduced transport cost could change competition in both directions.
Investor returns	Guaranteed/contractual returns benefited railway investors, including British investors. Infrastructure benefits and colonial commercial purpose can coexist.
Western education	English education supported administration but also wider intellectual/political change. The source's culturally dismissive statement is an interpretation, not an economic definition.

EXPLAIN THE MECHANISM

Changed patronage / trade → **Competitive pressure** → **Craft income / jobs** → **Investment / demand**

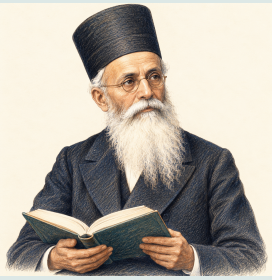


Infrastructure changes who can reach a market.

Trace the producer, transport link, buyer and payment. A railway alone does not identify who captures every gain.

Primary references / see chapter notes

Naoroji and the first income estimates



Dadabhai Naoroji /1825-1917

Drain-of-wealth critique. Poverty and Un-British Rule in India was published in 1901. An estimate-reference year is not a book-publication date.

Estimator / reference	Source amount	How to read it
Naoroji /1867-68	National income Rs.340 crore; income per person Rs.20/year	IGNOU historical-estimation unit corroborates this attributed estimate.

Other source estimators: William Digby, Findlay Shirras, V.K.R.V.Rao and R.C.Desai. NCERT describes inconsistent/conflicting private estimates and regards Rao's work as significant. Differences in territory, coverage, method and prices mean their results were not identical.

ESTIMATE / PRICE BASIS / PUBLICATION
1867-68 is the attributed estimate period;1901 is the book-publication date. Price base,territory and estimation method are independent labels.

Check an estimate	Why it matters
Reference year	The period being estimated differs from publication date.
Current / constant prices	Inflation changes money values; use a comparable price framework.
Population / territory	Changes in coverage change the denominator.
Method / data	Private historical estimates may differ in evidence and coverage.

Drain of wealth: people and channels

Fact anchor	Essential fact / condition
Definition	Unilateral transfer of resources without a commensurate economic return; the claim concerns reduced resources retained for domestic use.
Named Indian writers	Dadabhai Naoroji, R.C.Dutt (source spells Dutta) and C.N.Vakil appear in the source discussion. Exact works/dates differ.
Edmund Burke /1783	IGNOU's colonial-development account links Burke's 1783 argument to drain and poverty.

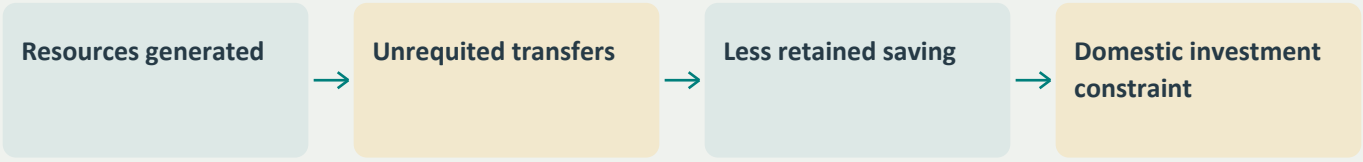
Primary references / see chapter notes

Drain of wealth: people and channels / continued

Fact anchor	Essential fact / condition
Philip Francis /1776	The same account describes four broad streams; learn the channels rather than merely the number four.

Francis stream	Economic distinction
Company investment	The East India Company's investment/transfer mechanism in the historical account.
Other presidencies	Remittances to other presidencies; do not automatically treat every internal transfer as external drain.
Private income	Transfers of privately earned income.
Private trade/investment	Transfers associated with private commercial or investment income.

DRAIN-OF-WEALTH ARGUMENT



Official home charges and private remittances are distinct categories. An import payment for equivalent goods, or every foreign-income payment, is not automatically an unrequited drain.

Home charges: retain the details and units

Component	Source examples
Shareholder/debt payments	East India Company shareholder dividends; interest on borrowing raised in England.
Military expenditure	Specified army expenses, transport and procurement charged to India.
Retired officials	Pensions and annuities.
Railways	Guaranteed interest and relevant equipment/payments.
India Office	Secretary of State and staff expenditure.

Historical item	Amount / period	Distinction
Naoroji home-charge estimate	£100 million /10 crore pounds since 1829 over 36 years	PIB reproduces the 1867 argument; do not silently relabel the end year.

Primary references / see chapter notes

Home charges: retain the details and units / continued

Maddison's historical account distinguishes official Crown-period Home Charges 1858-1947 from additional private remittances. Some payments represented services/financed assets; their treatment in a drain calculation requires an explicit definition.

STOCK / FLOW / CUMULATIVE TRANSFER

One capital amount → Annual income stream → Specified number of years → Comparable price units

Comparative performance: recalculate the claims

Measure	India 1600	India 1947	UK 1600	UK 1947
GDP/person:1990 int$	550	618	974	6,361
Population	13.5 crore	41.4 crore*	61.7 lakh	4.95 crore
GDP: million 1990 int$	74,250	255,852	6,007	314,969

*The source footnote includes Pakistan in the 1947 India population. Territory is not the same as a later post-partition India series; use the table as a separately labelled historical comparison.

Fact anchor	Essential fact / condition
India per-person change	(618/550−1)×100=12.36%, approximately the source 12%.
UK per-person change	(6,361/974−1)×100=553.08%, not 55%. The new level is about 6.53 times the initial level.
India total GDP	255,852/74,250=3.446 times the initial level. The increase is 244.58% of the initial level; saying 2.44 times without defining increase versus level is misleading.
UK total GDP	314,969/6,007=52.434 times the initial level; increase 5,143.37%.
Attributed historical judgment	Manmohan Singh's Oxford acceptance speech,8 July 2005, contrasted colonial India's crown-jewel status with poverty. Treat this as an attributed speech, not a freshly measured global income ranking.

CHECK EVERY HISTORICAL COMPARISON

Same territory? → Same price basis? → Level or change? → Calculate the ratio

Primary references / see chapter notes

Comparative performance: recalculate the claims / continued

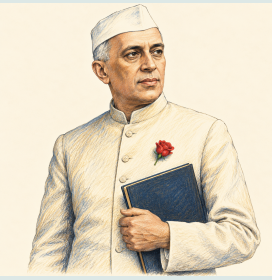
Original comparison: OECD 2001 Table 2.30,printed 112. It deliberately uses undivided India in 1947; this differs from modern-India Table A-h, whose 1947 GDP is 213,680 million 1990 int$. The two territories must not be silently interchanged.

1951-1990: planning and acceleration

Period / anchor	Essential facts
1951-1980	Early planning decades: source average aggregate growth around 3.5% and per-person growth around 1.3%. These are approximate period descriptions, not current growth.
Raj Krishna /1978	Source attribution for the historical slow-growth expression. It describes an observed growth regime; it is not a religious causal explanation.
1980s / Sixth Plan 1980-85	Economic acceleration involved greater public expenditure, partial deregulation and changes in access to imported inputs/capital equipment.
Imports and production	Capital goods/raw materials could expand manufacturing capacity, including consumer/luxury goods; effects depended on foreign-exchange resources and financing.
Policy trade-off	Faster growth can coexist with fiscal and external vulnerabilities. Savings allocation, productive capacity and financing constraints must be examined together.

A DEMAND AND CAPACITY LINK

Public spending / inputs → **Orders and investment** → **Output / jobs** → **Financing needs**



Plans set objectives; outcomes need checking.

A plan allocates scarce resources. Its target, achieved growth, price basis and review period are separate facts.

Primary references / see chapter notes

2008 shock: fiscal is not monetary

Fact anchor	Essential fact / condition
Lehman /15 September 2008	The international financial crisis challenged claims that India was fully decoupled from advanced economies. Trade, finance and confidence transmitted the shock.
Fiscal response	The 2009-10 Budget speech records three packages totalling Rs.1.86 lakhcrore/about 3.5% GDP. Government expenditure/tax measures differ from central-bank liquidity.
Liquidity response	RBI Executive Director's 2011 BIS speech describes over Rs.5.6 trillion of potential primary liquidity during October 2008-April 2009,over 10% of GDP in that account. Potential availability differs from actual use and government budget spending.
Recovery and deficits	Support aided activity while fiscal/external balances faced pressure. The 2010-11 Budget partly reversed stimulus: standard excise duty rose 8%→10%. Source "never phased out" is too absolute.
Credit cycle	Earlier growth/credit expansion enlarged capacity but could later leave stressed balance sheets. Credit growth alone is not proof of sound investment.
Dated growth	Source 2008-09-2019-20 average 6.5% and 2019-20 growth 4.0% refer to the 2011-12 series/vintage. Revised series may differ.

Named policy change	Learn its distinct channel
GST /1 July 2017	Indirect-tax structure and input-credit/compliance chain.
IBC /2016	Insolvency resolution and creditor/enterprise restructuring.
Corporate tax /20 September 2019	Announcement offered eligible domestic companies a 22% base rate, subject to foregoing specified incentives; surcharge/cess are additional.
Demonetisation /8 November 2016	Withdrawal of legal-tender status of existing Rs.500/1,000 notes; cash replacement and short-term disruption.

Pandemic chronology: dates are not mechanisms

Date / phase	Event / distinction
December 2019	Initial outbreak reporting in Wuhan, China.
30 January 2020	India's first recorded case; WHO also declared a public-health emergency of international concern on this date.
11 March 2020	WHO characterised COVID-19 as a pandemic.

Primary references / see chapter notes

Pandemic chronology: dates are not mechanisms / continued

Date / phase	Event / distinction
First wave /2020	Stringent restrictions, health uncertainty and activity disruption.
16 January 2021	India launched its vaccination programme.
June 2022 source position	The source describes three infection waves and a high cumulative caseload; this is a dated statement, not today's case count.

Fact anchor	Essential fact / condition
Three shocks in the source context	The historical GDP chart highlights the 1991 balance-of-payments crisis, global financial crisis and COVID episode. Three COVID chronology dates are not three independent macroeconomic shocks.
Severity	Lockdown, mortality, uncertainty, global supply disruption and demand loss interacted. Stringency and GDP contraction can be associated without proving one factor caused the full decline.
International comparison	India, Argentina, Italy and the UK appear in the source stringency discussion. Compare definitions, periods and health conditions before ranking policy effects.

HEALTH SHOCK TO CASH FLOW



Employment, investment and structural breaks

Fact anchor	Essential fact / condition
First-wave labour market	Employment weakened, unemployment rose and labour-force participation fell. The last two measures have different denominators. An all-time-high claim requires the named series and frequency.
Reverse migration	Urban-to-rural movement increased rural livelihood pressure and demand for MGNREGS work.
Later waves	The source describes smaller employment effects/stabilisation in later waves; exposure and adaptation differed across workers and sectors.
Investment	Q 1 FY 2020-21 saw severe investment-demand contraction. Ceased demand is an overstatement if interpreted as literally zero investment.

Primary references / see chapter notes

Employment, investment and structural breaks / continued

Fact anchor	Essential fact / condition
GFCF recovery	Public capital expenditure helped support investment recovery. Verify the source's only-positive-sector assertion against a consistent institutional-sector series.
Chart reading	An annual growth path, period average and structural break are different objects. A chart spanning 1951-52-2019-20 contains fluctuations; a selected-period average does not establish every annual observation.

THREE DIFFERENT SHOCKS

1991 /Bo P pressure → **2008 /global finance** → **2020 /pandemic** → **Different transmission channels**

Sector recovery archive: production activities

Historical source Table 1.2. Growth measures differ by column: the final column compares 2021-22 with 2019-20; it is not necessarily one-year year-on-year growth. Preserve the source vintage rather than presenting it as current data.

Sector / source grouping	Trend: 2012-17	Trend: 2017-20	2020-21 (%)	2021-22 over 2019-20 (%)
Agriculture, forestry, fishing	3.6	5.2	3.3	6.7
Mining and quarrying	2.4	2.4	-8.6	2.9
Manufacturing	6.8	5.0	-0.6	9.8
Electricity, gas, water, utilities	6.0	7.5	-3.6	3.9
Construction	4.2	4.6	-7.3	1.9
Trade/transport group	8.4	8.1	See below	-10.9
Trade, hotels and repair	-	-	-22.4	Group value
Transport, communication, broadcasting	-	-	-15.3	Group value

Fact anchor	Essential fact / condition
Agriculture	Production resilience reflected food demand and operational exemptions; it did not mean every household, market or supply chain was unaffected.
Industry	Mining, manufacturing and utilities fell in the first shock. Manufacturing led aspects of the recovery and remained relatively strong in the second wave.

Primary references / see chapter notes

Sector recovery archive: production activities / continued

Fact anchor	Essential fact / condition
Construction	Worksite restrictions, worker migration, materials and financing interrupted projects. Subsequent growth must be compared with the initial loss.
Source status labels	Agriculture: resilient; mining/manufacturing/utilities/construction: recovering/need repair. These are the source's historical assessment labels, not permanent credit ratings.

READ A SECTOR GROWTH NUMBER

Name the sector → **Name the period** → **Check comparator** → **Check recovery level**

Sector recovery archive: services and totals

Sector / source grouping	Trend: 2012-17	Trend: 2017-20	2020-21 (%)	2021-22 over 2019-20 (%)
Finance/real-estate group	8.2	5.4	See below	6.6
Financial services	-	-	5.1	Group value
Real estate/professional services	-	-	1.2	Group value
Public administration/other services	6.5	7.0	See below	6.4
Public administration, defence	-	-	2.3	Group value
Other services	-	-	-11.5	Group value
Total GVA at basic prices	6.6	5.9	-4.8	3.1

Fact anchor	Essential fact / condition
Contact intensity	Retail, hotels/restaurants, aviation, passenger transport/logistics and education faced different mobility/demand restrictions.
Financial/real-estate/professional	Source table groups/subgroups use shared cells; do not add duplicated group-level numbers as separate output.
Auto and property	Weakness in automobiles and real estate began before COVID; not every subsequent problem originated with lockdown.
Verified sign / status	Original RBI Table I.2 records public administration/defence +2.3%,not the capsule −2.3%. Trade/hotels/transport: still suffering; financial/real-estate/professional: resilient; public administration/defence: resilient; other services and aggregate GVA: recovering/need repair.

Primary references / see chapter notes

Sector recovery archive: services and totals / continued

Fact anchor	Essential fact / condition
Fiscal support	A purchase, transfer, loan, guarantee and RBI liquidity operation affect balance sheets differently. Support announcements do not all represent immediate government expenditure.



One shock, different business exposures.

Ask whether the activity needs physical contact, imported inputs, migrant labour or uninterrupted transport. Trace the resulting cash-flow pressure.

GDP recovery: keep the release vintage

Historical observation	Source/May 2022 vintage
FY 2020-21 Q 1 real GDP	−23.8%
FY 2020-21 Q 3 /Q 4	+0.7% /+2.5%
FY 2020-21 full year	−6.6%
FY 2021-22 Q 1 /Q 2	+20.1% /+8.4%
FY 2021-22 Q 3 /Q 4	+5.4% /+4.1%
FY 2021-22 annual growth	+8.7%
FY 2021-22 real GDP	Rs.147.36 lakhcrore at 2011-12 prices
FY 2020-21 /FY 2021-22 nominal GDP	Rs.198.01 /Rs.236.65 lakhcrore
FY 2021-22 nominal growth	19.5%

Fact anchor	Essential fact / condition
Low-base effect	A sharp fall makes a subsequent percentage increase look large. It does not automatically restore the previous level.
Original example	100 falls 20% to 80. A 20% rise gives 96, not 100. Returning from 80 to 100 requires 25% growth.
Comparison discipline	Do not rank a financial-year rate directly against another country's calendar-year rate without adjustment. Quarterly and annual growth are also different comparisons.

Primary references / see chapter notes

GDP recovery: keep the release vintage / continued

REBOUND VERSUS RECOVERY



Recovery is not the same as lost-output repair

Fact anchor	Essential fact / condition
Observed sequence	Source activity improved June-October 2021; rural demand weakened after the second wave while urban demand recovered.
Input bottlenecks	Coal and semiconductor shortages reduced momentum around November 2021. Do not use this to date the entire third infection wave.
War spillovers	Russia-Ukraine effects from March 2022 added commodity-price, supply-chain and financing pressure.
Global disruption	Shipping/logistics problems interacted with domestic lockdown, mortality, uncertainty and persistent demand losses.
Pre-COVID trend	Source CAGR 6.6% for 2012-13-2019-20 is a historical trend estimate, not the same as every annual rate.
Conditional scenario	The cited analysis used−6.6% for 2020-21,+8.9% for 2021-22,+7.2% for 2022-23 and 7.5% thereafter to consider 2034-35 recovery of counterfactual losses.
Do not conflate	The 8.9% scenario input and 8.7% May 2022 estimate come from different vintages; they are not interchangeable. The parliamentary clarification treats the exercise as staff analysis, not an RBI institutional forecast.

Path	Year 0	Year 1	Year 2
No-shock counterfactual	100	106	112.36
Illustrative disrupted path	100	90	99

The disrupted path can recover an earlier level while still remaining below where it might otherwise have been. Twelve years/2034-35 is a conditional source-era scenario, not a guarantee about the future.

Primary references / see chapter notes

Structural change: numerator before percentage

FY 2025-26 nominal GVA	Rounded official chart share%
Agriculture/allied	18
Mining /manufacturing /utilities /construction	2 /15 /3 /8
Trade/transport/storage	14
Finance/real-estate/IT/professional	27
Public administration/defence/other	13

Mo SPI provisional release 5 June 2026;2022-23 base. These rounded shares sum 100. Agriculture/allied, industry-including-mining and services are 18/28/54 when grouped from this rounded chart. Conceptual primary extraction includes mining; statistical industry may also include it.

Fact anchor	Essential fact / condition
Meaning	Structural change concerns enduring changes in sector composition, institutions and production relationships, not merely one quarter's growth.
Indian path	Services became dominant while agriculture's output share fell; this need not replicate every country's industry-led sequence.
Income and primary share	A lower primary-sector share as income rises does not prove agricultural output itself fell. Employment shares can adjust more slowly.
Pandemic denominator	Agriculture's relative share could rise when other sectors contracted more severely. Continued production is not the same as universal exemption from every restriction.
Inconsistent source partition	60.9% services+19.8% secondary+20.1% primary=100.8%. It is not a coherent three-way partition; periods/coverage must be reconciled.
Services and FDI	Finance, business services, transport and communications can support industry; foreign investment/technology can alter capacity. A statistical association alone does not establish a universal causal effect.

READ A SHARE

Sector value → **Specified total** → **Same prices / period** → **Compare growth of both**

Primary references / see chapter notes

Macro archive I:2014-15 to 2017-18

Historical RBI extract dated 15 September 2021;2011-12 national-accounts series, at current prices. Aggregate amounts are Rs.crore; population is lakh; per-person rows are rupees. These are not current 2026 observations.

Indicator	2014-15	2015-16	2016-17	2017-18
Population (lakh)	12670	12830	12990	13140
GVA, basic prices	11504279	12574499	13965200	15505665
Net product taxes	963680	1197375	1426469	1584377
GDP	12467959	13771874	15391669	17090042
Fixed-capital consumption	1342291	1449697	1591332	1764812
Net domestic product	11125668	12322177	13800337	15325231
Net primary income: ROW	-147430	-159779	-176400	-184813
Gross national income	12320529	13612095	15215269	16905230
Net national income	10978238	12162398	13623937	15140418
Net current transfers: ROW	405154	413083	379438	405740
Gross national disposable income	12725683	14025178	15594707	17310970
Net national disposable income	11383392	12575481	14003375	15546158
Gross savings	4019957	4282259	4825113	5480741
Net savings	2677666	2832562	3233781	3715929
Gross capital formation	4179779	4422659	4918077	5791573
Net capital formation	2837487	2972961	3326745	4026761
Per capita GDP (Rs.)	98405	107341	118489	130061
Per capita GNI (Rs.)	97242	106096	117131	128655
Per capita NNI (Rs.)	86647	94797	104880	115224
Per capita GNDI (Rs.)	100439	109315	120052	131743
Per capita PFCE (Rs.)	57201	63339	70258	76379

2017-18: third revised estimate in the printed archive. GDP/GVA, gross/net, disposable income, consumption, saving and capital formation are different aggregates. Do not combine them into one total or apply a common unit to all rows.

Primary references / see chapter notes

Macro archive II:2018-19 to 2020-21

Indicator	2018-19	2019-20	2020-21
Population (lakh)	13270	13410	13554
GVA, basic prices	17161213	18461343	17915167
Net product taxes	1725744	1889670	1830503
GDP	18886957	20351013	19745670
Fixed-capital consumption	1979987	2163598	2099588
Net domestic product	16906970	18187414	17646082
Net primary income: ROW	-202324	-193114	-
Gross national income	18684632	20157899	19561348
Net national income	16704645	17994301	17461759
Net current transfers: ROW	493740	540364	-
Gross national disposable income	19178372	20698263	20128484
Net national disposable income	17198385	18534665	18028896
Gross savings	5776960	6385981	-
Net savings	3796973	4222382	-
Gross capital formation	6172623	6551251	-
Net capital formation	4192635	4387653	-
Per capita GDP (Rs.)	142328	151760	145680
Per capita GNI (Rs.)	140804	150320	144320
Per capita NNI (Rs.)	125883	134186	128829
Per capita GNDI (Rs.)	144524	154349	148504
Per capita PFCE (Rs.)	84567	91790	85348

Fact anchor	Essential fact / condition
Estimate status	2018-19 second revised;2019-20 first revised;2020-21 provisional in this source archive. Later official releases may revise these values.
Population timing	Population figures refer to the middle of the financial year.
Blank cell rule	A blank source cell means the table does not report that value. It does not mean zero.

Primary references / see chapter notes

Macro archive II:2018-19 to 2020-21 / continued

Fact anchor	Essential fact / condition
Source preservation	Retain the full historical table with its vintage, then provide separately dated current measures. Never silently relabel the old archive as updated data.

Data discipline: what changes when a series changes?

Fact anchor	Essential fact / condition
Rebasing	A new base/benchmark can alter levels, coverage, methods and growth estimates. It is not just changing the year printed above an unchanged table.
Current series context	Mo SPI released the 2022-23 GDP series 27 February 2026. Its 5 June 2026 provisional release estimates FY 2025-26 real GDP growth 7.7%,nominal 8.9%. This is a different period/base from the retained May 2022 archive.
Current growth claims	Later supplement: IMF Deputy Managing Director’s 15 September 2026 statement described India as the world’s fastest-growing major economy. This is a dated assessment under a comparison set, not a permanent rank among all countries. It postdates the standard June 2026 exam cutoff.
Domestic versus national	Capital gains and personal transfers are not automatically primary income. Match the income adjustment to the national-account definition.
Share versus level	A sector's falling percentage can coexist with growing absolute production. A national average can grow while some households lose income.

Original reading task	Correct interpretation
Income rises 10%, prices rise 6%	Exact purchasing-power growth 1.10/1.06−1=3.77%.
Output index 100→80→96	The rebound is 20%, but output remains 4% below its original level.
GDP 1000; net primary income 20	GNI 1020 in the simple consistent-valuation example.

BEFORE ANSWERING A DATA QUESTION

Name the aggregate, geography, period, price basis, unit, denominator, release vintage and estimate status. Check the examination cutoff before using a later update.

Primary references / see chapter notes

References and final distinction checks

Reference family	What it supports
Supplied source /physical 2-14	Chapter coverage baseline; tables and claims are audited, not automatically treated as correct.
World Bank /ICP	GDP/GNI/PPP concepts; dated income groups and classification method.
NCERT /IGNOU	Colonial economic context, private income estimation and drain discussion.
Maddison /NCAER	Named reconstructed historical series; units, territory and uncertainty remain important.
Mo SPI /RBI /Budget documents	National accounts, crisis response and separately dated statistical releases.
Parliament /PMO /PIB	Naoroji publication/argument, attributed speech and scenario clarification.

RBI Handbook 2020-21 /Table 1,primary-document replica

World Bank income groups

World Bank ICP concepts

IGNOU national-income estimation

IGNOU colonial-development account

NCAERWP 163 historical shares

PIB /Naoroji book and 1867 argument

IMF /15 September 2026 assessment

Economic Survey 2010-11 /excise rollback

PIB /corporate tax 20 September 2019

PIB /GST launch

RBI original /Scars of the Pandemic, author upload

Budget 2009-10 speech /stimulus

Mo SPI May 2022 GDP release

Parliament /scenario clarification

PMO /Oxford speech 8 July 2005

FINAL READING DISTINCTIONS



Historical figures retain their period, measure and release vintage. The companion audit separately records verified corrections and owner-authorised omissions; an omitted particular is not counted as fully covered.

Primary references / see chapter notes

References and final distinction checks / continued

OECD 2001 /Tables 2.30,B 10,B 18,B 21

Mo SPI /5 June 2026 GDP release

RBI/BIS /potential liquidity and exit

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 1	Income 900/population 90 versus 600/30: which has higher per-person income? A: first B: second C: equal D: cannot divide.
Q 2	World Bank income group uses: A: total PPP GDP B: Atlas GNI per capita C: nominal growth D: stock prices.
Q 3	Index 100 falls 20% then rises 20%. Final level: A:100 B:80 C:96 D:120.
Q 4	UK per-person endpoints 974→6361 imply approximately: A:55% increase B:553% increase C:6.53% increase D:52 times level.
Q 5	A 2034-35 counterfactual output-loss exercise is: A: guaranteed forecast B: conditional scenario C: current GDP level D: an income-group threshold.

Q /answer	Reason
1 /B	900/90=10;600/30=20. A larger total need not produce a larger average.
2 /B	Classification follows dated Atlas-method GNI per person.
3 /C	100×0.8×1.2=96. Returning from 80 to 100 needs 25%.
4 /B	(6361/974−1)×100=553.08%. A level multiple and percentage increase differ.
5 /B	Its outcome depends on assumed growth paths; staff analysis is not automatically an institutional forecast.

ANSWER WITH THE MECHANISM

Identify the measure → **Check the inputs** → **Calculate / reason** → **Explain the trap**

These questions are original learning checks, not claimed previous examination questions or guaranteed predictions.

Primary references / see chapter notes

28 essential recall facts / A 01

No. /concept	One/two-line fact
01 /Measure	GDP follows domestic production.
02 /Measure	GNI adds net primary income from abroad to GDP.
03 /Measure	Residence differs from citizenship.
04 /Measure	Per-person income equals aggregate income/population.
05 /Measure	An average does not show inequality.
06 /Measure	Real and nominal measures have different price treatments.
07 /Measure	PPP and market exchange rates are different converters.
08 /Group	Income groups use Atlas GNI per person.
09 /Group	India is lower-middle income in World Bank FY 2027.
10 /Group	FY 2027 thresholds use 2025 income data.
11 /History	This selected series gives 1000 India+China 51.6%.
12 /History	This selected 1600 India share is 22.4%.
13 /History	1857 rebellion precedes Crown administration 1858.
14 /Person	Naoroji's cited estimate period is 1867-68.
15 /Person	His Poverty and Un-British Rule in India appeared 1901.
16 /History	Home charges differ from private remittances.
17 /Method	Estimate year differs from price-base/publication year.
18 /Policy	Fiscal stimulus differs from RBI liquidity support.
19 /Shock	Lehman collapsed 15 September 2008.
20 /Shock	WHO characterised the pandemic 11 March 2020.
21 /Shock	India launched vaccination 16 January 2021.
22 /Labour	Unemployment differs from low labour participation.
23 /Labour	Disguised unemployment concerns low extra output.
24 /Growth	100→80→96 illustrates incomplete level recovery.
25 /Structure	Output share and employment share differ.
26 /Method	Sector shares must use consistent denominators.
27 /Method	Blank source data are not zeros.
28 /Scenario	Counterfactual loss repair differs from level recovery.

Primary references / see chapter notes

Economic planning and NITI Aayog

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

PLANNING: OBJECTIVES TO OUTCOMES

Objectives → **Resources / targets** → **Implementation** → **Review / correction**



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

Regional Planning:

Type	Essential fact / condition / correction
Define	Paper IE and IFS Module A Unit 3 Economic Planning in India &; NITI Aayog; Definition Of Economic Planning
Idea	Economist H. D. Dickinson - “the making of major economic decisions-what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole.”
Date	National Planning Committee, set up in 1938 by the Indian National Congress defined planning in India as “Planning, under a democratic system, may be defined as the technical coordination, by disinterested experts of consumption, production, investment, trade, and income distribution, in accordance with social objectives set by bodies representative of the nation
Idea	Such planning is not only to be considered from the point of view of economics, and raising of the standard of living, but must include cultural and spiritual values, and the human side of life.”
Aim	Planning is the skill of reaching any sort of objective utilising the resources at hand.; Types Of Planning; Depending on the goal, planning may be categorised into several types.
Idea	Territorial standpoint: Planning may be regional or national.; Political standpoint: Federal, state, or local.; Participation : Centralised or decentralised planning
Idea	Temporal standpoint: long-term or short-term.; Similarly, planning may be sectoral as well as geographical; Sectoral planning : Focuses on a single sector of the economy,
Aim	Spatial planning : Focuses on development in the geographical context (which aims at influencing the distribution of people and activities in places).

Primary references / see chapter notes

Regional Planning: / continued

Type	Essential fact / condition / correction
Idea	Some of the key forms of planning that are a part of the Indian planning process are as follows:; National Planning:
Date	Various Industrialists came together in 1944 and drafted a joint proposal for setting up a planned economy in India; It is famously known as the Bombay Plan.
Idea	The government sought national strategy in order to take an active role in resource allocation and mobilisation for equitable growth and development as a result of the abject poverty.
Idea	Regional Planning:
Idea	Planning is implemented at the regional level and is targeted to a wide geographical area (i.e., a region consisting of rural and/or urban communities), guaranteeing optimal space utilisation and human activity distribution **Reading correction:** Planning can seek better spatial allocation; it does not guarantee an optimum in every implementation.
Aim	Objectives Of Economic Planning In India In India, the primary goals of planning are not only broad, but also open-ended
Aim	However, the following are some of the broad objectives of planning in India.
Aim	Economic Growth: It aims for a sustainable growth in the economy's output levels
Aim	Sustained growth in economic output, is one of the primary goals of planning in India.
Aim	Poverty Alleviation: One of the goals of Indian planning is to alleviate poverty
Aim	Several programmes aimed at alleviating poverty have been introduced in India, by all governments, till date.
Aim	Employment Generation: Fundamental goals of planning has been to reduce unemployment
Idea	Employment generation in India has therefore been an integral aspect of poverty alleviation programmed in India.
Idea	Social justice and reducing the inequalities: Economic disparities have far-reaching negative consequences in any society, and there were visible economic inequalities in India at both the interpersonal and intra-personal levels
Idea	By the time India started planning, economic planning was widely acknowledged, as a technique for addressing all types of economic inequities and injustices.
Idea	Self-reliant economy: Self-reliance was characterised as an endeavor, to combat a subservient position in the global economy, not as autarchy.
Idea	Modernisation of the economy: India's plans prioritised the industrialisation . Began with agriculture, a traditional sector that necessitated the quick integration of modern farming, dairying, and other practices
Define	Note: Modernisation also refers to changes in social outlook such as the recognition that women should have the same rights as men; History Of Economic Planning In India
Idea	By the 1930s, there was political agreement that independent India would be a planned economy; By early 1950s, India had begun economic planning.

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Idea	Directed by five-year plans, with a mid-term review.
Idea	In unusual years of wars and other such crises, India has opted for yearly plans, commonly denoted as ‘plan holidays’, as a departure from five-year plans.
Date	In 2015, - established the NITI (National Institution for Transforming India) Aayog, [nature of the economy had shifted to a market-dominated system and that state rights required to be prioritised, necessitating the establishment of a new structure with dynamic purposes.
Idea	Centralised Planning Procedure: Offers a broad framework for the economy’s developmental and investment requirements.
Date	Also aims for equal resource mobilisation to accomplish targeted socioeconomic progress; Planning Commission; In charge of planning in India since 1950.
Idea	Chairman : Prime Minister and headed by a Deputy Chairman [Not a statutory entity]
Idea	Plans are approved for implementation by the National Development Council (NDC), which is chaired by the Prime Minister.
Idea	Meanwhile, the central government sought to redefine the parameters of decentralised planning throughout the country.; Go I established the NITI Aayog, to replace the Planning Commission.
Idea	This was done to better serve the needs and ambitions of the people of India
Idea	NITI Aayog, serves as the Government of India’s primary platform for bringing States together in national interest, fostering Cooperative Federalism.
Idea	Established as a Think Tank, to provide relevant strategic and technical assistance to governments at the federal and state levels, on a wide range of policy issues.
Date	Five Year; Plan; Highlights First Five -; Year Plan; (1951-56); The First Five Year Plan laid the thrust of economic development in India.
Idea	It was presented by the first Indian Prime Minister, Jawaharlal Nehru to the Parliament of India.
Idea	K.N Raj, a young economist, argued that India should "hasten slowly" for the first two decades.



PLANNING: OBJECTIVES TO OUTCOMES

Objectives / Resources / targets / Implementation / Review / correction

Type	Essential fact / condition / correction
Idea	It mainly addressed the agrarian sector, including investment in dams and irrigation; Ex- Huge allocations were made for Bhakhra Nangal Dam.; It was based on the Harrod Domar Model and emphasised increasing savings.
Idea	IIT chronology: Kharagpur formally inaugurated 1951; Bombay 1958; Madras/Kanpur 1959; Delhi 1961. Five IITs were not established by 1956.

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Date	The target growth rate was 2.1% and the achieved growth rate was 3.6%. Second Five; (1956-61)
Idea	The Second Five year Plan stressed rapid industrialisation and the public sector.; It was drafted and planned under the leadership of P.C Mahalanobis.
Idea	It emphasised quick structural transformation.
Idea	The government imposed tariffs on imports to protect domestic industries under this plan.
Date	The target growth rate was 4.5% and the actual growth rate was slightly less than expected, 4.27%. Third Five; (1961-66); The focus was on agriculture and improvement in the production of wheat.
Idea	States were entrusted with additional development responsibilities; Ex- States were made responsible for secondary and higher education.
Idea	Panchayat elections were introduced to bring democracy to the grassroots level.
Value	Third Plan 1961-66: target 5.6%; actual 2.8% in the cited Mo SPI historical summary. Actual rates depend on the statistical vintage.
Date	This indicated a miserable failure of the Third Plan, and the government had to declare "Plan Holidays" (1966- 67, 1967-68, and 1968-69). The Sino-Indian War and the Indo-Pak War, which caused the Third Five Year Plan to fail, were the primary causes of the plan holidays **Reading correction:** Mo SPI historical plan summary: Ninth Plan target 6.5%, actual 5.4%, not the source 7.1%/6.8%. Keep the official summary's statistical vintage.
Date	Fourth Five-; (1969-74)
Idea	It was introduced under the Prime Ministership of Indira Gandhi and attempted to correct the previous failures.
Idea	Based on Gadgil Formula, a great deal of emphasis was laid on growth with stability and progress towards self- reliance. **Reading correction:** Distinguish Gadgil resource-allocation formula from the complete Fourth Plan growth strategy.
Idea	The government nationalised 14 major Indian Banks and the Green Revolution boosted agriculture.; The Drought Prone Area Programme was also launched.
Date	Fourth Plan 1969-74: target 5.7%; actual 3.3% in the cited historical Mo SPI summary.; (1974-78)
Idea	It laid stress on increasing employment and poverty alleviation (garibi hatao).
Date	In 1975, the Electricity Supply Act was amended, enabling the central government to enter into power generation and transmission.
Idea	National-highway investment did not originate in the Fifth Plan. The National Highways Act was enacted 11 September 1956 and came into force 15 April 1957.
Aim	The Minimum Needs Programme introduced in the first year of this plan, aimed to provide basic minimum needs
Date	The target growth rate was 4.4% and the actual growth rate turned out to be 4.8%; In 1978, the newly elected Morarji Desai government rejected this plan

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Date	Rolling Plan (1978-80) This was a period of instability
Idea	The Janata Party government rejected the fifth five -year Plan and introduced a new Sixth Five -Year Plan
Date	This, in turn, was rejected by the Indian National Congress in 1980 upon Indira Gandhi's re-election.
Idea	A rolling plan is one in which the effectiveness of the plan is evaluated annually and a new plan is created the following year based on this evaluation
Date	As a result, throughout this plan, both the allocation and the targets are updated; Sixth Five; (1980-85)
Idea	The Sixth Plan 1980-85 pursued poverty reduction, modernisation and growth; selective deregulation gathered pace in the 1980s. It was not an instantaneous removal of every price control.
Idea	Changes during the 1980s were selective; the broader 1991 reform programme followed later. Do not identify one Plan as a legal end-date for an entire economic philosophy.
Aim	National family planning began 1952. It did not begin with the Sixth Plan; population and family-welfare objectives continued across Plans.
Body	On the recommendation of the Shivaraman Committee, the National Bank for Agriculture and Rural Development was established.
Date	The target growth rate was 5.2% and the actual growth rate was 5.7%, implying that it was a success; Seventh Five; (1985-90); This plan was led by the Prime Ministership of Rajiv Gandhi.
Idea	It laid stress on improving Industrial productivity levels through the use of technology.
Aim	Other objectives included increasing economic productivity, increasing the production of food grains and generating employment by providing Social Justice.
Idea	The outcome of the Sixth Five-Year Plan provided a robust base for the success of the seventh five-year plan.
Date	It emphasised anti-poverty programmes, the use of modern technology, and the need to make India an independent economy.; It focused on attaining prerequisites for self-sustained growth by 2000.
Date	The target growth rate was 5.0%. However, the actual growth rate grew to reach 6.01% Annual Plans (1990-92) The Eight Five Year Plan was not introduced in 1990 and the following years 1990-91 and 1991-92 were treated as Annual Plans
Idea	This was largely because of the economic instability; India faced a crisis of foreign exchange reserves during this time
Idea	Liberalisation, Privatisation, Globalisation (LPG) was introduced in India to grapple with the problem of the economy under prime minister P.V Narasimha Rao.
Date	Eighth Five; (1992-97); The Eighth Plan promoted the modernisation of Industries.; India became a member of the World Trade Organisation on 1 January 1995.

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Aim	The goals were to control population growth, reduce poverty, generate employment, strengthen the development of infrastructure, manage tourism, focus on human resource development etc.
Idea	It also laid emphasis on involving the Panchayats and Nagar Palikas through decentralisation.
Date	The target growth rate was 5.6% but the actual growth rate was an incredible 6.8%. Ninth Five; (1997-2002)
Date	The Ninth Plan 1997-2002 coincided with 50 years of independence. It began under the United Front government; Vajpayee's later government overlapped its implementation.
Idea	It offered support for social spheres to achieve complete elimination of poverty and witnessed the joint efforts of public and private sectors in guaranteeing economic development.
Idea	The focus was also to balance the relationship between rapid growth and the quality of life for the people.
Aim	The objectives, further included, empowering socially disadvantaged classes, developing self-reliance and primary education for all children in the country.
Value	Strategies included enhancing the high rate of export to gain self-reliance, efficient use of scarce resources for rapid growth etc.; Ninth Plan: target 6.5%,actual 5.4% in the cited historical Mo SPI summary.
Date	(2002-07)
Value	The features of this plan were to promote inclusive growth and equitable development.; It intended for an 8% GDP growth per year.
Value	Tenth Plan 2002-07:50 million job opportunities and poverty ratio 21% in the PIB 2004 target summary; these are targets, not achieved outcomes.; Further, it aimed to reduce regional inequalities.
Date	It also emphasised reducing the gender gaps in the field of education and wage rates by 2007.; Tenth Plan: approved target 8.0%; actual 7.6% in the cited historical summary.
Date	(2007-2012)
Aim	The Eleventh Plan was significant in its aim to increase enrolment in higher education and focused on distant education as well as IT institutes
Date	Ex: The Right to Education Act was introduced in 2009, and came into effect in 2010, making education free and compulsory for children aged between 6-14 years.



PLANNING: OBJECTIVES TO OUTCOMES

Objectives / Resources / targets / Implementation / Review / correction

National Highways Act /1956

Commerce /engineering exports 2026

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Idea	Its main theme was rapid and more inclusive growth.
Aim	It is aimed at environmental sustainability and reduction in gender inequality.
Body	The Eleventh Plan was prepared through the Planning Commission/government process. Its institutional authorship must not be reduced to one individual.
Date	The focus was also laid on providing clean drinking water for all by 2009.; The target rate was 9% and the actual growth rate was 8%. Twelfth Five
Date	(2012-17)
Idea	The last Five Year Plan had "Faster, More Inclusive and Sustainable Growth" as its theme.
Aim	The plan aimed at strengthening infrastructure projects, and providing electricity supply in all villages.
Aim	It also aimed at removing the gender and social gap in admissions at school and improved access to higher education.
Value	Further, it aspired to enhance the green cover by 1 million hectares each year and to create new opportunities in the non-farming sector.
Date	The target growth rate was 9% but in 2012, National Development Council approved a growth rate of 8% for this twelfth plan; Assessment Of Five-Year Plan Performance
Aim	Fundamental goal : To raise national income as well as per capita income.
Idea	However, both national and per capita income growth were quite modest during the planning era.; 7 of the 12 five-year plans experienced lower growth rates than expected.
Idea	Growth rates were modest during the first three decades of planning, but then picked up.; Massive fluctuations were another aspect of growth story.
Date	Negative per capita income growth has recorded in times such as 1971-72 and 1991-92. **Reading correction:** Mo SPI historical plan summary: Ninth Plan target 6.5%, actual 5.4%, not the source 7.1%/6.8%. Keep the official summary's statistical vintage.
Idea	Agriculture growth has indeed been highly volatile, due to the change in environmental factors
Idea	The green revolution of the 1960s and the government's efforts to promote agriculture via different programmes have worked splendidly for the country.
Idea	Today, India, has not only attained self-sufficiency in food grains production, but also a leading exporter of many agricultural products.
Idea	With the expansion of the iron and steel, machine tool, and heavy engineering industries, India has made major strides toward capital equipment self- sufficiency.
Value	Engineering goods are important merchandise exports. Department of Commerce's June 2026 account puts their share at nearly 28%,with exports US$122.43 billion in FY 2025-26; the source 86% claim is not retained. **Reading correction:** Mo SPI historical Third Plan summary gives 2.8% actual against 5.6% target. The source 2.4% is not the rate in this selected official vintage.

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Date	National Institution For Transforming India (Niti Aayog); Established: January 1, 2015, by a resolution of the Union Cabinet.
Idea	Government of India's top policy "Think Tank," offering both directional and policy suggestions.
Idea	Gives relevant technical assistance to the Centre and States in designing strategic and long-term policies and programmes for the Government of India
Idea	NITI Aayog serves as the Government of India's central platform for bringing states together to work in the national interest, fostering Cooperative Federalism.
Idea	The creation of NITI Aayog is focused on two hubs:; i)Team India; ii)Knowledge and Innovation Hub.
Idea	Team India Hub : coordinates state involvement with the central government, while the Knowledge and Innovation Hub : strengthens NITI's think-tank capabilities.
Idea	These hubs reflect the NITI Aayog's two primary responsibilities.
Idea	NITI Aayog is also transforming itself into a cutting-edge resource centre, with the requisite resources, expertise, and abilities to move quickly, promote research and innovation, provide strategic policy vision for the government, and cope with unforeseen situations.
Idea	Chairman : Prime Minister; Govering Council; Functions of NITI Aayog; NITI Aayog has following important functions to perform:
Aim	To develop a shared vision of national development priority sectors and strategies, with active state participation, in the light of national objectives.
Idea	To promote cooperative federalism on a constant basis through organised support programmes and process with the states, understanding the strong states make a strong nation.
Idea	To create procedures for developing viable plans at the village level and gradually aggregating these at higher levels of government.
Idea	To ensure that national security considerations are included into economic strategy and policy in areas explicitly referenced to it.
Idea	To give special attention to those segments of our society, who may be at danger of not benefiting adequately from economic advancement.
Idea	Create strategic and long-term policy and programme frameworks and initiatives, as well as track their development and efficacy
Idea	Lessons learned through monitoring and feedback will be utilised to make novel changes, including midcourse adjustments.
Idea	To give guidance and foster collaboration between important stakeholders and like-minded think tanks on a national and worldwide level, as well as educational and policy research organisations.
Idea	To establish a collaborative network of national and international specialists, practitioners, and other partners to encourage knowledge, innovation, and entrepreneurship.
Idea	To provide a forum for the resolution of cross-sectoral and cross-departmental issues in order to expedite the execution of the development plan.

Primary references / see chapter notes

Economic planning and NITI Aayog / study facts

Type	Essential fact / condition / correction
Idea	Maintaining a cutting-edge Resource Centre, serving as a repository for research on good governance and best practices, in sustainable and equitable development, and assisting in their dissemination to stakeholders
Idea	Actively monitor and assess programme and initiative execution, including the identification of required resources, in order to increase the likelihood of success and scope of delivery.
Idea	To concentrate on technological advancement and capacity building for programme and initiative execution.
Aim	To carry out any additional actions that may be required to enhance the implementation of the national development strategy and the previously indicated goals.
Idea	The case for NITI Aayog; Planning Commission-not in tune with new development strategy
Idea	The Planning Commission is out of sync with the current development strategy:
Idea	Over the years, there were two inconsistencies between the Indian development strategy and the five-year planning model that hampered the economic climate.
Idea	1st : Between the planning framework and the market's role.
Idea	In the early years after independence, a planning framework was necessary to distribute the low levels of savings to invest in badly needed infrastructure and priority sectors in order to overcome serious infrastructure deficiencies and the economy's lack of competitiveness.
Date	However, the framework did not adjust to the transition phase, following the 1991 economic reform era.
Idea	With budgetary restrictions tightening and political economic concerns crowding out infrastructure expenditure with subsidies and transfers, the planning process has lost much of its importance.
Idea	2nd: between centralised authority over resource allocation and the states' developmental role, in a federal system of government.
Body	The loss of single-party dominance, as well as the rise of coalition governments and regional parties as members of the central coalition,
Idea	highlighted the conflict between centralised planning in a federal structure.
Idea	As a result of the above, the two major sources of economic dynamism, the private sector and the states, were forced to operate in a limited environment.



PLANNING: OBJECTIVES TO OUTCOMES

Objectives / Resources / targets / Implementation / Review / correction

Primary references / see chapter notes

Native archive / niti-diagram

Historical source table; verify vintage/units before current use.

Source diagram role	Scope to verify
Prime Minister	Chairperson
Ex-officio members	Membership category
Vice-chairperson	Institutional role
Full-time members	Institutional role
Chief Ministers	State representation
Andaman/Nicobar LG	Source diagram partial UT representation
Special invitees	Notification-dependent participation

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
Institution	Planning Commission:1950; NITI Aayog:1 January 2015. NITI is a policy/cooperation institution, not a renamed Five-Year Plan allocation body.
Official historical target→actual GDP growth%	Mo SPI summary: First 2.1→3.6; Second 4.5→4.3; Third 5.6→2.8; Fourth 5.7→3.3; Fifth 4.4→4.8; Sixth 5.2→5.7; Seventh 5.0→6.0; Eighth 5.6→6.8; Ninth 6.5→5.4; Tenth 8.0→7.6; Eleventh 9.0→8.0. These belong to that historical vintage; revised series may differ.
Origins	First IIT formally inaugurated 1951; national family-planning programme began 1952. Neither began with the Sixth Plan.
NITI Governing Council	Prime Minister; State/UT Chief Ministers as applicable; other UT Lieutenant Governors/administrators; notified institutional members/invitees. Do not mistake a partial source diagram for the complete current composition.
Tenth Plan /2002-07	PIB's 2004 summary specifies 50 million job opportunities,8% GDP-growth target and poverty ratio 21%. The source 80 million jobs and half-poverty claim must not replace these dated targets.

References / source and scope

Code	Authority / scope / clickable reference
S 1	NCERT: Indian Economy 1950-1990
S 2	NITI digital library: Five-Year and Annual Plans
S 3	NITI annual report: institutional formation

Primary references / see chapter notes

References / source and scope / continued

Code	Authority / scope / clickable reference
S 4	NITI: Governing Council Secretariat
S 5	PIB: objectives of NITI Aayog
PC	PIB: Tenth Plan quantified objectives,2004

Five original questions

Question	Choose one answer
Q 1	A plan target is: **A.** A guarantee; **B.** An intended measurable outcome **C.** An audited actual; **D.** A bank deposit
Q 2	NITI Aayog began in: **A.** 1950; **B.** 1991 **C.** 2015; **D.** 2020
Q 3	Which is a territorial planning dimension? **A.** Regional/national; **B.** Long/short term **C.** Centralised/decentralised; **D.** Sector ownership
Q 4	A rolling plan involves: **A.** No review; **B.** Annual review and updating **C.** Only one fixed year; **D.** No targets
Q 5	Cooperative federalism emphasises: **A.** States excluded; **B.** Centre-State participation **C.** Only private finance; **D.** Only foreign institutions

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /B	Target and actual are separate.
2 /C	Cabinet resolution established it 1 January 2015.
3 /A	Regional/national concerns geography.
4 /B	The horizon/allocations are updated through review.
5 /B	State participation is central to the framework.

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	Economic planning links objectives, resources, action and review.
02	Planning can coexist with private enterprise in a mixed economy.
03	Centralised/decentralised planning describes where decisions originate.
04	Sectoral planning focuses on an activity; spatial planning on locations.
05	National and regional planning differ in territorial scope.
06	Growth, modernisation, self-reliance and equity are major planning goals.
07	Self-reliance does not mean ending all international trade.
08	The Planning Commission was established on 15 March 1950.
09	The First Five-Year Plan covered 1951-56.
10	The First Plan emphasised agriculture and irrigation.
11	The Second Plan covered 1956-61 and stressed industrialisation.
12	The Mahalanobis model is associated with the Second Plan.
13	The Third Plan covered 1961-66.
14	Three Annual Plans operated during 1966-69.
15	The Fourth Plan covered 1969-74.
16	The Fifth Plan was intended for 1974-79 but terminated in 1978.
17	The rolling-plan episode belongs to 1978-80.
18	The Sixth Plan covered 1980-85; the Seventh covered 1985-90.
19	Annual Plans bridged 1990-92 before the Eighth Plan.
20	The Eighth Plan covered 1992-97; the Ninth covered 1997-2002.
21	The Tenth Plan covered 2002-07; the Eleventh covered 2007-12.
22	The Twelfth Plan, 2012-17, was the last Five-Year Plan in this sequence.
23	NITI Aayog was established by Cabinet resolution on 1 January 2015.
24	NITI expands to National Institution for Transforming India.
25	The Prime Minister is the Chairperson of NITI Aayog.
26	NITI Aayog is a policy think tank; it is not the Finance Commission.
27	Cooperative federalism involves governments working towards shared goals.
28	An 8% target and 6% outcome differ by 2 percentage points, not 2%.

Primary references / see chapter notes

Sectors of the Indian economy

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

SECTOR LINKAGE

Primary inputs → Processing → Services / market → Final demand



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

Type	Essential fact / condition / correction
Idea	Paper IE and IFS Module A, Unit 2: Sectors of the Indian; Economy; Sectors of the Indian Economy
Idea	Economic activities in an economy are usually classified into three major sectors, and economies achieve development via their dominance in such areas.
Idea	ROLE & IMPORTANCE OF PRIMARY, SECONDARY, TERTIARY SECTOR,; QUATERNARY & QUINARY SECTORS; Primary Sector
Idea	This sector includes all those economic activities where there is the direct use of natural resources as; agriculture, forestry, fishing, fuels, metals, minerals, etc.
Value	An agrarian economy is characterised by the relevant activity's economic importance. A universal simultaneous 50% GDP-and-employment threshold is not the definition of the activity.
Idea	Primary sector constitutes (a)agriculture, (b)forestry, and (c)fishing; Secondary Sector
Idea	Includes all economic activities that involve the processing of raw materials extracted from the primary sector also called industrial sector.
Idea	Manufacturing historically helped industrialising economies absorb labour. It is not necessarily the largest employer in today's advanced, service-led economies.
Value	An industrial economy is characterised by the relevant activity's economic importance. A universal simultaneous 50% GDP-and-employment threshold is not the definition of the activity.
Idea	Tertiary Sector
Idea	This sector includes all economic activities that produce services, such as education, healthcare, banking, communication, and so on.
Value	An service-led economy is characterised by the relevant activity's economic importance. A universal simultaneous 50% GDP-and-employment threshold is not the definition of the activity.

Primary references / see chapter notes

Sectors of the Indian economy / study facts

Type	Essential fact / condition / correction
Idea	Along with these 3 main sectors, the quaternary and quinary sectors have been introduced; In a broader they are tertiary sector sub sectors; Quaternary Sector
Idea	Also known as the ‘knowledge’ sector.; Includes activities such as teaching, research, and development.; Most important in assessing the strength of an economy’s human resources.

Gdp Contribution Of Different Sectors

Type	Essential fact / condition / correction
Idea	The intellectual aspect of the economy is represented by the quaternary sector; This group includes:; Employees in office buildings,; Elementary schools and university classrooms,
Idea	Hospitals and physicians’ offices,; Theatres,; Accountancy and; Brokerage businesses, and so on.; Quinary Sector; Includes activities in which key choices are made.
Idea	Includes the highest level of decision makers in governments (including their bureaucracy) and the private corporate sector.
Idea	The number of people participating in this sector is quite small, yet they are regarded the “brain” behind an economy’s socioeconomic performance
Idea	This group includes occupations such as; Senior company executives,; Government officials,; Research scientists,; Financial and legal advisors and others.
Idea	DIFFERENCE BETWEEN THE SECTORS; The differences in activities are the foundations of their classification; The following are some of the most significant variations.
Idea	DIFFERENT REVOLUTIONS IN PRIMARY SECTOR; Agriculture has always been the most important industry in India.
Idea	Traditional, subsistence and livelihood, rain fed farming, food grain oriented, and deficient in diversification and commercialisation characterise India’s agricultural sector.
Idea	To overcome the decreased supply in recent time, the government carried out a series of revolutions in the primary sector to increase capacity; The multiple revolutions influencing agricultural production:
Idea	GDP CONTRIBUTION OF DIFFERENT SECTORS
Idea	India’s output structure shifted towards services over time. Dominance and a numerical majority depend on whether the denominator is GDP or GVA and on the chosen year.
Value	Use the 5 June 2026 Mo SPI release: FY 2025-26 nominal GVA rounded chart shares-agriculture/allied 18%; mining 2%; manufacturing 15%; utilities 3%; construction 8%; trade/transport/storage 14%; finance/real-estate/IT/professional 27%; public/other services 13%. Keep its 2022-23 base and provisional vintage.
Idea	AGRICULTURE; Most significant sector in India.; Not only the largest sector, but also the biggest private sector.

Primary references / see chapter notes

Sectors of the Indian economy / study facts

Type	Essential fact / condition / correction
Idea	Agriculture supports many livelihoods, including informal work. Agriculture, unorganised enterprises and informal workers are different statistical categories; one percentage cannot describe all three.
Value	The source's undated 93.4%/40 crore labour-force assertion is excluded. Examine survey coverage, reference year and enterprise-versus-worker definitions when comparing informality.
Idea	Agriculture's share in gross income has been declining, while the industrial and service sectors' shares have been steadily increasing; Agriculture has recently had satisfactory development as a result of:
Idea	improved technology,; irrigation,; inputs, and; pricing strategies
Idea	In recent years, livestock, poultry , fisheries, and horticulture have led the way in terms of output increase.
Idea	Despite all these structural changes, agriculture remains a critical sector, offering employment and livelihood opportunities to a large segment of the population.
Date	Government of India Report of 2020-21 by Ministry of Agriculture & Farmers' Welfare; "Agriculture plays a vital role in India's economy.
Date	54.6% of the total workforce is engaged in agricultural and allied sector activities (Census 2011) and accounts for 17.8% of the country's Gross Value Added (GVA) for the year 2019-20 (at current prices).
Idea	Given the importance of the agriculture sector, Government of India has taken several steps for its development in a sustainable manner.; Steps have been taken to improve the income of farmers.
Date	Further, to mitigate risk in the agriculture sector, a scheme 'Pradhan Mantri Fasal Bima Yojana' (PMFBY) was also launched in 2016.
Date	Schemes such as Formation & promotion of 10,000 FPOs & the Agriculture Infrastructure Fund have also been launched recently to benefit the sector." As per the Land Use Statistics 2016-17
Value	Ministry of Agriculture's 2020-21 report cites agriculture/allied GVA share 17.8% in 2019-20 at current prices. This is a dated historical series; do not infer a comparable 2015-19 average from the source's malformed date range.



SECTOR LINKAGE

Primary inputs / Processing / Services / market / Final demand

Primary references / see chapter notes

Sectors of the Indian economy / study facts

Type	Essential fact / condition / correction
Idea	INDUSTRY; The industrial sector is equally vital, since it promotes; Economic growth,; Provides self-sufficiency and employment,
Idea	Generates demand for agricultural commodities and produces a ‘ripple effect; Industry’s share of GVA has increased
Idea	Industry’s historical role expanded through capital-goods capacity, manufacturing, utilities and construction. Historical shares require a named price/territory series.
Date	Four broad phases in this source:1951-65 foundation;1965-80 slowdown;1980-91 recovery; post 1991 reform. These are teaching periodisations, not independent legal regimes.
Idea	IIP measures changes in production volume. The old base was 2011-12; the new 2022-23 base series launched 1 June 2026. The source 2010-11 base is incorrect.
Idea	The 2022-23 IIP covers mining/quarrying, manufacturing, electricity/gas, and water supply/sewerage/waste management. Use-based classifications distinguish types of industrial demand.
Idea	NSO/Mo SPI compiles IIP; Office of Economic Adviser, DPIIT compiles ICI. Historical 2011-12 ICI had eight industries: refinery products, electricity, steel, coal, crude oil, natural gas, cement, fertilisers. Later supplement 20 July 2026: new 2022-23 ICI has nine, adding iron ore. Old weights must not be applied to the new series.
Idea	Refinery; Products; Electricity,; Steel,; Coal,; Crude oil,; Natural gas,; Cement; Fertilisers.; SERVICES
Idea	The sector produces ‘intangible or invisible goods’ for businesses as well as consumers, Trade, repairs, hotels & restaurants, transport, storage, communication & broadcasting services, railways, road transport, water transport, air transport, services incidental to transport, storage, financial, real estate, and professional services are all sub-sectors of the services sector.
Idea	Financial services, real estate, property ownership, and professional services, communal, social, and personal services, government administration and defence, and other services are all a part of the services.
Idea	Services became the largest broad output grouping. Compare the dated historical series with the separate 2026 Mo SPI composition table rather than treating old percentages as current.
Date	As per Government of India publication, chapter 9 of Union Budget 2019-20 -; “The services sector accounts for 54% of India’s Gross Value Added (GVA).
Date	Its growth rate moderated to 7.5% in 2018-19 from 8.1% in 2017- 18.
Idea	The segments that saw deceleration are tourism, trade, hotels, transport, communication and services related to broadcasting, public administration and defence.
Idea	Financial, real estate and professional services category accelerated.
Date	An important finding is that India’s services sector does not generate jobs in proportion to its share in GVA.; Foreign Tourist: 2017-18 : 10.4 million

Primary references / see chapter notes

Sectors of the Indian economy / study facts

Type	Essential fact / condition / correction
Date	2018-19 : 10.6 million; Foreign exchange earnings from tourism in India; 2017-18: US$28.7 billion; 2018-19: US$27.7 billion
Date	Many of the high frequency indicators, such as bank credit to services sector, decelerated in 2018-19.
Date	However, the IT-BPM industry grew by 8.4% in 2017-18 (US$167 bn) & is estimated to have reached US$181 bn in 2018-19". As per the findings of the Ministry of Statistics and Programme Implementation (Mo SPI), in the year 2019-20
Date	As per the World Investment Report 2021 by the UN Conference on Trade and Development (UNCTAD), India in 2020 was the 5th largest recipient of FDI.
Idea	India has made a global impact by being amongst the top ten service exporter countries.; India's and Indians dominance in Software is globally respected
Value	Software and IT-enabled services are important service exports. Net exports, gross receipts and category shares have different denominators; an undated 40% share is not retained.
Idea	Employment Growth Rate In Secondary Sector
Value	Manufacturing offers employment opportunities across skill levels. Its labour-force share is survey- and year-specific; the source's undated 12% is not retained.
Idea	Known throughout the world for creating mass employment for low- skilled workers in the modern economy.

Sunrise Sector Of Indian Economy

Type	Essential fact / condition / correction
Idea	With agriculture's capability to provide jobs rapidly dwindling and the modern services sector's limited ability to absorb relatively unskilled labour displaced from agriculture, hopes are that the manufacturing sector will generate mass employment.
Idea	The construction sector : 2nd largest employment sector in the country, only after agriculture.
Idea	Construction activity is an essential component of a country's industrial and infrastructure growth, as well as a key input for socioeconomic development.
Idea	This sector provides significant employment and growth input to other sectors via backward and forward linkages.
Idea	Cement, steel, bricks, tiles, sand, aggregates, fixtures, fillings, paints & chemicals, construction equipment, petro-products, timber, mineral products, metal, glass, and plastics are all important components of the construction industry.
Idea	The Indian construction sector is an important element of the economy, and it is positioned for strong expansion as a result of industrialisation, urbanisation, and economic development, as well as people's aspirations of higher living standards.
Value	Construction creates direct work and demand for materials, transport and professional services. The undated 31 million/8% employment snapshot is not retained.

Primary references / see chapter notes

Sunrise Sector Of Indian Economy / continued

Type	Essential fact / condition / correction
Idea	SUNRISE SECTOR OF INDIAN ECONOMY
Idea	A sunrise sector is one that is still in its infancy, but has the potential for significant growth.; CHARACTERISTICS:; strong growth rates,; a high degree of innovation,
Idea	a high level of public awareness, with investors attracted to its long-term growth prospects
Idea	Existing Indian industries that may be categorised as Sunrise sectors are likely to benefit the economy in terms of job creation and business growth, in the future.
Idea	Green Energy,; Fintech, Information Technology,; Electronics,; Pharmaceuticals,; Automobiles,; Healthcare,; Infrastructure Sector,; Retail Sector,
Idea	Processing Plants,; and other emerging sectors of the Indian economy; ORGANISED AND UNORGANISED SECTORS
Idea	Organised employment typically has documented terms and prescribed protections. It does not guarantee perpetual employment or prove every employer complies.

Basis For; Comparison; Organised Sector Unorganised Sector

Type	Essential fact / condition / correction
Idea	Registered enterprises may employ workers on different arrangements; establishment registration and a particular worker’s social-security coverage are separate.
Idea	Licensed shops, clinics and offices may fall under different establishment/workforce rules. A licence alone does not establish that every worker receives all formal-sector benefits.
Define	Unorganised-enterprise and informal-worker definitions concern ownership, size and employment protection. They are not simply synonyms for absence of all registration or all law.
Idea	Home-based workers, domestic workers, street vendors and small-workshop workers may be informal. Construction can contain both formal and informal employment.
Idea	A home-based worker, self-employed worker or wage worker in the unorganised sector is an unorganised worker.
Idea	Common vulnerabilities include low/irregular earnings, unstable work and weak effective protection. Applicable legal rights can exist despite poor enforcement.
Idea	According to the NCEUS (National Commission for Enterprises in Unorganised Sector) categorisation, “the unorganised sector comprises of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with fewer than ten total workers.”
Define	However, “informal workers” are defined as “those who work in unorganised firms or families, excluding regular workers with social security benefits, and workers in the formal sector who do not get any employment benefits/social security from their employers.” Difference between Organised and Unorganised sectors
Idea	BASIS FOR; COMPARISON; ORGANISED SECTOR UNORGANISED SECTOR

Primary references / see chapter notes

Basis For; Comparison; Organised Sector Unorganised Sector / continued

Type	Essential fact / condition / correction
Idea	Meaning The sector in which the employment terms are fixed and employees have assured work is Organised sector
Idea	The sector that comprises of small scale emterprises or units and are not registered with the government
Idea	Legal update: the government made four Labour Codes effective 21 November 2025-Wages 2019; Industrial Relations 2020; Social Security 2020; Occupational Safety, Health and Working Conditions 2020. The source's individual Acts are historical references; application also depends on notified rules/transitional arrangements.



SECTOR LINKAGE

Primary inputs / Processing / Services / market / Final demand

Type	Essential fact / condition / correction
Idea	Unorganised or informal status does not mean that no law applies. Distinguish legal entitlement, enterprise coverage and actual compliance. **Reading correction:** Correction: informal status does not eliminate all applicable legal obligations.
Idea	Formal rules prescribe compliance; actual compliance must be checked. Monthly or daily payment depends on contract and applicable law, not merely the sector label.
Idea	Job security and working hours depend on the contract, law and enforcement. Informal workers face greater vulnerability, but neither sector label proves every worker's conditions.
Idea	Overtime Workers are paid remuneration for overtime
Idea	Lack of paid overtime in practice is not proof that the worker has no legal overtime entitlement.
Idea	Wages reflect contracts and applicable wage floors. Government does not prescribe every organised-sector worker's exact salary.
Idea	Some informal workers receive less than applicable wage floors; that describes a compliance failure, not a universal lawful wage rule.
Idea	Provident fund, pension, medical and leave benefits depend on coverage and employment conditions. Separate enterprise status from worker benefits and actual enforcement.
Define	Absence of benefits is a common vulnerability, not a universal legal definition of unorganised work.

Primary references / see chapter notes

Native archive / sector-comparison

Classify the activity separately from the enterprise/worker's formal status. Mining is a primary extraction activity but may be grouped with industry in national-accounts statistics.

Dimension	Primary	Secondary	Tertiary
Activity	Agriculture, forestry, mining	Processing/manufacturing	Services including banking /insurance/communicatio ns
Role	Raw materials	Transformation/value added	Supports production and consumption
Enterprise status	May be formal or informal	May be formal or informal	May be formal or informal
Employment share	Country/period-specific	Country/period-specific	Country/period-specific

Native archive / revolutions

Learning mnemonics, not a uniform statutory classification. Product associations: ICAR-CIWA 2023; White/Operation Flood: NDDB; Green/Evergreen: ICAR. Unverified single-person/period particulars are excluded and logged separately.

Production mnemonic	Corroborated association / distinction
Green	Agriculture; M.S.Swaminathan's Indian contribution
White / Operation Flood	Milk/dairy; Verghese Kurien; Operation Flood 1970-1996
Yellow	Oilseeds
Blue	Fish/aquaculture
Golden	Fruit, honey, horticulture
Golden fibre	Jute
Silver	Eggs
Pink	Prawns/onion (ICAR-CIWA mnemonic)
Brown	Leather/cocoa (ICAR-CIWA mnemonic)
Red	Meat, tomato
Grey	Fertilisers (ICAR-CIWA mnemonic)
Evergreen	Sustainable productivity without ecological harm; M.S.Swaminathan

Native archive / industrial-phases

Historical source table; verify vintage/units before current use.

Primary references / see chapter notes

Native archive / industrial-phases / continued

Period	Source phase
1951-65	Industrial foundation
1965-80	Industrial fall
1980-91	Industrial recovery
1991 onward	Post-reform

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
IIP / current series	Mo SPI official metadata: base 2022-23; monthly volume index. Coverage now includes gas supply and water supply/sewerage/waste management, beyond the old mining-manufacturing-electricity scope.
IIP / source correction	Capsule base 2010-11 is wrong. Old series 2011-12 and current 2022-23 are different vintages; do not combine levels without the published linking method.
Index compiler	IIP: Mo SPI. Core-industries index: Office of Economic Adviser, DPIIT. A subset of industries and an all-industry index differ.
Revolution labels	Product associations are mnemonics. Disputed fathers/periods in the source archive remain flagged; they are not certified official classifications.
Shares	Output share ≠ employment share. A sector can grow in value while its share falls if the total grows faster.
ICI / later supplement 20 July 2026	DPIIT rebased ICI to 2022-23 and added iron ore: nine core industries. Old 2011-12 series had eight; do not carry over its weights. This change is after the 30 June 2026 exam cutoff.

References / source and scope

Code	Authority / scope / clickable reference
S 1	NCERT: Sectors of the Indian Economy
S 2	Mo SPI: IIP 2022-23 series catalogue
S 3	OEA / PIB: revised Core Industries series, 20 July 2026
S 4	ICAR-CIWA: agricultural revolutions reference
S 5	Mo SPI / PIB: Q 1 FY 2026-27 national accounts
NEW	Mo SPI: IIP 2022-23 series metadata

Primary references / see chapter notes

Five original questions

Question	Choose one answer
Q 1	A mill processing grain is mainly: **A.** Primary; **B.** Secondary **C.** Quinary; **D.** No sector
Q 2	Milk-production expansion is associated with: **A.** White; **B.** Black **C.** Grey; **D.** Round
Q 3	A falling agricultural output share proves: **A.** Output must fall; **B.** Workers must leave **C.** Neither follows automatically; **D.** GDP becomes zero
Q 4	IIP measures changes primarily in: **A.** Production volume; **B.** Stock prices **C.** Bank deposits; **D.** Exchange reserves
Q 5	Informal work means: **A.** No law ever applies; **B.** Registration and benefits need separate examination **C.** Always no output; **D.** Always salaried

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /B	Processing is a secondary activity.
2 /A	White/Operation Flood concerns dairy.
3 /C	A share depends on sector value and total value.
4 /A	It is a production index.
5 /B	Enterprise and worker status differ from legal obligations/compliance.

Mo SPI /GDP provisional 5 June 2026

ICAR-CIWA /production mnemonics

ICAR /Green and Evergreen

NDDB /White Revolution

Ministry of Labour /four Codes

PIB /historical services 2019

DPIIT /nine core industries 2026

Primary references / see chapter notes

Read the denominator before the percentage

GDP at market prices=GVA at basic prices+product taxes−product subsidies. Agriculture/allied differs from all primary extraction; mining may be grouped statistically with industry.

FY 2025–26 nominal GVA /official rounded chart	Share%
Agriculture/allied	18
Mining	2
Manufacturing	15
Utilities	3
Construction	8
Trade/transport/storage	14
Finance/real-estate/IT/professional	27
Public administration/defence/other	13

Mo SPI 5 June 2026 provisional release,2022–23 base. Rounded chart shares; do not treat these as old-series or employment weights.

Land, cropping intensity and irrigation

Measure	Meaning / original worked example
Geographical area	Total territory; different from the area actually planted.
Net sown area	Land sown at least once during the year.
Gross cropped area	Counts the same land again when cropped more than once.
Cropping intensity	Gross cropped area /net sown area ×100.
Original example	Net sown 100 ha; gross cropped 150 ha →150% intensity.
Net irrigated area	Land irrigated at least once; does not double-count repeated irrigation.

MORE THAN ONE CROP ON THE SAME LAND



Land-use concepts are retained; the source’s unverified 2016–17 numbers are listed as approved omissions in the companion audit.

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	Primary activities obtain or use natural resources.
02	Manufacturing transforms materials and is a secondary activity.
03	Construction is generally classified as a secondary activity.
04	Trade, transport and banking are tertiary activities.
05	A retailer supplies a trading service; selling goods is not manufacturing.
06	Value added prevents repeated counting of intermediate production.
07	Agriculture's output share and its employment share are different measures.
08	Dairy, fisheries, poultry and horticulture can diversify farm livelihoods.
09	Green Revolution is associated with foodgrain productivity.
10	White Revolution / Operation Flood concerns milk and dairy development.
11	Verghese Kurien is a key association of India's White Revolution.
12	Blue Revolution concerns fisheries; Yellow Revolution concerns oilseeds.
13	IIP measures short-term changes in industrial production volume.
14	IIP is compiled by Mo SPI / NSO.
15	The revised IIP series uses base year 2022-23.
16	ICI is compiled by the Office of Economic Adviser in DPIIT.
17	The new ICI series released in July 2026 uses base year 2022-23.
18	Iron ore was added: the revised ICI covers nine core industries.
19	The old eight-core 40.27% IIP weight is not a new-series weight.
20	An index rising from 100 to 120 records 20% growth, not 120%.
21	Quaternary activity concerns knowledge and information functions.
22	Quinary is an analytical label for high-level decision functions.
23	GDP equals GVA plus net taxes on products.
24	A sector's falling share need not mean falling absolute output.
25	Labour productivity can be measured as output per worker or per hour.
26	Informal employment can exist within a formal enterprise.
27	Public/private ownership is a different axis from production-sector activity.
28	A sunrise activity has growth potential, not guaranteed profitability.

Primary references / see chapter notes

Priority sectors and MSMEs

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

MSME / PRIORITY CREDIT

Classify borrower → Eligible purpose → Applicable target / rules → Sound appraisal



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

Type	Essential fact / condition / correction
Idea	Paper IE and IFS Module A Unit 4: Role of Priority Sector and; MSME in the Indian Economy; Role of Priority Sector and MSME in the Indian Economy
Idea	Development of Priority sectors are much needed, for balanced and inclusive growth.
Idea	The RBI's Priority Sector Lending classifications and standards are meant to match with emerging national priorities and bring a deeper focus on inclusive development, thereby building consensus among all stakeholders.
Idea	Banks are entrusted with encouraging the growth of such sectors, by providing appropriate and timely financing
Idea	Micro, Small, and Medium Enterprises (MSMEs) : country's strongest drivers of economic growth, innovation, and employment.
Idea	NSS 73rd round 2015-16 estimated 6.3388 crore unincorporated non-agricultural MSMEs. This survey estimate differs from later Udyam/UAP registration totals.
Idea	The sector contributes
Value	Economic Survey 2025-26 summary: MSMEs account for about 31.1% of GDP,35.4% ofmanufacturing and 48.58% ofexports. These published headline measures have different denominators; they are not the source's undated 45/40/28 figures.
Idea	NSS 73rd round 2015-16 estimated 11.10 crore MSME jobs. This is a historical survey estimate, not a current count of jobs in registered enterprises.; Ranking 2nd only to agriculture, in terms of size of employment
Idea	Diverse: In terms of enterprise size, product and service diversity, and level of technology deployed

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	Driver of economic growth : Potential to grow faster and viewed as a driver of economic growth and a means of promoting equitable development
Idea	The MSME sector’s primary benefit is its employment potential, at a low capital cost; The importance of the MSME sector in; employment creation,; innovation,
Define	entrepreneurship, and; supply chains is critical.; Definition & Role Of Priority Sector
Date	Social Control over banks : Banking Laws (Amendment) Bill 1967, tabled in the Lok Sabha on December 23, 1967
Aim	Banks were directed to align their activities with national objectives through social control; The current framework of Priority Sector Lending (PSL)
Date	Dec 14, 1967: States in Lok Sabha by Morarji Desai, then Deputy Prime Minister and Minister of Finance ,that persistent complaints that several priority sectors, such as agriculture, SSI, & exports, had not received their fair share of bank credit.
Idea	As a result, the concept of priority sector lending was born.
Date	July 1968: At a National Credit Council meeting , it was stressed that commercial banks should boost their involvement in financing priority sectors such as agriculture and small-scale industries.
Idea	PSL comprises those sectors that have a substantial influence on vast portion of the population, the weaker sections & sectors that are employment intensive List Of Priority Sectors Identified In India
Date	To align it with emerging national priorities and bring a sharper focus on inclusive development, the RBI revised PSL guidelines on September 4, 2020, by including
Idea	Bank finance to start-ups (up to Rs. 50 crores);
Idea	Loans to farmers for the installation of solar power plants for solarisation of grid-connected agriculture pumps;; And loans for the establishment of Compressed Biogas (CBG) plants
Idea	The following are the priority sector categories:; I)Agriculture; II)MSMEs; III)Export Credit; IV) Education; V)Housing; VI)Social; VII)Renewable Energy
Idea	VIII)Others
Idea	IX)Weaker sections Priority Sector Lending Norms The priority sector lending targets and sub-targets are to be computed based on the Adjusted Net Bank Credit (ANBC)/ Credit Equivalent of Off-Balance-Sheet Exposures (CEOBE) as applicable on the corresponding date of the preceding year and are as follows **Reading correction:** Correction: weaker sections overlap PSL categories; they are not a ninth mutually exclusive category.
Date	Definition Of MSME In terms of Government of India Gazette Notification S.O. 2119(E) dated June 26, 2020 the definition of Micro, Small and Medium Enterprises is changed as under:

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	Udyam is the official MSME registration mechanism. Eligibility for registration and particular benefits must follow the notified framework; not every informal activity already holds a certificate.
Define	The new definition of MSMEs will make it easier for small businesses to expand and flourish.
Idea	The resulting economies of scale can boost productivity without depriving MSMEs of government benefits such as market support, export promotion, preferential procurement in the public sector, and incentives through the Micro Small Enterprises-Cluster Development Programme (MSE-CDP), Prime Minister Employment Generation Programme (PMEGP), and Scheme of Fund for Regeneration of Traditional Industries (SFURTI), as well as the enabling of IT ecosystems
Idea	This favourable atmosphere will encourage competitiveness and help MSMEs avoid growth retardation.
Date	The launch of the new Udyam Registration Portal in July 2020 is one of the recent efforts made by the government to boost the ease of doing business for MSMEs.
Idea	The registration procedure is entirely online, digital, and paperless, and it is based on self-declaration
Idea	Udyam uses paperless self-declaration and does not require uploading documentary proof; prescribed Aadhaar, PAN/GST-linked data/validation requirements still apply.
Idea	Role & Significance Of Msme In Economic Development; Feature : Employment potential at a low capital cost.
Value	Small and Medium Enterprises (SMEs) account for around 90% of businesses and more than 50% of employment globally.; The significance of the MSME sector is critical.
Idea	Hence, it is important to foster, nurture, and assist new business ideas, as they develop into enterprises.
Idea	The sector has benefited the economy, by encouraging the development of industries in all parts of the country
Idea	Factors such as SME finance from both domestic and foreign investors, as well as new technologies, are supporting SMEs in bringing substantial value to their businesses
Idea	I)Job creation,; II)Innovation,; III)Entrepreneurship; IV)Supply chains MSME - Present Status In India



MSME / PRIORITY CREDIT

Classify borrower / Eligible purpose / Applicable target / rules / Sound appraisal

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	Contributing significantly to the expansion of entrepreneurial endeavours through business innovations
Idea	The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet the demands of domestic as well as global markets
Idea	Contribution to GDP
Date	As per the data available with Central Statistics Office (CSO), M/o Statistics & Programme Implementation, the contribution of MSME sector in Country's Gross Value Added (GVA) and Gross Domestic Product (GDP) at current prices from 2014-15 to 2018-19 is as below:
Idea	Bank Credit to MSME Sector
Idea	The banking sector lending to industry has picked up, led by disbursals to the micro, small and medium enterprises (MSME) sector.
Date	Bank credit to industry improved 12.6% year-on-year in September 2022, compared to a muted 1.7% growth in the same month in FY 2021.; Banks' lending:
Value	Micro and small businesses: Grew 27% Yo Y; Medium enterprises: Increased 36% during the month.
Idea	ECLGS supported additional eligible borrower credit during the pandemic. Its guarantee window was extended to 31 March 2023; distinguish a guarantee/sanction window from an existing loan's repayment period.
Idea	Employment Generation; MSME sector has been creating
Value	11.10 crore jobs in the rural and the urban areas across the country. o 360.41 lakh in Manufacturing, o 0.07 lakh in non-captive Electricity Generation and Transmission, o 387.18 lakh in Trade o 362.82 lakh in Other Services
Idea	Trade, import and export for MSMEs' share in exports assumes significance as the government has been targeting $1 trillion in exports by FY 27.
Idea	In accordance with the target, the government had added 'Capacity Building of First-Time MSME Exporters' (CBFTE) scheme to enhance the quality of MSME products globally and increase exports
Aim	MSME Sector has helped the country to achieve the following objectives:; High contribution to domestic production; Significant export earnings; Low investment requirements
Idea	Operational flexibility; Location wise mobility; Low intensive imports; Capacities to develop appropriate indigenous technology; Import substitution
Idea	Contribution towards defence production; Technology-oriented industries; Competitiveness in domestic and export markets; Contribution Of Msme In GDP
Idea	MSMEs are among the most powerful engines of economic development, innovation, and employment generation.

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Value	The source 50% MSME-GDP share by 2025 was an aspiration, not a certified achievement. The Economic Survey 2025-26 summary reports 31.1% of GDP.; RECENT INITIATIVES IN MSME SECTOR, VIZ., ATMANIRBHAR BHARAT PACKAGE,
Aim	MAKE IN INDIA, START-UP INDIA, STAND-UP INDIA, ETC.; AIMS: to assist MSMEs in expanding and creating more jobs.; Abolish the difference between manufacturing and service MSMEs
Idea	The Government of India has taken deliberate measures to guarantee that the benefits of these MSME initiatives reach MSMEs on time.
Idea	Numerous announcements under the Atmanirbahar Bharat Package to offer urgent help to the MSME sector.
Idea	The ‘Make in India’ initiative and the ‘Atmanirbhar Bharat Abhiyaan’ (Self Reliant India Campaign) have played significant role in enhancing business and local manufacturing in the country, with a special emphasis on MSMEs
Idea	To maintain business continuity during the COVID-19 pandemic, the national government has also undertaken fast response measures in the guise of the Atmanirbhar Bharat Package
Date	Some of the most important measures are listed below.; Make in India; Introduced: by The Prime Minister in September 2014; As part of a larger set of nation-building initiatives.
Aim	Objective: Turning India into a global design and manufacturing hub.
Idea	Built on four pillars established to boost entrepreneurship in India, not just in manufacturing but also in other sectors.
Value	A higher manufacturing share was a policy aspiration, not proof of a 25% GDP share by 2020-22. Separate targets from measured outcomes.
Idea	Four Pillars: 1.New Processes, 2.New Infrastructure, 3.New Sectors, 4.New Mind-set; Emergency Credit Line Guarantee Scheme (ECLGS)
Value	During COVID, the government introduced a Rs. 3 lakh crore collateral-free credit scheme that is intended to benefit 45 lakh MSMEs.
Aim	Aims to provide much-needed relief to the MSME sector by incentivizing Member Lending Institutes (MLIs), to provide extra credit at reasonable interest rates, allowing MSMEs to fulfil operational liabilities and restart their businesses
Idea	Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)
Idea	CGTMSE supports guarantees for eligible lender credit; it does not itself offer a universal direct loan from the Ministry/SIDBI. The applicable 2025 scheme ceiling is Rs.10 crore, subject to coverage and conditions.
Idea	To strengthen the credit delivery system and facilitate the flow of credit to the MSE sector: Acknowledging that the availability of bank credit without the hassles of collaterals or third-party guarantees would be a substantial source of support to first generation entrepreneurs, in realising their dream of having established their own Micro and Small Enterprise (MSE), the Ministry of MSME launched the Credit Guarantee Scheme (CGS)

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	The CGTMSE supported the pandemic affected MSME sector in regaining its footing; Interest Subsidy Eligibility Certificate (ISEC)
Body	The plan has been implemented as a funding mechanism for the khadi programme run by the country's khadi institutions.
Idea	It facilitates borrowing from banks and bridges the gap between the availability of funds from budgetary sources and the real financial requirements.
Date	Start-up India; Started : In January 2016; Tagline : "Start-up India and Stand-up India."
Idea	The initiative intends to create a robust environment for fostering innovation, promoting longterm economic growth, and creating large-scale employment opportunities.
Idea	Apart from the technology sector, the start-up movement will expand to agriculture, manufacturing, healthcare, and education
Idea	and from current tier 1 cities, it will spread to tier 2 and tier 3 cities, including semi-urban and rural areas.
Aim	Aims: to support individuals or businesses that have recently formed their own start-ups, by offering better finance, including tax breaks, and ensuring that the process of establishing a start-up in India is smooth and quick.
Aim	Aimed at catalysing start-up culture and creating a robust and inclusive environment for innovation and entrepreneurship
Idea	Start-ups promote economic development and wealth creation, create jobs, and foster an innovation culture, transforming millennials from job seekers to job givers-and so, potentially emerge as a vehicle to capture the demographic dividend.
Idea	Stand-up India
Idea	Launched : To provide a business opportunity to those who are either females or belong to the SC/ST category and require financial assistance to start their greenfield business ventures
Idea	Historical Stand-Up India loan range: Rs.10 lakh-Rs.1 crore for eligible SC/ST or women entrepreneurs' greenfield ventures. Eligibility, interest and scheme availability require the relevant dated framework; a low rate is not universally guaranteed. **Reading correction:** CGTMSE is a guarantee mechanism supporting eligible lender credit, not a Ministry/SIDBI direct loan for every applicant. Source ceiling is historical; use the applicable current guarantee rules.
Idea	Production Linked Incentive Scheme(PLI)
Date	Keeping in mind India's ambition of becoming an 'Atmanirbhar,' an allocation of Rs. 1.97 lakh crore has been earmarked in the Union Budget 2021-22 for PLI programmes, for 13 important sectors over a 5-year period, beginning with fiscal year (FY) 2021-22. **Reading correction:** Source PLI headline is historical. Sector count, base year, duration, incentive and eligibility differ across schemes; do not make one 4-6% rule universal.
Idea	The PLI is a traditional and widely employed government method, for increasing the production of products considered important for job creation, social welfare, and taxation.

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	PLIs are simply financial incentives for enterprises to increase output.



MSME / PRIORITY CREDIT

Classify borrower / Eligible purpose / Applicable target / rules / Sound appraisal

Type	Essential fact / condition / correction
Define	PLI links notified incentives to eligible production/incremental sales and scheme conditions. Generic tax breaks, land concessions and import-duty changes are different policy instruments; they are not the definition of every PLI scheme.
Idea	The PLI scheme is a Government of India initiative that encourages not only international enterprises to locate workers in the country and so produce employment, but also domestic and local industry to create micro jobs
Idea	The PLI schemes provide
Date	PLI rates, base years, eligible products and duration differ by sector notification. The source 4-6%/2019-20/4-6 year package is not universal across the 14 PLI sectors. **Reading correction:** The source rate/base-year package is not universal across PLI schemes. Read the relevant sector notification.
Idea	It is comparable to a subsidy provided through direct payments as budgeted for locally made items by the selected beneficiaries.
Idea	These specialised sectors would make Indian firms globally competitive, encourage investment in core competencies and cutting-edge technologtechnology, assure efficiencies, produce economies of scale, boost exports, and integrate India into the global supply chain
Aim	PLI aims include scale, investment, technology, exports and supply-chain integration. Neither doubling every farmer’s income nor universal digital gains is a guaranteed scheme outcome.
Idea	Some of the other schemes to promote MSME are,
Idea	Udyami Mitra Portal: Launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.
Idea	MSME Sambandh: To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
Idea	MSME Delayed Payment Portal: This will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/ State Governments.
Idea	Digital MSME Scheme: It involves usage of Cloud Computing, where MSMEs use the internet to access common as well as tailor-made IT infrastructure.

Primary references / see chapter notes

Priority sectors and MSMEs / study facts

Type	Essential fact / condition / correction
Idea	Prime Minister Employment Generation Programme: A credit linked subsidy programme under Ministry of MSME.
Idea	Scheme of Fund for Regeneration of Traditional Industries (SFURTI): Organises traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
Idea	A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE): It creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution, etc.
Idea	National Manufacturing Competitiveness Programme (NMCP): To develop global competitiveness among Indian MSMEs, by improving their processes, designs, technology, and market access.
Idea	Micro & Small Enterprises Cluster Development Programme (MSE-CDP): Adopts cluster development approach, for enhancing the productivity and competitiveness as well as capacity building of MSEs.
Idea	Credit-linked capital subsidy programmes supported technology upgrading. Treat this source scheme list historically; do not assume an old programme is currently accepting applications.

Native archive / psl-source

Historical source-era PSL matrix. SFB 75% was superseded by 60% from FY 2025-26; see the current-rule comparison. Use the higher applicable ANBC/CEOBE base and bank-specific conditions.

Category	Domestic/foreign 20+	Foreignunder 20	RRB	SFB
Total PSL	40%	40%; up to 32% exports, notless 8% other	75%; medium/social/RE countedupto 15% ANBC	75%
Agriculture	18%; SMF 10%	Notapplicable	18%; SMF 10%	18%; SMF 10%
Micro	7.5%	-	7.5%	7.5%
Weaker sections	12%	-	15%	12%

Native archive / msme-pre 2020

Historical MSMED Act 2006 investment ceilings before July 2020: manufacturing-plant/machinery; services-equipment. Ceilings are inclusive, subject to notified exclusions.

Activity	Micro investment	Small investment	Medium investment
Manufacturing	25 lakh	5 crore	10 crore

Primary references / see chapter notes

Native archive / msme-pre 2020 / continued

Activity	Micro investment	Small investment	Medium investment
Services	10 lakh	2 crore	5 crore

Native archive / msme-2020

Historical July 2020 MSME composite ceilings: both investment and turnover criteria apply. Superseded 1 April 2025; see current thresholds.

Category	Investment ceiling crore	Turnover ceiling crore
Micro	1	5
Small	10	50
Medium	50	250

Native archive / msme-archive-1

MSME Annual Report 2020-21,chapter 2,official historical series. Amounts Rs.crore at current prices; GVA/GDP denominators differ. Later GDP revisions must not silently replace this archived vintage.

Year	MSME GVA	Growth %	All GVA	MSME/GVA %	GDP	MSME/GDP %
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
MSME / effective 1 April 2025	Micro: investment≤Rs.2.5 crore AND turnover≤Rs.10 crore. Small:≤Rs.25 crore AND≤Rs.100 crore. Medium:≤Rs.125 crore AND≤Rs.500 crore. Apply both ceilings and notified classification rules.
PSL / commercial banks	Domestic banks excluding RRB/SFB: overall 40%; agriculture 18%; micro 7.5%; weaker sections 12%. Identify the regulatory denominator and bank-specific conditions.
PSL / RRB and SFB	RRB: overall 75%, weaker sections 15%. SFB: overall 60% from FY 2025-26, weaker sections 12%. Relevant agriculture 18% and micro 7.5% targets apply.

Primary references / see chapter notes

Facts that replace misleading source wording / continued

Fact anchor	Updated distinction / dated rule
PSL / denominator	Higher of applicable ANBC or CEOBE on the specified prior-year corresponding date. Example:10,000 versus 12,000 →base 12,000;40%=Rs.4,800 crore.
Overlap	Weaker sections overlap eligible sectors. The same exposure may meet a category and sub-target without being counted twice in overall lending.
PSL / nested targets	Within agriculture 18%,non-corporate farmers 14% and small/marginal farmers 10% are nested requirements, not extra totals. UCB overall target 60%; individual education loans up to Rs.25 lakh may qualify under 2025 Directions.
CGTMSE /2025 ceiling	Eligible credit facilities up to Rs.10 crore can be covered under the applicable guarantee scheme. Hybrid Security permits collateral for one part and guarantee for the eligible unsecured part. This is not automatic full loss reimbursement.
PLI /2026 reference	PIB 27 March 2026 lists 14 sectors. Source 13-sector and universal 4-6% headlines are historical/incomplete; the relevant sector notification determines rate, base year, eligibility and duration.

References / source and scope

Code	Authority / scope / clickable reference
S 1	RBI PSL Directions 2025, updated 11 September 2026
S 2	Government MSME definition, effective 1 April 2025
S 3	Udyam: official registration requirements
S 4	CGTMSE: guarantee role and revised ceiling
S 5	Ministry of MSME: annual report 2025-26
S 6	Startup India: official initiative
S 7	RBI PSL FAQs
S 8	RBI MSME lending direction, updated 9 February 2026
PLI	PIB:14 PLI sectors,27 March 2026
CG	CGTMSE: current credit parameters

Primary references / see chapter notes

Five original questions

Question	Choose one answer
Q 1	Weaker sections in PSL are: **A.** Always a ninth exclusive sector; **B.** An overlapping borrower grouping **C.** Only medium firms; **D.** Only exporters
Q 2	MSME classification needs: **A.** Investment only; **B.** Turnover only **C.** Both applicable investment/turnover criteria; **D.** Borrower age only
Q 3	A guarantee normally: **A.** Automatically pays every loan; **B.** Supports lender risk under conditions **C.** Replaces repayment; **D.** Is a tax
Q 4	A greenfield enterprise is: **A.** A new venture; **B.** Any farm **C.** An old loan; **D.** A deposit
Q 5	Historical scheme announcements prove current availability: **A.** Always; **B.** Never need checking **C.** Only after verifying dates/terms; **D.** Without eligibility

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /B	They overlap categories.
2 /C	Apply both current ceilings.
3 /B	Eligibility/coverage and lender appraisal remain.
4 /A	It concerns a new activity/enterprise.
5 /C	Schemes can close/change.

Economic Survey 2025-26 /MSME

MSME Annual Report 2020-21 /archive

Finance Ministry /SFB target 60%

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	PSL has eight activity categories; weaker sections are an overlapping group.
02	PSL eligibility and credit sanction are separate decisions.
03	Domestic commercial banks, excluding RRBs/SFBs: overall PSL target 40%.
04	RRBs: overall PSL target 75%; specified recognition limits also apply.
05	Small finance banks: overall PSL target 60% in the current framework.
06	Urban co-operative banks: overall PSL target 60%.
07	Use ANBC or applicable credit-equivalent off-balance-sheet exposure, higher.
08	Use the corresponding date of the preceding year for the target base.
09	For applicable banks, the agriculture target is 18% of the prescribed base.
10	Applicable agriculture sub-targets: NCF 14%, including SMF 10%, of the base.
11	Nested sub-targets overlap; do not add 18%, 14% and 10%.
12	Applicable domestic commercial-bank micro-enterprise sub-target: 7.5%.
13	Eligible individual education loans include vocational study, up to Rs.25 lakh.
14	PSL housing tests include both the loan ceiling and dwelling-cost ceiling.
15	Revised MSME composite thresholds took effect on 1 April 2025.
16	Micro: investment up to Rs.2.5 crore AND turnover up to Rs.10 crore.
17	Small: investment up to Rs.25 crore AND turnover up to Rs.100 crore.
18	Medium: investment up to Rs.125 crore AND turnover up to Rs.500 crore.
19	Loan amount alone cannot determine an enterprise's MSME category.
20	Crossing either relevant composite threshold can move the category upward.
21	For PSL, banks use the classification in the Udyam Registration Certificate.
22	Retail/wholesale trade is included as MSME for the limited PSL purpose.
23	Working capital finances the operating cycle; term loans support long-life assets.
24	Cash cycle = inventory days + receivable days - payable days.
25	CGTMSE provides eligible guarantee support; it does not directly sanction loans.
26	A guarantee does not cancel the borrower's repayment obligation.
27	Collateral-free sanction and guarantee coverage are different decisions; distinguish their eligibility and ceilings.
28	Startup recognition, MSME status and PSL eligibility are distinct checks.

Primary references / see chapter notes

Infrastructure and social infrastructure

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

INFRASTRUCTURE DELIVERY

Assets / finance → Staff / operations → Access / reliability → Welfare / productivity



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

Type	Essential fact / condition / correction
Idea	Paper IE and IFS Module A Unit 5: Infrastructure Including; Social Infrastructure; Infrastructure Including Social Infrastructure
Idea	Infrastructure investment increases the capital stock required for economic development.
Idea	Infrastructure uses public, private and mixed financing. Public-resource constraints encourage private investment and PPPs; not every historical asset was wholly government funded.
Idea	However, considering the paucity of public resources and the necessity to redirect precious public resources to health and education, attempts have been made to encourage private sector investment in the development of this infrastructure.
Idea	Currently, the source of finance differs greatly between sectors.; Infrastructure & Economic Development
Idea	Infrastructure is the foundation for economic growth, and it encompasses the physical, natural, and organisational structures required for long-term economic development.
Idea	Economic infrastructure facilitates labour and capital mobility, within and between economies.; Infrastructures provide a large number of job creations and possibilities.
Idea	Reliable infrastructure can improve productivity and access; a project's existence does not guarantee higher output without maintenance, utilisation and complementary inputs.
Idea	Facilitates the circulation of commodities and raw materials, eliminating inefficiencies and resulting in the effective use of scarce resources; Infrastructures include
Idea	Roads,; Ports,; Airports,; Bridges,; Railways,; Water supply,; Sewerage,; Power,; Telecommunications; Irrigation, and so on

Primary references / see chapter notes

Infrastructure and social infrastructure / study facts

Type	Essential fact / condition / correction
Body	A solid infrastructure facilitates the production of high-quality goods and services, as well as the transport of finished items to marketplaces and builds essential social institutions such as schools and hospitals
Idea	Infrastructure can be either Hard or soft; It is also segregated as physical and social infrastructure
Define	Hard Infrastructure : Refers to major physical networks such as roads, ports, airports, pipelines, etc., that are required for the operation of a modern industrial nation
Define	Soft Infrastructure : Refers to institutions that are essential to keep the economy running, such as financial, educational, healthcare, and law-enforcement organisations.
Idea	Energy, Power, Transport System, Viz., Rail, Road, Civil Aviation Some of the major infrastructures are presented below.; Energy Infrastructure
Idea	Energy infrastructure is the organizational framework that permits large-scale energy transmission from producer to consumer, as well as energy flow direction and management
Idea	Many components make up energy infrastructure: Natural gas pipelines, storage and distribution terminals
Idea	petroleum pipelines, specialized coal handling facilities for washing, storing, and transporting coal
Idea	renewable energy infrastructure, such as wind power, solar power, hydro power, geothermal power, and biomass or biofuel facilities, etc
Date	Renewable Energy India has achieved a cumulative installed renewable energy capacity (excluding large hydro) of 92.54 GW out of which 5.47 GW was added in the period April 2020 till January, 2021 **Reading correction:** This renewable-capacity snapshot is historical and excludes large hydro; do not compare it with a broader current capacity total without adjustment.
Date	During the period from April 2014 to January 2021, the installed RE capacity of India has increased by two-and-half times, and in the same period, the installed solar energy capacity has increased 15 times. **Reading correction:** This renewable-capacity snapshot is historical and excludes large hydro; do not compare it with a broader current capacity total without adjustment.
Idea	Water Management Infrastructure
Idea	This comprises drinking water supply, wastewater collection and disposal, drainage systems, major irrigation systems (reservoirs, irrigation canals), major flood control systems, and other infrastructure.
Idea	Untreated sewage waste is one of the major causes of surface water and groundwater pollution in India
Aim	The Water(Prevention and Control of Pollution)Act 1974 created the central/state-board framework for water-pollution prevention and control. Avoid an unqualified first-ever-law claim.

Primary references / see chapter notes

Infrastructure and social infrastructure / study facts

Type	Essential fact / condition / correction
Body	This Act provides for establishing Central and State Pollution Control Boards responsible for the prevention and control of water pollution.; Communications Infrastructure
Idea	Communication infrastructure includes postal services, telephone networks, including mobile phone networks, television and radio broadcast stations, the internet, communication satellites, and so on.
Value	Few of the initiatives taken by Government to boost Communication Infrastructure in India are:; FDI cap in the telecom sector has been increased to 100% from 74%.
Date	In 2020, the government approved the Production Incentive Scheme (PLI) for Large-scale Electronics Manufacturing.
Idea	Department of Telecommunication launched 'Tarang Sanchar' - a web portal sharing information on mobile towers and EMF Emission Compliances
Idea	Historical NOFN approval: Rs.20,000 crore to connect 2.5 lakh gram panchayats for broadband-enabled services. The programme evolved as Bharat Net; an approved outlay is not completed expenditure or universal service delivery.
Idea	Critical Infrastructure
Idea	The assets on which the broader economy is dependent are referred to as critical infrastructure.; Electricity generation, transmission, and distribution
Idea	gas production, transport, and distribution; oil and oil product production, transport, and distribution; telecommunication
Idea	water supply, agriculture, food production and distribution, public health (hospitals, ambulances), transportation systems (fuel supply, railway network, airports, harbours, inland shipping), financial services (banking, clearing), and security services including police, military, etc., are included in the critical infrastructure category.
Date	Transport Infrastructure; Road Transport; National Highways Network to be expanded by 25000 Km in 2022-23.; Rs 20000 Crore to be mobilized for National Highways Network expansion
Idea	Multimodal Logistics Parks
Date	Contracts to be awarded through PPP mode in 2022-23 for implementation of Multimodal Logistics Parks at four locations; One Station One Product concept to help local businesses & supply chains.



INFRASTRUCTURE DELIVERY

Assets / finance / Staff / operations / Access / reliability / Welfare / productivity

Primary references / see chapter notes

Infrastructure and social infrastructure / study facts

Type	Essential fact / condition / correction
Date	2000 Km of railway network to be brought under Kavach, the indigenous world class technology and capacity augmentation in 2022-23.
Idea	400 new generation Vande Bharat Trains to be manufactured during the next three years.
Idea	100 PM Gati Shakti Cargo terminals for multimodal logistics to be developed during the next three years; Parvatmala
Date	National Ropeways Development Program, Parvatmala to be taken up on PPP mode.; Contracts to be awarded in 2022-23 for 8 ropeway projects of 60 Km length.
Idea	Urban Infrastructure; Urbanization is an integral part of the process of economic growth
Idea	As in most countries, India’s towns and cities make a major contribution to the country’s economy
Idea	Hard infrastructure systems owned and operated by municipalities, such as roadways, water distribution, and sewage, are referred to as urban or municipal infrastructure
Idea	It may also contain certain soft infrastructure assets, such as parks, public pools, and libraries.; Green Infrastructure
Idea	Green infrastructure is a concept that highlights the value of natural environment.
Idea	The life support service provided by a network of natural ecosystems are emphasized
Idea	Examples include green belts, wildlife sanctuaries, environmentally sensitive areas, tiger, lion, and elephant reserves, bird sanctuaries, and the conservation of the Western Ghats.
Idea	. Concept Of Social Sector & Social Infrastructure
Idea	The Indian social sector is very important to the country’s growth and development.
Idea	It comprises multiple key components, all of which contribute to general human development.
Idea	The expenditure on these elements is a critical indicator of the government’s commitment to India’s social sector.; Positive externalities are associated with social infrastructure.

Present time:

Type	Essential fact / condition / correction
Idea	Plays an important role in a country’s economic development and wellbeing.; Social Sector:; Health,; Education,; Transportation,; Agriculture and allied activities,
Idea	Infrastructure,; Irrigation,; Management of natural resources such as water, forest, land, energy,; Welfare programmes and services, and so on
Idea	Investing in human capital including education, skill development, training, and the provision of healthcare facilities increases labour productivity and societal welfare.
Idea	For inclusive development: Public investments in social infrastructure such as education, health, housing, and connectivity are critical; At the time of independence:

Primary references / see chapter notes

Present time: / continued

Type	Essential fact / condition / correction
Idea	Present time: **Reading correction:** The source's 74.04% literacy is a Census 2011 figure, not a verified current 2026 literacy estimate. Its 70-year life-expectancy figure needs its own period/series.
Value	74.04% is the provisional Census 2011 literacy figure, not a current 2026 estimate. Label provisional/final vintages and the age 7+definition.; ESG
Idea	ESG assesses environmental, social and governance dimensions. CSR obligations and ESG disclosure/investment assessment are related but distinct frameworks.
Idea	ESG means Environmental, Social and Governance. These dimensions inform risk, impact and governance assessment; they do not alone guarantee an ethical investment or a positive return.
Idea	Health, Education, Family Welfare Health Health is the most crucial component of social infrastructure
Idea	Healthcare has evolved to be one of India’s most important industries, both in terms of income and employment
Idea	Hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance, and medical equipment are all part of the industry.
Date	The necessity for a strong and resilient health infrastructure was emphasised during the recent COVID-19 pandemic, which exposed the weaknesses in social infrastructure across geographies According to the Economic Survey 2021-22,
Value	Economic Survey 2021-22 budget table: health expenditure Rs.4.72 lakhcrore in 2021-22 BE,2.1% of GDP and 6.6% ofcombined expenditure. This table’s health measure includes water/sanitation; it is not health-ministry spending alone.
Idea	Over time, both the government and private entities have increased their investments in the healthcare industry.
Date	The 2017 National Health Policy aimed to boost government health spending to 2.5% of GDP by 2025
Idea	PM-Ayushman Bharat Health Infrastructure Mission is distinct from National Health Mission. It was announced in Budget 2021-22 to strengthen health-system capacities. **Reading correction:** NHM and PM-Ayushman Bharat Health Infrastructure Mission are distinct frameworks; the source's adjacent scheme heading must not merge them.
Aim	Outlay of approximately Rs. 64,180 crores,; Implemented over the next 5 years Purpose:
Body	To develop capacities of primary, secondary, and tertiary care Health Systems,; Strengthen existing national institutions,
Body	Establish new institutions to cater to the detection and cure of new and emerging diseases
Aim	Family Walfare The primary goal of the Family Welfare programme is to stabilise the population and offer high-quality health services, including immunisation of pregnant women and children
Date	In 1952, India became the first country in the world to implement a National Programme for Family Planning; The following are the fundamental premises of the Family Welfare Programme

Primary references / see chapter notes

Infrastructure and social infrastructure / study facts

Type	Essential fact / condition / correction
Idea	Acceptance of Family Welfare services is voluntary;
Idea	Family Welfare programme will provide: integrated Maternal and Child Health (MCH) and family planning services, effective information education & communication (IEC) to improve awareness
Idea	easy and convenient access to Family Welfare services at free of cost; Trends in Social Service Sector Expenditure by General Government; Note:; Budget Estimate (BE) & Revised Estimate (RE).
Idea	Social services include, education, sports, art and culture; medical and public health, family welfare; water supply and sanitation; housing; urban development
Idea	welfare of SCs, STs and OBCs, labour and labour welfare
Idea	social security and welfare, nutrition, relief on account of natural calamities etc.
Idea	Expenditure on ‘Education’ pertains to expenditure on ‘Education, Sports, Arts and Culture’.
Idea	Expenditure on ‘Health’ includes expenditure on ‘Medical and Public Health’, ‘Family Welfare’ and ‘Water Supply and Sanitation’.
Date	The ratios to Gross Domestic Product (GDP) at current market prices are based on 2011-12 base.; Projected GDP for BE 2021-2022 is Rs 222,87,379 crore.
Idea	Development Of Health Infrastructure
Idea	Health infrastructures are the essential services or social capital of a country or region that support economic and social activity.; In other words, these are the structures that contribute to public health.
Idea	Health infrastructure is an essential metric for assessing a country’s healthcare policy and welfare system.
Body	Health disparities exist in India as a result of the uneven distribution of health infrastructure between Indian states, which is primarily characterised by: (a) Institution (b)Knowledge, capacity, (c)healthcare service.
Idea	All these challenges are linked to economic growth, with a specific emphasis on India.
Idea	India has made significant progress in terms of health infrastructure and mass population access to healthcare services.
Idea	The infrastructure of a health system is a critical part of any economy, because, it increases efficacy, safety, timeliness, patient-centredness, access, and efficiency.
Idea	Inadequacies: limit access to services and contribute to poor quality of care and results, especially among underprivileged communities.
Idea	Challenges: Inadequate financial resources, poor facilities, inadequate physical infrastructures, lack of efficient personnel and materials planning, lack of good transportation facilities, and others. 5 Basic area o health infrastructure
Idea	Skilled labour,; Integrated electronic information systems,; Public health agencies,; Resources,; Research Important Health Scheme

Primary references / see chapter notes

Infrastructure and social infrastructure / study facts



INFRASTRUCTURE DELIVERY

Assets / finance / Staff / operations / Access / reliability / Welfare / productivity

Type	Essential fact / condition / correction
Body	The PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) : designed to improve primary, secondary, and tertiary care health systems and to establish new institutions to address the diagnosis and treatment of new and emerging illnesses.
Date	2021: Ayushman Bharat Digital Mission (ABDM), formerly known as the National Digital Health Mission (NDHM), was launched with the purpose of establishing the backbone built to support the country's integrated digital health infrastructure.
Date	In addition to the National Health Mission, the Union Budget 2021-22 announced the Ayushman Bharat Health Infrastructure Mission. **Reading correction:** NHM and PM-Ayushman Bharat Health Infrastructure Mission are distinct frameworks; the source's adjacent scheme heading must not merge them.

Native archive / social-archive-1

Economic Survey 2021-22,chapter 10,Table 1,combined Centre/States. Historical series: BE/RE are estimates. Spending amounts Rs.lakhcrore; percentage tables state their denominators. Health includes water/sanitation.

Year	Total spending	Social services	Education	Health	Others
2014-15	32.85	7.68	3.54	1.49	2.65
2015-16	37.61	9.16	3.92	1.75	3.48
2016-17	42.66	10.41	4.35	2.13	3.93
2017-18	45.16	11.40	4.83	2.43	4.13
2018-19	50.41	12.78	5.26	2.66	4.86
2019-20	54.11	13.65	5.80	2.73	5.13
2020-21 RE	65.24	16.34	6.21	3.50	6.63
2021-22 BE	71.61	19.06	6.97	4.72	7.37

Native archive / social-archive-3

Economic Survey 2021-22,chapter 10,Table 1,combined Centre/States. Historical series: BE/RE are estimates. Spending amounts Rs.lakhcrore; percentage tables state their denominators. Health includes water/sanitation.

Primary references / see chapter notes

Native archive / social-archive-3 / continued

Year	Social/GDP %	Education/GDP %	Health/GDP %	Others/GDP %
2014-15	6.2	2.8	1.2	2.1
2015-16	6.6	2.8	1.3	2.5
2016-17	6.8	2.8	1.4	2.6
2017-18	6.7	2.8	1.4	2.4
2018-19	6.8	2.8	1.4	2.6
2019-20	6.7	2.8	1.3	2.5
2020-21 RE	8.3	3.1	1.8	3.4
2021-22 BE	8.6	3.1	2.1	3.3

Native archive / social-archive-4

Economic Survey 2021-22,chapter 10,Table 1,combined Centre/States. Historical series: BE/RE are estimates. Spending amounts Rs.lakhcrore; percentage tables state their denominators. Health includes water/sanitation.

Year	Social/total %	Education/total %	Health/total %	Others/total %
2014-15	23.4	10.8	4.5	8.1
2015-16	24.3	10.4	4.7	9.3
2016-17	24.4	10.2	5.0	9.2
2017-18	25.2	10.7	5.4	9.1
2018-19	25.4	10.4	5.3	9.6
2019-20	25.2	10.7	5.0	9.5
2020-21 RE	25.0	9.5	5.4	10.2
2021-22 BE	26.6	9.7	6.6	10.3

Native archive / social-archive-5

Economic Survey 2021-22,chapter 10,Table 1,combined Centre/States. Historical series: BE/RE are estimates. Spending amounts Rs.lakhcrore; percentage tables state their denominators. Health includes water/sanitation.

Year	Education/social %	Health/social %	Others/social %
2014-15	46.1	19.4	34.6
2015-16	42.8	19.1	38.0

Primary references / see chapter notes

Native archive / social-archive-5 / continued

Year	Education/social %	Health/social %	Others/social %
2016-17	41.8	20.5	37.7
2017-18	42.4	21.4	36.2
2018-19	41.2	20.8	38.0
2019-20	42.5	20.0	37.6
2020-21 RE	38.0	21.4	40.6
2021-22 BE	36.6	24.7	38.7

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
Physical / social	Transport, power, water and digital connectivity support production; health, education and skills build capabilities. The two groups complement one another.
Budget labels	BE: budget estimate; RE: revised estimate; actual: recorded outturn. None can silently replace another.
Literacy / vintage	74.04% belongs to Census 2011. It is not a 2026 literacy estimate.
Health programmes	NHM and PM-Ayushman Bharat Health Infrastructure Mission are separate programmes. A building needs staff, equipment, utilities and recurring funds to deliver services.
Archive scope	Source social-spending series uses old GDP vintages and health categories that include drinking water/sanitation. Recomputing ratios with a rebased GDP changes the series.

References / source and scope

Code	Authority / scope / clickable reference
S 1	Economic Survey: official portal and chapter evidence
S 2	MNRE: physical progress, dated capacity data
S 3	Mo HFW: National Health Mission
S 4	ABDM national rollout, 27 September 2021
S 5	National family-planning programme: historical origin
S 6	Department of Economic Affairs: PPP guidance
S 7	Ministry of Education: Right to Education

Primary references / see chapter notes

Five original questions

Question	Choose one answer
Q 1	A road is mainly: **A.** Physical infrastructure; **B.** Only a tax **C.** A price index; **D.** A currency
Q 2	A functioning clinic requires: **A.** A building only; **B.** Staff, supplies, finance and access **C.** Only a logo; **D.** Only a budget target
Q 3	BE means: **A.** Budget estimate; **B.** Bank exposure **C.** Borrowing expense; **D.** Basic employment
Q 4	PM-ABHIM and NHM are: **A.** Identical names; **B.** Distinct frameworks **C.** Both banks; **D.** Both price indices
Q 5	More spending proves better health outcomes: **A.** Always; **B.** Only with higher inflation **C.** Not by itself; **D.** Without services

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /A	It is a transport asset.
2 /B	Delivery is a system.
3 /A	BE is a plan estimate, not necessarily an actual.
4 /B	Roles and dates differ.
5 /C	Quality/access/outcomes need evidence.

Economic Survey 2021-22 /Table 1

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	Physical infrastructure includes transport, energy, water and communication.
02	Social infrastructure supports human development, including health and education.
03	A hospital is a physical asset delivering a social service; the labels overlap.
04	Hard infrastructure means physical assets; soft infrastructure includes institutions.
05	Infrastructure benefits depend on usability, reliability, access and maintenance.
06	Complementary networks can make each other more productive.
07	Electricity systems link generation, transmission and distribution.
08	MW measures power/capacity; MWh measures energy over time.
09	Installed capacity is not the same as actual electricity generation.
10	Renewable totals must specify whether large hydro is included.
11	Water systems include supply, irrigation, drainage and wastewater treatment.
12	Safe water service requires quality and continuity as well as connections.
13	Multimodal logistics connects transport modes and interchange facilities.
14	A project announcement or contract award does not prove operational service.
15	Critical infrastructure disruption can affect wider economic and social activity.
16	Digital services depend on power, connectivity, systems and operational people.
17	Green infrastructure can use natural/ecological systems to improve resilience.
18	ESG means environmental, social and governance.
19	A PPP allocates contractual responsibilities and risks; it is not costless finance.
20	Construction, operating, demand and financial risks are different project risks.
21	DSCR = cash available for debt service divided by debt service.
22	Capital spending on assets and recurring service expenditure are distinct.
23	Inputs, delivered outputs and resulting outcomes measure different things.
24	BE, RE and actual spending are different evidence stages.
25	India's national family-planning programme began in 1952.
26	The stated RTE age group is 6-14 years.
27	ABDM national rollout was announced on 27 September 2021.
28	PM-ABHIM concerns health infrastructure; ABDM concerns the digital ecosystem.

Primary references / see chapter notes

Globalisation: channels, gains and fairness

Fact anchor	Essential fact / condition
Definition	Increasing integration across national economies through goods, services, investment, technology, knowledge and people. Cultural, political and environmental effects extend beyond trade.
Chronology	Integration predates its modern label. World War I, the Great Depression and World War II disrupted it. The source's eighteenth-century "ancient" origin is not a sound universal definition.
India /1991-92	The New Economic Policy widened trade/investment links. Foreign investment, new technology and exports could expand capacity, productivity and growth; liberalisation did not remove every border rule.
Why advocated?	Larger markets, more product choice, competition and lower costs can support income, jobs, health and living standards. Benefits vary across workers, regions and firms.
Enabling conditions	Investment, technology, capable institutions, sound macro policy, education/skills and functioning markets help convert access into productive gains.
Indian effects	Production, choices and culture changed; agriculture gained export opportunities. IMF 2004 address reported about 6% average growth since 1991. IMF 2005 review places the earlier acceleration from 3.5% in 1960s/1970s to 5-6% in 1980s. Growth did not begin improving only in 1991; openness alone does not prove causation.
WTO distinction	Trade commitments are not unrestricted capital/labour migration. The source's blanket "unrestricted" description overstates what WTO rules establish.
Fair globalisation	Dialogue among governments, organisations and communities; worker rights and entitlements; broad participation and social cohesion. Equal gains for every person are not guaranteed.
Three pillars	Economic development, social development and environmental protection reinforce one another at local, national, regional and global levels.



Trace a local business's global link

An imported input can improve output. A foreign-demand fall can reduce orders. Openness brings opportunities and exposure.

Primary references / see chapter notes

Protectionism: instruments and consequences

Fact anchor	Essential fact / condition
Definition	Protectionism restricts foreign competition. Tariff=import duty; quota=quantity restriction; non-tariff barriers include other restrictions. WTO-permitted safeguards/exceptions have conditions.
Trade-offs	Protected jobs may benefit; consumers and downstream firms can face higher costs. Retaliation and weaker exports can hurt other jobs. Subsidies are a policy choice, not an inevitable result of every tariff.
Reverse integration	Deglobalisation reduces cross-border dependence/trade/investment. Crises, geopolitics and inward-looking populism can encourage domestic-production support, investment packages and protection against cheaper imports.
Institutions / interpretation	Dispute-settlement weaknesses can increase uncertainty. Michael O'Sullivan's The Levelling: What's Next After Globalisation presents an interpretation of retreat; it does not prove that all globalisation ended. Supplier diversification need not mean total withdrawal.

Q	Original practice / answers with reasons
1	Globalisation concerns: **A:**Only imports / **B:**Cross-border integration / **C:**No domestic production / **D:**No regulation **Answer B:** Trade, investment, technology and people are channels.
2	A tariff is: **A:**An import duty / **B:**An employment index / **C:**A deposit / **D:**A court **Answer A:** It changes trade prices/incentives.
3	Fair participation guarantees identical gains: **A:**Yes / **B:**No / **C:**Only every year / **D:**Only exporters **Answer B:** Distribution and adjustment differ.
4	Diversifying suppliers is necessarily total deglobalisation: **A:**Yes / **B:**No / **C:**Always all trade stops / **D:**Always no imports **Answer B:** Changing a route is not necessarily abandoning integration.
5	A foreign-demand shock can affect: **A:**Exporter orders / **B:**No firms / **C:**Only weather / **D:**Only birthdays **Answer A:** Trade exposure transmits demand changes.

NCERT / globalisation

ILO / fair-globalisation framework

IMF /2004 dated growth assessment

IMF /2005 review of 1980s growth acceleration

WTO / dispute settlement and Appellate Body

Primary references / see chapter notes

28 essential recall facts

No. /cue	One/two-line retrieval fact
01 /Concept	Globalisation increases economic links across national borders.
02 /Trade	Trade, investment, technology, people and knowledge are distinct channels.
03 /Concept	Globalisation also has cultural, political and environmental effects.
04 /Concept	India’s 1991-92 policy changes widened international integration.
05 /Trade	Exports can transmit changes in foreign demand.
06 /Trade	Imported technology can support productivity when capabilities exist.
07 /Concept	Foreign investment can bring capital and market connections.
08 /Trade	Agricultural exports are one integration channel.
09 /Concept	More product variety does not guarantee equal welfare gains.
10 /Shock	Skills and institutions affect who benefits from openness.
11 /Jobs	Fair globalisation protects participation and labour rights.
12 /Concept	Dialogue across governments and communities supports cooperation.
13 /Concept	Economic, social and environmental pillars reinforce one another.
14 /Concept	Fairness does not mean identical gains for every person.
15 /Jobs	Trade rules do not create unrestricted labour migration.
16 /Trade	Protectionism seeks to limit foreign competition.
17 /Trade	A tariff is a duty on imports.
18 /IMF	An import quota limits the quantity admitted.
19 /Trade	Non-tariff barriers include other trade restrictions.
20 /Trade	A genuine safety standard is not automatically disguised protection.
21 /Trade	Protection can raise costs for consumers and downstream producers.
22 /Concept	Jobs protected in one industry can coexist with losses elsewhere.
23 /Trade	Trade restrictions can provoke retaliation.
24 /Trade	A subsidy is not an inevitable consequence of a tariff.
25 /Concept	Deglobalisation reduces cross-border economic integration.
26 /Concept	Supplier diversification need not end globalisation.
27 /Trade	Global crises can disrupt trade, finance and production networks.
28 /Concept	An author’s forecast is not proof that all integration has ended.

Primary references / see chapter notes

Economic reforms

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

REFORM MECHANISM

Remove distortion → **Change incentives** → **Competition / capability** → **Monitor risks / outcomes**



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

Type	Essential fact / condition / correction
Idea	Paper IE and IFS Module A Unit 7: Economic Reforms; Economic Reforms
Define	Economic reform refers to the process, whereby, a government specifies a declining role for the state and an expanding one for the private sector in the economy.
Define	Economic reform commonly means deregulation/reducing state-created distortions. Correcting market failure can instead require better regulation or government programmes; reform does not always mean a smaller state.
Idea	Historically, the reform process has seen the pursuit of market-oriented policies that foster private sector development-augmenting and controlling the market
Idea	A Brief Overview
Aim	Economic reforms aimed at expanding private sector participation in the Indian economy's growth process.
Idea	Since 1980s, India has seen a number of changes that fit into 2 categories.
Idea	The 1980s reforms, influenced by the renowned 'Washington Consensus' doctrine. **Reading correction:** The term was coined 1989. Selective 1980s deregulation and broader 1991 reforms should not be assigned one exact origin indiscriminately.
Idea	While the changes of the 1980s saw very limited deregulation and partial liberalisation of just a few parts of the previous regulatory system
Date	The reforms that started in the early 1990s, in the domains of industry, commerce, investment, and, subsequently, agriculture, were considerably broader in scope 1991 Economic reforms: Due to a number of economic factors, including.

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	An adverse balance of payments,; Poor performance of the public sector,; Drop in foreign exchange reserves,; Large government debts,; Inflationary pressure
Idea	Stringent conditions laid down by the World Bank and IMF Transformation The green revolution and industrial modernisation have transformed India's economy from an economic laggard to one of the world's fastest growing economies
Date	The term 'new economic reforms' refers to the neoliberal policies put in place by the Indian government in 1991; The three main pillars of this change were known as LPG
Idea	i)Liberalisation,; ii)Globalisation, and; iii)Privatisation
Idea	The reforms intended to accomplish high economic growth, lowering inflation, minimise the current account deficit, and address the balance of payments issue.
Idea	Policy changes were made in the areas of technology advancement, industrial licencing, abolition of restrictions on the private sector, foreign investments, and foreign trade.
Date	Attracting significant foreign direct investment was one of the key goals of the 1991 economic reform process.
Idea	Reforms can expand agricultural/industrial capacity and influence poverty. Aggregate gains do not prove every socioeconomic group benefited equally or establish reform as the only cause.
Idea	It also improved the socioeconomic indices and level of living among common people.; Economic Transformation-Real Sector
Date	The economic changes introduced in India in 1991 were the result of a severe economic crisis caused by rising external debt
Idea	This crisis occurred mostly as a consequence of poor economic management in the 1980s; The reforms were broadly known as LPG reforms.
Idea	Liberalisation: Liberalisation was conceived with the idea that regulations imposed on trade agreements must be relaxed, in favour for trade to thrive
Idea	It enabled the opening of economic frontiers, for international investors and multinationals
Idea	Several economic reforms enforced by Liberalisation, include enhanced production capacity, abolition of government industrial licencing, and the liberty to import goods.
Define	Privatisation: Privatisation refers to providing the private sector more opportunities to oversee various services, while limiting the role of the public sector
Idea	Privatisation introduced in India as a part of reform, invited more and more foreign participation and FDI flow, providing healthy competition to Indian goods and services.
Define	Globalisation: Globalisation in the context of economic reforms, refers to the integration of the Indian economy with the global economy
Idea	It signifies that India's economy will now be more dependent on the global economy and vice versa; It encourages FDI and international trade with various countries

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	Due to various globalisation policies, India could be able to attract foreign capital, technology, and knowledge to boost its domestic capacity.
Idea	Economic Transformation - Financial Sector
Aim	The primary goal of reform: To establish an efficient, productive, and competitive financial services industry, functioning in an environment of operational flexibility and functional autonomy.
Aim	Banking sector reforms have aimed at making the Indian financial sector efficient, competitive, and stable; Until the 1990s, the Indian financial sector was characterised by
Idea	Controlled interest rates,; Significant pre-emption of resources by the government, and
Body	Extensive micro-regulations guiding the bulk of the flow of funds to and from financial intermediaries.; Banking Sector Reforms; Important Committee:
Date	Chakaravarti Committee on Monetary Policy (1985); Narsimham Committee-I on Financial Sector Reforms (1991),
Idea	Padmanabhan working group reported 1995 on on-site supervision, leading to the Indian CAMELS framework. The source 1996 label must not be treated as the appointment/report date.
Date	Narsimham Committee-II on the Review of Banking Sector Reforms (1997),
Body	The M.S.Verma working group reviewed restructuring of weak public-sector banks; distinguish its 1999 report from other reform committees.
Date	R.H.Khan Committee 1998: harmonising financial institutions and banks. Reform sequence: prudential measures; greater competition/market forces; institutional and legal changes (continued in the following source items).
Idea	Lok Adalats,; Debt Recovery Tribunals,; Asset Reconstruction Companies,
Idea	Introduction of supervisory measures, the introduction of technological advancements, etc.
Aim	These reforms aimed at establishing a framework of prudential regulation and supervision.



REFORM MECHANISM

Remove distortion / Change incentives / Competition / capability / Monitor risks / outcomes

Type	Essential fact / condition / correction
Idea	Non-Banking Financial Companies (NBFCs) have also been subjected to competition and efficiency enhancing policies

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Body	Narasimham I: Committee on the Financial System reported 1991. RBI's February 1992 prudential implementation was a later event. **Reading correction:** Narasimham I committee/report chronology and RBI's February 1992 prudential implementation are different events.
Body	"The Committee on Financial System" (CFS) under the Chairmanship of M. Narasimham: Appointed by Go I
Idea	To rebuild the financial health of commercial banks and to make their functioning efficient and profitable.
Date	Based on the committee's recommendation, the RBI, in February 1992, issued the new guidelines on Income Recognition, asset classification and provisioning requirements **Reading correction:** Narasimham I committee/report chronology and RBI's February 1992 prudential implementation are different events.
Date	The new standards put the banking sector's attention to credit risk and recovery management; Few of the important reforms that took place in 1992 were:
Idea	Capital adequacy norms; Progressive reduction of Cash Reserve Ratio and Statutory Liquidity Ratio; Deregulation of Lending rates; Credit delivery
Body	Debt Recovery Tribunal (DRT); Strong Supervisory System; Entry of New Private Banks; Mergers and Amalgamation; Second Phase of Reforms - Narasimham Committee-II
Idea	Narasimham II was constituted 1997 and reported 1998. Its task was to review progress and propose further banking-sector reform.
Aim	Purpose: To review the progress of banking sector reforms to date and chart a programme of financial sector reforms necessary to strengthen the Indian Financial System and make it internationally competitive
Idea	The benefits of the; Second Phase of Banking Sector Reforms; Deregulation of Branch Licensing; Prudential Norms and Disclosure Requirements
Idea	Capital Adequacy The following points are important milestones of banking sector reforms:; Prudential reforms
Idea	Prudential reforms include the phased implementation of international best practices and rules, in order to lower the total risk of the banking system.
Idea	Adoption of measures under Basel II are examples of such steps; Focus areas:; i)NPAs; ii)Capital adequacy; iii) Diversification of operations Measures:
Idea	Risk-weighted CAR,; Appropriate accounting norms,; Recognition of different components of risk,; Assignment of risk-weights to various asset classes,
Idea	Application of the marked-to-market principle for investment portfolio
Idea	Limits on fund deployment in sensitive activities, and migration to advanced methods
Date	Union Budget 2014 announced differentiated banks. Graded licensing directs bank resources to niche needs while pursuing efficiency.

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	Supervisory reforms
Idea	Several steps were taken to strengthen supervisory reforms in the banking sector, including:
Body	Establishment of the Board for Financial Supervision, as the apex supervisory authority, for commercial banks, FIs, and non-banking financial companies
Idea	Implementation of the CAMELS supervisory rating system, the transition to risk-based supervision, consolidated supervision of financial conglomerates;
Idea	Recasting of the role of statutory auditors, increased internal control through strengthening of internal audit.
Idea	Strengthening corporate governance, enhanced due diligence on important shareholders, fit and proper tests for directors; Note:
Idea	C-Capital adequacy, **Reading correction:** The RBI historical Indian CAMELS framework uses S: systems and controls. Sensitivity to market risk occurs in other supervisory frameworks; identify the jurisdiction.
Idea	A-Asset quality,; M- Management,; E-Earnings,; L-Liquidity Competition reforms
Idea	Prior to reform, banks in India were uncompetitive and inefficient, due to excessive government control and limited access for private and foreign sector banks
Value	The government extended PSBs operational autonomy and lowered public ownership in such banks, through reform measures that allowed them to obtain capital from the stock market, up to 49% of paid-up capital.
Idea	Private and international banks have been permitted to operate in India, in order to foster a culture of competition and greater choice.
Idea	Entry norms: Indian private, foreign and joint-venture banks/insurers. Foreign participation: FDI and portfolio investment, subject to rules. Banks could diversify products/business activities.
Idea	Market reforms
Idea	Market reforms: reduce administered interest rates and high CRR/SLR; end ad-hoc Treasury bills; market-price government securities; pure interbank call market; auction repos/reverse repos; better payment/settlement systems.
Idea	Less reserve pre-emption; market-priced government securities; fewer administered interest rates (exceptions remain); transparency/disclosure to strengthen market discipline.
Idea	Introduction of pure inter-bank call money market, auction-based repos- reverse repos for shortterm liquidity management, facilitation of improved payments and settlement mechanism
Body	Institutional and legal reforms Institutional reforms in Indian banking includes:
Idea	Establishment of the Credit Information Bureau : for the information exchange on defaulters as well as other borrowers;
Idea	Establishment of the Clearing Corporation of India Limited (CCIL): to act as a central counter party in the payments and settlement system for fixed income securities and money market instruments.

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	Banking Ombudsman Scheme began 1995. RBI's Integrated Ombudsman Scheme 2021 later brought covered complaint-resolution arrangements together. Historical names must retain their dates.
Date	The enactment of the Insolvency and Bankruptcy Code, 2016 and the announcement of the recapitalization plan for the public sector banks are likely to have far-reaching implications for the banking sector **Reading correction:** The 1991 foreign-exchange liquidity crisis should not be equated automatically with a declared sovereign default.
Body	Both will likely contribute to a stronger and more resilient banking sector in India; The establishment of; Settlement Advisory Committees,
Idea	Corporate Debt Restructuring Mechanisms and so on To facilitate faster recovery/restructuring.
Idea	Adoption of the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act and; Subsequent amendments to protect creditors' interests
Idea	Technology reforms
Idea	Technology: INFINET-financial communication backbone; NDS-screen-based government-security dealing; RTGS-real-time gross settlement.
Idea	The use of ATMs, card-based transactions, internet banking, mobile banking, national electronic fund transfer, express cheque clearing process (ECCS), and other technologies has changed the role of Indian banking.
Date	IT Vision 2011-2017: committee chaired by Dr.K.C.Chakrabarty; representatives from IITs, IIMs, IDRBT, banks and RBI. Purpose: roadmap for greater banking IT use.
Idea	New age technologies such as Artificial Intelligence (AI) and Machine Learning (ML) have radically shifted the way banking works today
Idea	Thanks to AI, it is possible to conduct real-time data analysis from a large volume of data sets and provide customized solutions to banking customers
Idea	PMJDY launched 2014; e-KYC and UPI changed service access and use. JAM=Jan Dhan-Aadhaar-Mobile. Account totals change over time; the undated 420 million snapshot is not retained. **Reading correction:** The PMJDY 420 million figure is a historical source snapshot, not the current account total.



REFORM MECHANISM

Remove distortion / Change incentives / Competition / capability / Monitor risks / outcomes

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Date	Direct Benefit Transfer or DBT has travelled a long path since its early initiation by Government of India on 1 January 2013 to change the mechanism of transferring cash subsidies and benefits with the help of technology.
Body	Debt Market Reforms; Institutional measures include; Integration of an auction system for price discovery,; Addition of more instruments to the Government Securities Market,
Body	Enabling measures such as allowing foreign institutional investors (FIIs) to invest in Government Securities,; Introduction of automated screen-based trading in Government Securities,
Body	Institutionalization of trading in government securities on stock exchanges,
Idea	Formation of Primary Dealers in the government securities market. 91-day Treasury bill was introduced for managing liquidity and benchmarking.
Idea	Zero Coupon Bonds, Floating Rate Bonds, Capital Indexed Bonds were issued and exchange traded interest rate futures were introduced.; OTC interest rate derivatives like IRS/FRAs were introduced.
Body	Foreign Institutional Investors (FIIs) : Allowed to invest in government securities subject to certain limits
Idea	Introduction of automated screen-based trading in government securities through Negotiated Dealing System (NDS).
Idea	CCIL's clearing/settlement arrangements manage and reduce specified risks. They do not eliminate every transaction, counterparty or operational risk.
Idea	Phased introduction of Real Time Gross Settlement System
Idea	Introduction of trading of government securities on stock exchanges for promoting retailing in such securities, permitting non-banks to participate in repo market.
Idea	For ensuring transparency in the trading of government securities, Delivery versus Payment (Dv P) settlement system was introduced.; Repurchase agreement (repo) : tool of short-term liquidity adjustment.
Idea	Liquidity Adjustment Facility (LAF) was introduced.
Idea	Historically repo/reverse-repo operations formed the LAF corridor. Standing Deposit Facility replaced fixed-rate reverse repo as the corridor floor in April 2022.
Idea	Tool for both liquidity management and also signaling device for interest rates in the overnight market.
Idea	Market Stabilization Scheme (MSS): expanded the instruments available to the Reserve Bank for managing the surplus liquidity in the system.; Foreign Exchange Market Reforms
Idea	The most significant reform in the currency market was the transition from a single currency fixedexchange rate system to controlling the level of the rupee against a basket of currencies, then to a market-determined floating exchange rate system.

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Date	Forex reforms: current-account rupee convertibility; FERA 1973 replaced by FEMA 1999; more instruments/participants; rupee-foreign-currency swaps; currency-rupee options and other hedges.
Idea	Within applicable RBI conditions, banks may price non-resident deposits, use derivatives for asset-liability management, and set overnight open-position/gap limits. These are conditional permissions, not unrestricted powers.
Idea	Forex forward/swap access is conditional on eligible users, exposures, product and applicable RBI limits. The source's without-any-limit assertion is not a general permission. **Reading correction:** Foreign-exchange hedging permissions retain applicable eligibility/exposure/risk/limit conditions; the source's absolute wording is unsafe as a universal rule.
Idea	FIIs and NRIs permitted to trade in exchange-traded derivative contracts subject to certain conditions.; Insurance Sector Reforms
Date	Insurance Regulatory and Development Authority Act 1999: framework for new players/joint ventures and insurance-sector competition. Risk-bearing insurance and commission-based distribution are distinct roles.
Body	Insurance Regulatory and Development Authority of India(IRDAI) regulates the insurance sector. Authority is the correct institutional term, not Agency.
Idea	Customer service changed through technology, foreign technical collaboration, segment-specific products and bancassurance cross-selling. Better product access does not automatically prove suitability for every customer.
Idea	Insurance companies are also taking active steps to venture into innovative distribution channels for their products over and above creating strong agency network.
Idea	Capital Market Reforms
Aim	A package of reforms containing measures to liberalize, regulate, and expand the capital market was introduced with the goal of improving market efficiency, increasing transparency, integrating national markets, and preventing unfair trade practices.
Date	SEBI regulates securities markets. Post 1992 reforms sought effective regulation, competition, less information asymmetry, modern technology, lower transaction costs and reduced speculation.
Idea	The liberalization and consequent reform measures have drawn the attention of foreign investors leading to a rise in portfolio investment in the Indian capital market.
Date	FIIs admitted 1992. Indian firms gained international-financing access through ADRs, GDRs, FCCBs and ECBs; these instruments differ in ownership, debt and repayment features.
Idea	Establishment of Creditors Rating Agencies;; Increasing of Merchant Banking Activities;; Rising Electronic Transactions;; Growing Mutual Fund Industry
Idea	Establishment of clearing house;; Rolling Settlement;; Investor's Protection;; Growth of Derivative;; Commodity Trading;; IPO Grading;

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	Mutual-fund reforms distinguish commission-funded regular plans, direct plans and fee-based investment advice. They did not abolish every distribution commission.
Idea	Margin Trading are few of the important reforms that have taken place in the Capital Markets.; Economic Transformation Integration With The Global Economy
Date	After nearly five decades of isolation from global markets, government controls, and slow growth, India started the process of economic reform and increasing integration with the global economy in 1991, to place its economy on a path of fast and
Idea	sustainable growth
Idea	Despite major shifts in administration since then, the emphasis on reforms has persisted
Idea	Notwithstanding the perception of India as a relatively closed economy, India has made significant progress on the path of international integration in both trade and finance.
Idea	Since the early 1980s, India’s integration with the global economy has increased in line with the acceleration of economic growth.
Date	World Bank WDI trade-to-GDP indicator NE.TRD.GNFS.ZS, checked 25 October 2026:1991=16.99%;2011=55.62%. Trade means exports+imports of goods/services. Revised data need not match the capsule’s earlier 15.5% observation.
Value	The same WDI trade-to-GDP series records 37.76% for 2020 in the checked release. A ratio reflects changes in both numerator and denominator; its movement alone does not prove one unique cause.
Date	WDI net FDI inflows/GDP indicator BX.KLT.DINV.WD.GD.ZS, checked 25 October 2026:1991=0.0272%;2020=2.4062%. This balance-of-payments net-inflows measure differs from gross FDI and net flows after outward investment.
Idea	The substantial inflow of foreign investment into India in recent years, reflects the country’s strong economic potential and the execution of important policy reforms
Idea	Economic Reforms In India
Idea	Reforms in India have a history and reflect the Indian economy’s poor upbringing over decades, which finally culminated to the 1990s economic catastrophe.
Idea	The causes that underlie India’s economic disaster have been clearly outlined by Jagdish Bhagwati.
Date	He categorises India’s economic failure into three categories: The following points can explain the economic crisis of 1990: Higher fiscal deficit:
Idea	An economy’s fiscal health reflects the quantity and quality of government expenditure as well as revenues.; Overspending leads to increased borrowing and interest costs
Idea	Fiscal deficits require financing and can raise debt-service burdens; borrowing finances a deficit rather than erasing it. External current-account deficits create a separate foreign-financing need. Identify government coverage, period and denominator before comparing debt ratios.
Idea	Poor economic policies, such as import substitution and trade restrictions.

Primary references / see chapter notes

Economic reforms / study facts

Type	Essential fact / condition / correction
Idea	Drop in foreign remittances from Arabian nations as a result of the gulf crisis.
Idea	The unstable coalition administration at the centre, as well as political instability, harmed the confidence of foreign creditors, particularly non-resident Indians (NRI), resulting in an outflow of NRI deposits.



REFORM MECHANISM

Remove distortion / Change incentives / Competition / capability / Monitor risks / outcomes

Type	Essential fact / condition / correction
Idea	External borrowing can finance a foreign-exchange gap but also creates future repayment needs. The external-debt ratio differs from the fiscal deficit and from the debt-service/export ratio.
Idea	The 1991 external-financing crisis involved low usable reserves, pressure from debt service and reduced financing confidence. A liquidity crisis is not automatically a declared sovereign default.
Idea	High inflation rates
Idea	High inflation complicated the 1991 crisis. Fiscal/monetary expansion and supply constraints can contribute; a historical correlation does not prove a single cause for every price rise.
Idea	Poor industrial and agricultural productivity also led to supply-side constraints and inflation
Idea	Globalisation is genuinely helpful, but it must be properly controlled to reap the benefits
Idea	India’s experience of gradual and calibrated capital account liberalisation has helped protect it against external shocks to a certain extent
Idea	International investors’ growing trust in the Indian economy is a consequence of significant policy reforms, liberalisation of foreign investment laws, and improved fiscal and monetary management.

Native archive / bhagwati

Historical source table; verify vintage/units before current use.

Source diagnosis	Economic channel
Bureaucratic control	Restrictions on production, investment, trade
Inward-looking trade/FDI	Limited international integration
Inefficient public enterprise	Resource/productivity pressure

Primary references / see chapter notes

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
CAMELS / Indian historical framework	C: capital adequacy; A: asset quality; M: management; E: earnings; L: liquidity; S: systems and controls. RBI 2012 supervisory review; do not import a different jurisdiction's S expansion.
Reform committees	Narasimham I reported 1991. Narasimham II was constituted 1997 and reported 1998. Appointment, report and implementation dates differ.
Liquidity floor	Standing Deposit Facility became the LAF corridor floor in April 2022. Historical reverse-repo descriptions must retain their dates.
Legal / inclusion	FEMA 1999 replaced FERA; IBC 2016 concerns insolvency resolution; DBT began 1 January 2013; PMJDY 2014. Account totals are dated observations.

References / source and scope

Code	Authority / scope / clickable reference
S 1	RBI: evolution of financial-sector reforms
S 2	NCERT: Liberalisation, Privatisation and Globalisation
S 3	RBI: supervision review and historical CAMELS framework
S 4	RBI: introduction of Standing Deposit Facility, April 2022
S 5	Department of Revenue: Foreign Exchange Management Act, 1999

Five original questions

Question	Choose one answer
Q 1	Which change most directly represents privatisation? **A.** Easing one licence; **B.** Transfer of controlling ownership to private owners **C.** An export order; **D.** A higher import bill
Q 2	What is the current-account/capital-account distinction? **A.** They are identical; **B.** Current convertibility implies unrestricted capital flows **C.** They cover different external transactions; **D.** Both are government fiscal accounts
Q 3	In the historical Indian CAMELS model, S refers to: **A.** Sales; **B.** Systems and controls **C.** Subsidies; **D.** Sovereign ownership
Q 4	Which replaced fixed-rate reverse repo as LAF corridor floor in April 2022? **A.** SDF; **B.** SLR **C.** MSS; **D.** CRR

Primary references / see chapter notes

Five original questions / continued

Question	Choose one answer
Q 5	Capital 12 and risk-weighted assets 150 give an illustrative ratio of: **A.** 12%; **B.** 15% **C.** 8%; **D.** 80%

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /B	Ownership/control is the distinguishing feature.
2 /C	Current-account convertibility does not remove capital-account rules.
3 /B	The cited RBI supervisory review uses Systems and Controls.
4 /A	RBI introduced the Standing Deposit Facility as the floor.
5 /C	12 / 150 x 100 = 8%; this arithmetic is not a current minimum-capital rule.

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	Liberalisation eases specified restrictions.
02	Privatisation concerns ownership or control.
03	Globalisation deepens international economic links.
04	Reform can require stronger institutions and regulation.
05	The major 1991 phase followed a balance-of-payments crisis.
06	Fiscal and current-account deficits are different balances.
07	Stabilisation and structural reform serve different horizons.
08	The real sector produces goods and non-financial services.
09	Narasimham I reported on the financial system in 1991.
10	Narasimham II reported on banking-sector reform in 1998.
11	Income recognition is distinct from cash collection.
12	Provisioning and capital adequacy are different safeguards.
13	Capital adequacy uses risk-weighted assets.
14	Diversification reduces concentration, not every risk.
15	Indian CAMELS: C is capital adequacy; A is asset quality.
16	CAMELS: M is management; E is earnings.
17	CAMELS: L is liquidity; S is systems and controls.
18	Risk-based supervision focuses on risk drivers and controls.
19	Current CRR/SLR values need a dated RBI source.
20	Government-security auctions support price discovery.
21	Dv P links securities delivery with payment.
22	SDF became the LAF corridor floor in April 2022.
23	FEMA, 1999 replaced the FERA framework.
24	Current convertibility is not unrestricted capital convertibility.
25	SEBI received statutory status in 1992.
26	IBC, 2016 addresses insolvency resolution.
27	PMJDY began in 2014; old account totals are historical.
28	An 8% ratio equals capital 12 divided by RWA 150.

Primary references / see chapter notes

Foreign trade, investment and development

Learn the definition, connect the mechanism, then test the distinction. Historical figures retain their dates; corrections beside the facts identify changed rules or misleading source wording.

TRADE / INVESTMENT DECISION

Product / sector → **Route / eligibility** → **Conditions / documentation** → **Flow / development effect**



Read the fact, then ask what changes.

A date, an amount, a rule and an intended outcome answer different questions. A historical statistic must keep its period and definition.

The FTP 2015-20 included two new schemes:

Type	Essential fact / condition / correction
Idea	Paper IE and IFS Module A Unit 8 - Foreign Trade Policy; Foreign Investments and Economic Development; Foreign Trade Policy, Foreign Investments And Economic
Idea	Development
Define	Foreign trade policy refers to the economic policy that governs an economy's export-import activity.
Idea	Economic policies, such as Foreign Trade Policy and Foreign Investment Policy, are critical components of the economic process.
Idea	A well-planned foreign policy adds to the local economy's output and the nation's prosperity
Idea	India has had special policies promoting trade and investment from its inception
Date	Foreign Trade Policy: 2015-2020 On April 1, 2015, the Indian government launched its Foreign Trade Policy 2015-20
Date	In line with the 'Make in India' initiative, the FTP 2015-20 provides a framework for promoting goods and services exports, as well as employment generation and value addition in the economy
Aim	Aims
Aim	The new strategy aimed to help both the industrial and service sectors, with a specific emphasis on improving the ease of doing businesses
Date	The FTP aimed to increase India's merchandise and services exports from $465 billion in 2013-14 to $900 billion by 2019-20.

Primary references / see chapter notes

The FTP 2015-20 included two new schemes: / continued

Type	Essential fact / condition / correction
Value	It also aimed to increase India's share of global exports from 2% to 3.5 per cent
Idea	The strategy seeks to empower India to adapt to external challenges, while keeping in step with a rapidly evolving external trade environment, and to make trade a significant contributor to the nation's economic growth and development
Date	The FTP 2015-20 included two new schemes:
Define	i)The 'Merchandise Exports from India Scheme (MEIS)' for exporting defined products to designated destinations,
Idea	ii)The 'Services Exports from India Scheme (SEIS)' for promoting exports of designated services
Date	Salient features of FTP 2015-20 Simplification & Merger of Reward Schemes Earlier there were five different schemes for rewarding merchandise exports, with different kinds of duty scrips with varying conditions attached to their use.
Idea	Focus Product Scheme,; Market Linked Focus Product Scheme,; Focus Market Scheme,; Agricultural Infrastructure Incentive Scrip,; Vishesh Krishi Gram Udyog Yojana - VKGUY
Idea	All these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS), and there was no conditionality attached to the scrips issued under the scheme. **Reading correction:** MEIS/SEIS entitlements and scrip use had notified conditions. Historical transferability is not an absence of all rules.
Idea	Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS).
Idea	SEIS was applied to "Service Providers located in India" instead of "Indian Service Providers" regardless of the constitution or profile of the service provider.
Idea	All scrips issued under MEIS, and SEIS and the goods imported against these scrips were fully transferable; Scrips issued under Exports from India Schemes used for:
Idea	Payment of customs duty for import of inputs/ goods,; Payment of excise duty on domestic procurement of inputs or goods,; Payment of service tax on procurement of services,
Idea	Basic Customs Duty paid in cash or through debit under Duty Credit Scrip was allowed to be taken back as Duty Drawback, if inputs so imported are used for exports
Idea	Privilege to Business leaders: Who have succeeded in international trade and effectively contributed to their country's overseas trade are recommended to be recognised as status holders and given special treatment and privileges to facilitate their trade transactions, reducing transaction costs and time.
Idea	Boost to "Make in India" Special initiatives have been made to assist the indigenous capital goods manufacturing industry in order to boost the Make in India campaign.
Value	Under the Export Promotion Capital Goods (EPCG) plan, if capital goods were purchased from domestic producers, the particular export obligation was decreased to 75%.

Primary references / see chapter notes

Foreign trade, investment and development / study facts

Type	Essential fact / condition / correction
Idea	Export commodities with a strong domestic content and value addition had received greater levels of incentives, under the MEIS.

FTP 2015-20 introduced two new schemes:

Type	Essential fact / condition / correction
Idea	Less Hard Documents: Trade Facilitation & Ease of Doing Business Hard copies of applications and specified papers, which were formerly required for incentive programmes and duty exemption schemes, were no longer required.
Idea	Landing paperwork for export consignments were allowed to be submitted digitally as evidence, for designated markets.
Idea	Once permanent records/ documents are uploaded in the exporter/importer profile, there was no need to provide copies with each application.
Body	Dedicated e-mail addresses were established for speedier and paperless contact with other DGFT groups, such as the Norms Committee and the Exim Facilitation Committee
Date	Highlights of the FTP 2015-2020
Date	FTP 2015-20 provided a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.
Aim	The Policy aimed to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development
Date	FTP 2015-20 introduced two new schemes:
Idea	I) 'Merchandise Exports from India Scheme (MEIS)' for export of specified goods to specified markets
Idea	II) Services Exports from India Scheme (SEIS)' for increasing exports of notified services; EPCG scheme
Value	Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75% of the normal export obligation.
Idea	Measures have been taken to give a boost to exports of defense and hi-tech items; E-Commerce
Idea	E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000). Manufacturers

Primary references / see chapter notes

FTP 2015-20 introduced two new schemes: / continued



TRADE / INVESTMENT DECISION

Product / sector / Route / eligibility / Conditions / documentation / Flow / development effect

Type	Essential fact / condition / correction
Idea	Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements
Idea	This 'Approved Exporter System' will help manufacturer exporters considerably in getting fast access to international markets; EOU/EHTP/STPI/BTP Schemes
Value	A number of steps have been taken for encouraging manufacturing and exports under 100% EOU/EHTP/STPI/BTP Schemes.
Aim	The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
Idea	Niryat Bandhu Scheme'
Idea	108 MSME clusters have been identified for focused interventions to boost exports
Aim	Accordingly, Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'. Facilitation
Aim	Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24 x 7 environment
Date	Challenges To Be Addressed In Upcoming FTP The Government of India extended the FTP 2015-20 for the third time, till March 2022 to provide stability to exporters during the pandemic **Reading correction:** FTP 2015-20 was later extended to 31 March 2023; FTP 2023 took effect 1 April 2023 and is amended as notified.
Idea	Recent trade protectionist incidents, as well as the disruptions induced by the pandemic, have proven that India's overdependence on a few items and fewer markets, has had a more severe negative impact on the country's international trade earnings
Idea	Some of the issues that must be addressed in the new FTP are mentioned below.
Idea	India's high export orientation in a few large trading partners and a few products preclude its ability to fully offset any sharp decline in exports.

Primary references / see chapter notes

Foreign trade, investment and development / study facts

Type	Essential fact / condition / correction
Idea	India needs to diversify its trading partners, both export markets and import sources, and find alternate high value products, due to scale, complementary economies and spreading risk
Idea	India may explore targeted geographies and product specific strategies.
Idea	Exploring opportunities in new markets in Africa, South-East Asia and Latin America through strategic investments, where receptiveness towards non- Chinese trading partners is more is important and needs to be explored further.
Aim	India may aim at diversifying its import suppliers
Idea	Products having high import orientation from few countries, especially China need to be diversified
Idea	The policy needs to ensure that product or market concentration of India’s trade should not go beyond specific levels.
Idea	Promoting efficacy of States in exports and exploring hitherto unexplored products are added areas to be considered for long long-term export growth
Idea	FDIs, FIIs AND RECENT TRENDS Foreign Direct Investment (FDI) Foreign direct investment (FDI) is an investment made in a country, by a foreign investor, often a company, to control the ownership of an entity
Idea	FDI is a key engine of economic growth, assisting in maintaining high growth rates, enhancing productivity, and generate employment; FDI Data
Idea	RBI 2022-23 annual report Table II.7.2 records revised net FDI US$38.6 billion in 2021-22 versus US$44.0 billion in 2020-21; gross inward FDI, net FDI and outward investment are different series. Use the release vintage rather than combining source totals.
Define	A fall in net FDI does not necessarily mean a fall in gross inward FDI: repatriation and outward investment affect the net measure. Compare the same definition and release vintage.
Idea	Routes of FDI in India FDI enters the domestic economy through two channels; i) The RBI’s automatic route; ii) The government route
Value	Automatic Route FDI In the automatic route, the foreign entity does not require the prior approval of the government or the RBI. Examples:; Medical devices: up to 100%
Value	Thermal power: up to 100% Government Route FDI Under the government route, the foreign entity should compulsorily take the approval of the government
Idea	It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance
Idea	This application is then forwarded to the respective ministry or department, which then approves or rejects the application after consultation with the DPIIT. Examples:
Value	Broadcasting Content Services: 49%
Value	Food Products Retail Trading: 100% Sector wise FDI Flow routes and Limits to India
Idea	Types of FDI FDI Prohibited Sectors FDI in India is prohibited and not allowed to function in the following sectors:

Primary references / see chapter notes

Foreign trade, investment and development / study facts

Type	Essential fact / condition / correction
Idea	Lottery Business, which includes Government/private lottery, online lotteries, etc.; Gambling, Betting as well as casinos, etc.; Chit funds; Nidhi company
Idea	Trading in Transferable Development Rights (TDRs); Real Estate Business
Idea	Construction of Farmhouses (Real estate business does not include development of townships, construction of residential/commercial premises, roads or bridges)
Idea	Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
Body	Activities/sectors not open to private sector investment, e.g., Atomic Energy and Railway operations (other than permitted activities) Foreign Institutional Investment (FII)
Body	Foreign portfolio investment concerns securities holdings without the defining direct-investment relationship. It may be short- or long-term; FII is an older institutional label, not a synonym for every hedge-fund investment.
Idea	It is generally volatile, and the possibility of capital flight is always there in the case of an economic slump, political turmoil, or herd behaviour of short-term capital outflow
Define	Foreign institutional/portfolio investors are non-resident investors participating through the prescribed market and registration framework; they are not defined merely as firms offering investment proposals.
Body	The portfolio investment programme allows Foreign Institutional Investors, Non-Resident Indians, and Persons of Indian Origin to invest in India’s primary and secondary capital markets.
Idea	Under this arrangement, FIIs/NRIs can acquire shares/debentures in Indian companies through Indian stock exchanges
Idea	Use the applicable SEBI foreign-portfolio-investor framework. FII is a historical label; permitted instruments, registration and investor conditions must be read separately.
Idea	FII Recent Data
Body	FPIs/FIIs (Foreign Portfolio Investors/Foreign Institutional Investors) have been a major driver of India’s financial markets.
Idea	Portfolio outflows can reflect geopolitical uncertainty, global financing conditions and risk aversion. Distinguish inward from outward, net from gross, and equity from debt flows; the source’s incompatible numeric comparison is omitted.
Date	However, geopolitical instability, the Russia-Ukraine dispute, and COVID-related uncertainties have resulting in a capital flight during 2021-22
Idea	Note: FII Data every year change keep update Difference Between FDI and FII; BASIS FOR; COMPARISON; FDI FII
Idea	Meaning When a company situated in one country makes an investment in a company situated abroad, it is known as FDI. FII is when foreign companies make investments in the stock market of a country.
Idea	Entry and Exit Difficult Easy What it brings? Long term capital Long/Short term capital Transfer of Funds, resources, technology, strategies, know-how etc

Primary references / see chapter notes

Foreign trade, investment and development / study facts

Type	Essential fact / condition / correction
Idea	Portfolio flows can support financing, liquidity and price discovery; they are not economically irrelevant merely because ownership influence is limited.
Idea	FDI and portfolio investment can both affect financing and development. Neither guarantees GDP growth; their ownership relationships, volatility and transmission channels differ.
Idea	Target Specific Company No such target, investment flows into the financial market; Control over a company Yes No Economic Development vs Economic Growth



TRADE / INVESTMENT DECISION

Product / sector / Route / eligibility / Conditions / documentation / Flow / development effect

Type	Essential fact / condition / correction
Idea	Economic Development
Define	Economic development is defined as a sustained improvement in a society's material well-being
Idea	Apart from national income growth, it encompasses social, cultural, political, and economic developments that contribute to material progress.
Body	It includes changes in available resources, capital formation rates, population size and composition, technology, skills and efficiency, and organisational and institutional architecture
Idea	Economic Growth
Define	Economic growth is defined as the process by which, an economy's actual national and per capita income grows over time
Idea	When compared to economic development, economic growth is a restricted term.
Define	Growth concerns a quantitative increase in real output/income. Development additionally concerns capabilities, institutions, distribution and quality of life; qualitative structural change is not the narrow definition of growth.
Define	Difference Between Economic Development and Economic Growth; Economic Growth Economic Development; Definition
Idea	Economic growth concerns real output/income, not merely an inflation-driven increase in money values.
Define	It refers to the overall development of the quality of life in a nation, which includes economic growth; Span of Concept; It is a narrower concept than that of economic development
Idea	It is a broader concept than that of economic growth
Idea	Scope It is a uni-dimensional approach that deals with the economic growth of a nation
Idea	It is a multi-dimensional approach that looks into the income as well as the quality of life of a nation

Primary references / see chapter notes

Foreign trade, investment and development / study facts

Type	Essential fact / condition / correction
Idea	Growth may be measured over short or long horizons; development is broader. Both matter in rich and poor countries and may involve public policy. GDP/GNI/per-person income measure output/income; HDI, poverty, health, education and distribution answer different development questions. HPI is a historical index; MPI is a distinct later framework. Balance of trade alone is not a welfare index.
Define	Economic development is defined as a persistent increase in the material well- being of society; Economic development refers to a larger set of ideas than economic growth.
Idea	It comprises social, cultural, political, and economic developments that contribute to material advancement, in addition to national income growth.
Idea	Economic development includes the human capital growth, elimination of socioeconomic inequalities, and structural changes that improve the public's quality of life
Idea	Development assessment uses measures such as HDI, multidimensional poverty, gender indices, infant mortality and literacy. These measures are quantitative indicators of different dimensions, not simply qualitative descriptions.
Body	Economic growth is an increase in real output/income. Changes in institutions, technology, distribution and capabilities belong to the broader development process.

Native archive / fdi-full-archive

DPIIT policy baseline and notified amendments checked 25 October 2026. An automatic route removes prior approval for eligible cases; sector, licensing, security, beneficial-ownership and reporting conditions still apply.

Sector / activity	Cap % / entry route	Qualification or correction
Agriculture / animal husbandry	100; automatic	Only specified permitted activities; not all agriculture.
Plantation	100; automatic	Specified plantation activities; not a blanket sector permission.
Mining	100; automatic	Activity-specific conditions.
Coal/lignite mining	100; automatic	Activity and sector conditions apply.
Petroleum / natural gas	100; automatic	Not universal: public-sector refining is a separate category.
Defence	100; auto to 74; government beyond	Licensing/security and specified conditions.
Broadcasting	100; automatic	Carriage and content categories differ.
Broadcast content	49; government	Specific TV/news categories; digital news has separate treatment.

Primary references / see chapter notes

Native archive / fdi-full-archive / continued

Sector / activity	Cap % / entry route	Qualification or correction
Non-news TV up/downlinking	100; automatic	Category-specific permission.
Print media	26; government	Specified news/current-affairs categories.
Airports	100; automatic	Project and security rules.
Air transport	100; auto to 49; govt beyond	Scheduled services, NRI and foreign-airline conditions differ.
Other civil aviation	100; automatic	Identify the exact activity.
Construction development	100; automatic	Conditions; not prohibited real-estate dealing.
Industrial parks	100; automatic	Defined conditions.
Private security	74; auto to 49; govt beyond	Licence/security conditions.

Native archive / fdi-full-archive

DPIIT policy baseline and notified amendments checked 25 October 2026. An automatic route removes prior approval for eligible cases; sector, licensing, security, beneficial-ownership and reporting conditions still apply.

Sector / activity	Cap % / entry route	Qualification or correction
Satellites	100; automatic up to 74 for specified activities	2024 activity split: launch vehicles/spaceports automatic to 49; specified components 100 automatic; government beyond relevant thresholds.
Telecom	100; automatic	Licensing/security conditions.
Wholesale trading	100; automatic	Trading conditions.
E-commerce	100; automatic	Marketplace versus inventory model matters.
Single-brand retail	100; automatic	Specified trading/sourcing conditions; distinguish multi-brand retail.
Multi-brand retail	51; government	Conditions and implementation choices.
Duty-free shops	100; automatic	Specified customs area/conditions.
Railway infrastructure	100; automatic	Only permitted infrastructure, not all rail operations.

Primary references / see chapter notes

Native archive / fdi-full-archive / continued

Sector / activity	Cap % / entry route	Qualification or correction
Asset reconstruction companies	100; automatic	RBI/sector conditions.
Private banking	74; auto to 49; govt beyond	Banking and aggregate foreign-investment conditions.
Public banking	20; government	Specified public-sector banking framework.
Credit-information companies	100; automatic	Regulatory conditions.
Securities-market infrastructure	49; automatic	Specified stock exchanges, depositories and clearing corporations; SEBI/ownership conditions.

Native archive / fdi-full-archive

DPIIT policy baseline and notified amendments checked 25 October 2026. An automatic route removes prior approval for eligible cases; sector, licensing, security, beneficial-ownership and reporting conditions still apply.

Sector / activity	Cap % / entry route	Qualification or correction
Insurance	100; automatic	DPIIT Press Note 1(2026):insurance companies; LIC separately 20 automatic.
Pension	49; automatic	DPIIT policy 49 automatic; PFRDA registration. Ownership/control changes may require government approval.
Power exchanges	49; automatic	Sector/ownership conditions.
White-label ATMs	100; automatic	Authorisation and conditions.
Regulated financial services	100; automatic	Regulator/activity requirements; not every unregulated service.
Greenfield pharmaceuticals	100; automatic	Specified conditions.
Brownfield pharmaceuticals	100; auto to 74; govt beyond	Specified conditions.
Food retail (Indian-made/produced)	100; government	Defined food-product retail category.

Primary references / see chapter notes

Facts that replace misleading source wording

Fact anchor	Updated distinction / dated rule
FTP	FTP 2023 effective 1 April 2023 follows the historical FTP 2015-20 framework and its extensions. Later amendments matter.
Insurance / DPIIT 2026	Insurance companies:100% automatic, subject to conditions. LIC is a separate 20% automatic category. Do not copy the insurance-company cap to pension funds.
Space / activity split	100% cap: specified satellite/data/ground-user activities automatic up to 74%; launch vehicles/spaceports up to 49%; government route beyond. Specified components manufacturing 100% automatic.
Retail	Single-brand retail 100% automatic with conditions. Marketplace e-commerce differs from the inventory-led model; a broad retail heading is insufficient.
Flows	Gross/net, inward/outward, equity/total FDI and FPI are distinct series. Historical mixed figures cannot produce one reliable current flow total.
Growth / development	Growth: real output increase. Development: broader capabilities, health, education, inclusion and structural change. Both matter in rich and poor countries.
Beneficial ownership / May 2026	Press Note 2(2026),implemented through FEMA rules 1 May 2026,tests beneficial ownership at the investor level. Non-controlling land-border-country ownership up to 10% may use automatic route, subject to applicable sector and other conditions.

References / source and scope

Code	Authority / scope / clickable reference
S 1	DGFT: Foreign Trade Policy 2023
S 2	PIB: FTP 2023 approach and initiatives
S 3	DPIIT: Consolidated FDI Policy 2020 (read with amendments)
S 4	DPIIT Press Note 1, 2026: insurance FDI
S 5	PIB: space-sector FDI amendment, March 2024
S 6	PFRDA: Pension Fund Registration Guidelines 2026

Primary references / see chapter notes

Five original questions

Question	Choose one answer
Q 1	Which statement about automatic-route FDI is correct? **A.** No rules apply; **B.** No prior government approval for otherwise eligible investment; other conditions remain **C.** Every sector allows 100%; **D.** Reporting is optional
Q 2	The historical MEIS/SEIS pair refers primarily to: **A.** Goods/services exports; **B.** Loans/deposits **C.** Insurance/pensions; **D.** Imports/FDI
Q 3	A joint venture can be: **A.** Only greenfield; **B.** Only brownfield **C.** Greenfield or brownfield; **D.** Never foreign-owned
Q 4	Which is the correct later trade-policy anchor? **A.** FTP 2015-20 is permanently current; **B.** FTP 2023 took effect 1 April 2023 **C.** MEIS covers every current export; **D.** All scrip uses are unchanged
Q 5	Real output +8%, population +2% gives approximate per-person growth of: **A.** 8%; **B.** 10% **C.** 5.9%; **D.** 2%

Original practice questions; not claimed previous examination questions.

Answers / the distinction that matters

Q /answer	Explanation
1 /B	Automatic route removes specified prior approval, not other conditions.
2 /A	MEIS concerned goods and SEIS notified services in the historical framework.
3 /C	Shared ownership and new/existing operations are different dimensions.
4 /B	The later policy took effect in April 2023 and is amended as notified.
5 /C	1.08/1.02 - 1 is about 5.9%.

DPIIT /Consolidated FDI Policy

DPIIT /insurance 2026

PIB /2026 beneficial ownership

RBI /revised FDI table

Primary references / see chapter notes

28 essential recall facts

No.	Short retrieval fact
01	Trade policy and foreign-investment policy govern different issues.
02	Industrial/trade liberalisation changed India's 1990s framework.
03	FTP 2015-20 was launched on 1 April 2015.
04	Historical export targets were intentions, not achievements.
05	MEIS concerned specified merchandise exports.
06	SEIS concerned notified service exports.
07	SEIS replaced the historical Served from India Scheme.
08	A duty-credit scrip remains subject to applicable conditions.
09	EPCG concerns capital goods and export obligations.
10	Advance Authorisation concerns eligible inputs.
11	Niryat Bandhu supports exporter capability and mentoring.
12	FTP 2023 took effect on 1 April 2023.
13	FTP 2023 emphasises remission, collaboration and facilitation.
14	SCOMET controls specified sensitive and dual-use items.
15	Market diversification and supplier diversification differ.
16	Automatic route does not waive reporting or sector conditions.
17	A sector cap and an automatic-route threshold can differ.
18	Beneficial-owner/country conditions can affect the route.
19	Greenfield means establishing new operations.
20	Brownfield involves an existing operation.
21	A joint venture can be greenfield or brownfield.
22	FDI benefits such as technology transfer are not automatic.
23	Portfolio investment can support market finance and liquidity.
24	Gross FDI and net FDI are different series.
25	Insurance-company FDI: 100% automatic in the 2026 policy.
26	LIC has a separate 20% automatic policy category.
27	Development includes capabilities beyond output growth.
28	Real per-person growth is output growth adjusted for population.

Primary references / see chapter notes

IMF: monetary cooperation and stability

Fact anchor	Essential fact / condition
Origins	Great Depression exposed failures of monetary cooperation. Bretton Woods, July 1944:44 country delegations-not 45 as one source passage claims-designed the IMF/IBRD framework for post-war cooperation.
Three dates	Conference 1944; IMF came into existence 27 December 1945 with 29 original members; financial operations began 1 March 1947. Formation and first lending are different events.
Identity	International Monetary Fund; Washington, D.C.;191 members in the checked institutional reference. Source 189/190 are historical counts.
Objectives	Monetary cooperation; exchange stability/orderly arrangements; balanced trade growth; high employment and sustainable growth; resources to address external imbalances. Poverty reduction is supported through macroeconomic stability and appropriate policy, not a guarantee for every borrower.
Correct the direction	The aim is exchange-rate stability, not “eliminating stability” as the source misprints. Stability does not require every currency to be fixed permanently.
Role / limit	Surveillance, financing and capacity development support members. IMF is a UN specialised agency governed by its own Articles; the UN does not administer its daily functioning.
External versus fiscal	A balance-of-payments financing need concerns foreign transactions/reserves. A government fiscal deficit concerns budget receipts/expenditure. They can interact without being the same account.

IDENTIFY THE EXTERNAL FINANCING NEED

Payments / receipts → **Reserve / financing pressure** → **Programme / policy response** → **Stability / adjustment**



A country’s budget is not its balance of payments

Ask which payment is due, which currency is needed and what sustainable financing is available.

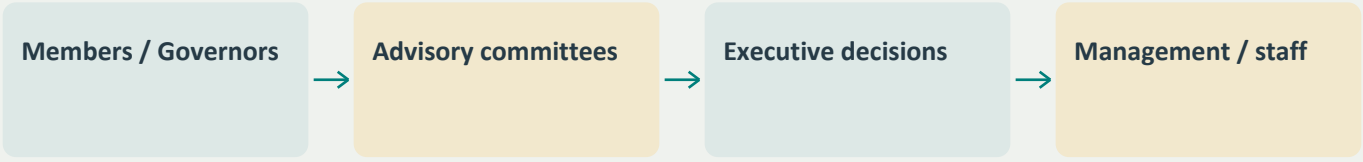
Primary references / see chapter notes

IMF governance: who advises, who decides?

Body	Composition / function	Distinction
Board of Governors	One governor and alternate per member; highest authority; reserved powers include major institutional changes.	Member-appointed; meets at IMF-World Bank Annual Meetings.
IMFC	International Monetary and Financial Committee advises on the international monetary/financial system.	An advisory committee, not an independent body that amends the Articles.
Development Committee	Joint World Bank-IMF ministerial forum on development/resource issues.	Advice and institutional cooperation.
Executive Board	25 Executive Directors conduct the Fund's ongoing business. Consensus is usual; formal voting can occur.	Source 24 is a historical count. All-elected framework followed 2016 reform.
Managing Director	Selected by the Executive Board for a renewable 5-year term.	Chief of staff/Board Chair role; different from the Governors.

Source function family	What it teaches
Regulatory	Articles-based obligations on exchange arrangements and current international payments; not general regulation of every financial firm.
Financial	Resources for qualifying short/medium-term balance-of-payments problems under applicable facilities/conditions.
Consultative	Policy discussion, technical assistance and capacity development. "Four credit lines" is not a permanent exhaustive list of IMF facilities.

GOVERNANCE IS NOT ONE SINGLE JOB



India, quota reform and the SDR

Fact anchor	Essential fact / condition
India / representation	India is a founding member. Union Finance Minister is ex-officio Governor; RBI Governor is alternate. An Executive Director represents India's constituency.
Quota / vote	Source quota SDR 13,114.4 million relates to the 14th Review framework. Government reference gives 2.75% quota share, not source 2.76%; eighth-largest quota holder in that review. Voting share 2.63% is a different measure. Do not infer a live quota amount without the current IMF table.

Primary references / see chapter notes

India, quota reform and the SDR / continued

Fact anchor	Essential fact / condition
2010 reform / history	Agreement by 188 members sought a shift exceeding 6 percentage points toward dynamic emerging/developing economies while protecting poorest members' voting weight. US approval delayed implementation; Board Reform Amendment entered into force 26 January 2016.
Source comparison	India voting share 2.3→2.63%; China 3.8→6.08% in the source reform comparison. These are historical voting comparisons, not quota shares. Russia/Brazil also gained influence.
Why reform?	More resources and representative governance can improve crisis response, credibility, effectiveness and legitimacy. Large members' consent/majority requirements differ by decision.
India / borrowing history	India's IMF transactions table lists its last recorded GRA repurchase in 2000(SDR 38.5 million). Quota membership, voting rights and contributing resources are separate from borrowing.
SDR /1969	Special Drawing Right: international reserve asset supplementing official reserves; not a currency or ordinary claim on the IMF. It is a potential claim on members' freely usable currencies.
Basket eligibility	Export criterion: issuer must be an IMF member/qualifying monetary union and among top fiveexporters. Freely usable: widely used for international payments and widely traded in principal exchange markets.



Quota share and voting share answer different questions

Attach the institution, review and date. A percentage without its denominator is an incomplete fact.

World Bank Group: five institutions, distinct roles

Institution / milestone	Main function	Do not confuse with…
IBRD /1944 conference origins	International Bank for Reconstruction and Development: development lending to creditworthy middle-income/eligible poorer borrowers.189 members.	IDA concessional credits/grants.
IDA /1960	International Development Association: concessional financing and grants for eligible poorer countries.175 members in checked history.	All IBRD borrowing or every private-sector project.

Primary references / see chapter notes

World Bank Group: five institutions, distinct roles / continued

Institution / milestone	Main function	Do not confuse with…
IFC /1956	International Finance Corporation: private-sector investment, advisory services and asset management.	A sovereign IMF programme.
MIGA /1988	Multilateral Investment Guarantee Agency: political-risk insurance and credit-enhancement instruments.	An unconditional guarantee of every commercial loss.
ICSID /1966	International Centre for Settlement of Investment Disputes: investment-dispute settlement framework/services.	An ordinary development loan.

Fact anchor	Essential fact / condition
Two versus five	World Bank=IBRD+IDA. World Bank Group=those two plus IFC, MIGA and ICSID. Membership totals differ across institutions; there is no single universal five-body count.
Partners / sectors	Governments, private firms, civil society, regional banks, think tanks and international organisations work on poverty, climate, conflict, food security, education, agriculture, finance and trade.
Source goals / vintage	Ending extreme poverty by 2030 and improving prosperity of the poorest 40% describe the source's twin-goal formulation. Current mission language also recognises a livable planet; these are objectives, not proven outcomes.

India and the World Bank: retain the chronology

Milestone / source period	Relationship / scope
1944 /1956 /1960	India participated at Bretton Woods and was a founding member of IFC 1956 and IDA 1960. MIGA membership followed January 1994.
1949 /1959 /1961	First IBRD railway loan 1949; source records first IFC investment 1959 and first IDA highway credit 1961. Archive sources support distinguishing institution/project dates.
1950s /1960s	IBRD initially supplied Bank borrowing; concessional IDA then expanded. India's development/financing needs helped shape the aid relationship. It is not sound to attribute creation of IDA solely to one country's debt.
Changing external finance	Reduced US bilateral aid in the late 1960s increased the relative importance of multilateral long-term finance. China's entry 1980,Africa's financing needs and India's stronger creditworthiness changed concessional-resource allocation.

Primary references / see chapter notes

India and the World Bank: retain the chronology / continued

Milestone / source period	Relationship / scope
1980s /1991	IBRD's role increased; policy-reform debate coexisted with lending to public institutions. After 1991,structural-adjustment lending supported finance, tax, investment and trade reforms. These are dated relationships, not one permanent policy stance.
Graduate / current distinction	India graduated from regular IDA borrowing in FY 2014; transitional support differed. Source "currently blend" is outdated and blend is not simply an income label.
2026 supplement	New FY 2026-31 framework announced 30 January 2026 focuses on jobs/private investment; proposed annual financing USD 8-10 billion over nextfive years. It is a programme envelope, not an already-disbursed total.

Investment disputes and guarantees: different safeguards

Fact anchor	Essential fact / condition
ICSID / India	India is not a party to the ICSID Convention. The source's criticism of perceived bias is a policy interpretation, not the Convention's procedural rule. World Bank President chairs the Administrative Council ex officio.
Who selects arbitrators?	Parties normally determine tribunal composition. Convention default: three arbitrators, one appointed by each party and a presiding arbitrator agreed by them. The Chair can fill unfilled appointments under the prescribed conditions; the Chair does not simply choose every arbitrator.
Award / remedies	Convention awards are binding, with no ordinary appeal on the merits. Interpretation, revision and annulment are distinct treaty remedies; annulment uses a separate ad hoc committee and specified grounds.
Domestic courts	Convention enforcement obligations and limited treaty remedies differ from ordinary domestic merits appeal. Do not equate the source's broad public-interest critique with a general right of Indian-court appellate review.
MIGA / political risk	Political-risk coverage can address eligible war/civil disturbance, expropriation, transfer restrictions or breach-of-contract risks under terms. It is not automatic compensation for every unpaid invoice.
MIGA / standards	Environmental and social Performance Standards support project design/implementation. A sustainability standard is different from an insurance trigger.
Original example	An exporter's buyer pays late: commercial credit risk. A government breaches a covered project agreement: consider the relevant political-risk/contract cover and conditions. Neither label alone proves a claim will be paid.

Primary references / see chapter notes

Investment disputes and guarantees: different safeguards / continued

MATCH THE PROBLEM TO THE INSTRUMENT

Financing: loan / equity → **Political risk: guarantee** → **Investment dispute: arbitration** → **Award: specified remedies**



A guarantee and a court-like process do different work

Read what event is covered, who decides the dispute and which remedy is permitted.

IMF versus World Bank; then add WTO

Dimension	IMF	World Bank / Group
Primary emphasis	International monetary and external stability.	Poverty reduction, longer-term development and shared prosperity.
Support	Qualifying external-financing programmes; surveillance and capacity development.	Development finance, policy advice and institution-specific private-sector/guarantee services.
Institutional scope	One institution with multiple facilities.	Bank=two; Group=five institutions.
Checked membership	191.	IBRD 189; IDA 175; other institutions have their own membership.
Shared feature	Member institutions cooperate; financial and development aims can overlap.	Not every financial-sector issue belongs exclusively to one body.

Fact anchor	Essential fact / condition
WTO identity	World Trade Organization; began 1 January 1995; Centre William Rappard, Geneva.166 members in checked list; source 164 is historical. A member can be an eligible separate customs territory, not only a UN State.
Six functions	Administer trade agreements; negotiating forum; handle disputes; review national trade policies; technical assistance/training for developing economies; cooperate with other international organisations.
India	WTO member from 1 January 1995; GATT membership from 8 July 1948. India voices development concerns. Source Doha 2001 reference to 142 delegations is historical, not today's member count.

Primary references / see chapter notes

IMF versus World Bank; then add WTO / continued

Fact anchor	Essential fact / condition
Trade agenda	Tariffs and other barriers are part of the rules agenda. Environment, investment and competition discussions have different histories; a Doha launch did not mean every proposed issue became a concluded agreement.

WTO ministerials: dates, place and actual conclusion

MC	Actual dates	Place
1	9-13 December 1996	Singapore
2	18-20 May 1998	Geneva
3	30 November-3 December 1999	Seattle
4	9-14 November 2001	Doha
5	10-14 September 2003	Cancún
6	13-18 December 2005	Hong Kong
7	30 November-2 December 2009	Geneva
8	15-17 December 2011	Geneva
9	3-7 December 2013	Bali; source 3-6 was original schedule
10	15-19 December 2015	Nairobi; source 15-18 was schedule
11	10-13 December 2017	Buenos Aires
12	12-17 June 2022	Geneva; source 12-16 omits final extension
13	26 February-2 March 2024	Abu Dhabi
14	26-30 March 2026	Yaoundé

Fact anchor	Essential fact / condition
Timing distinction	An announced schedule can be extended. Actual closing dates above must not be mixed with the planned dates retained in the source.
Role	Ministerial Conference is the WTO's top decision-making body; usually meets everytwo years. A conference launch, agreement adoption, ratification and entry into force are distinct milestones.

WTO /ministerial history

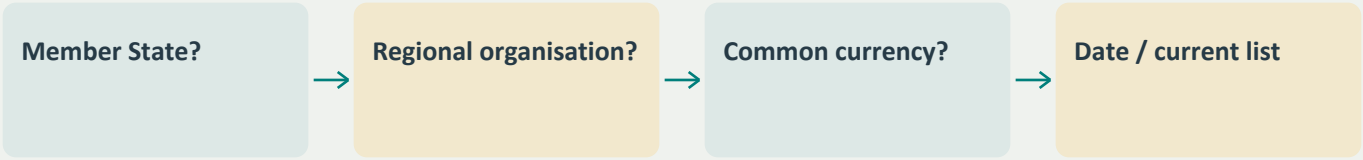
WTO /MC 14 actual dates

Primary references / see chapter notes

EU, euro area and SAARC: distinguish membership

Fact anchor	Essential fact / condition
EU / origin	Maastricht Treaty effective 1 November 1993.27 members; source 28 list duplicates Croatia. Croatia joined 1 July 2013; UK withdrawal changed the total.
All 27 / register	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.
Source cultural references	EU received the 2012 Nobel Peace Prize. MEDIA is a programme within Creative Europe, not a subsidiary corporation.
Euro area	Monetary union from 1 January 1999; euro currency.21 EUStates after Bulgaria adopted the euro 1 January 2026. Source 19 of 28 is historical.
SAARC / identity	South Asian Association for Regional Cooperation;8 December 1985,Dhaka; Secretariat Kathmandu. Regional organisation, not a monetary union.
SAARC /8 members	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.
SAARC /9 observers	Australia, China, EU, Iran, Japan, Republic of Korea, Mauritius, Myanmar, US. Observer status does not make another member State.

USE THREE DISTINCT TESTS



ASEAN, APEC, OPEC and North American trade

Organisation / origin	Members / activity / correction
ASEAN /8 August 1967	Bangkok declaration; Secretariat Jakarta.11 members after Timor-Leste joined 26 October 2025. Earlier 10: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam.
APEC /1989	Secretariat Singapore;21 member economies. Source Jakarta/1967/ten-country lines are ASEAN details wrongly repeated under APEC.
APEC /all 21	Australia, Brunei, Canada, Chile, China, Hong Kong China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, US, Viet Nam. India is not a member.

Primary references / see chapter notes

ASEAN, APEC, OPEC and North American trade / continued

Organisation / origin	Members / activity / correction
OPEC /September 1960	Founded Baghdad; Secretariat Vienna.12 members: Algeria, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, UAE, Venezuela. Source 13 includes Angola, which left effective 2024. OPEC+is broader.
NAFTA /1994	US, Mexico, Canada; reduced trade barriers. USMCA replaced it from 1 July 2020. An old agreement's date is not the current treaty's starting date.



A shared geography does not mean identical membership

ASEAN's newest member does not automatically join RCEP; a forum is not the same as a free-trade treaty.

G 7, G 20 and OECD: purpose before the headline count

Fact anchor	Essential fact / condition
G 7 /1975	G 6 summit cooperation began 1975; Canada joined 1976,forming G 7. Members: Canada, France, Germany, Italy, Japan, UK, US. It discusses global economic issues and has no permanent secretariat/headquarters.
G 20 /1999	Nineteencountries plus EU and African Union. AUjoined 2023. Country membership and membership of a regional body are different categories.
G 20 /19 countries	Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, UK, US.
G 20 /source proportions	Source approximations: two-thirds of world population,85% GDP, over 75% trade. These are dated aggregate descriptions, not constitutional membership tests or verified new post-AU statistics.
OECD /1961	Organisation for Economic Co-operation and Development; Paris.38 members in checked list, not source 36. Policy cooperation, research and standards support economic/social progress; India is a key partner, not a member.
Compare the legal roles	G 7/G 20/APEC are cooperation forums; EU is a regional union; euro area is a monetary arrangement. A forum statement does not itself become domestic legislation.

MEMBERSHIP COUNTS ARE DATED FACTS

Which organisation? → **Country / economy / union?** → **Member / observer / partner?** → **Official list + date**

Primary references / see chapter notes

G 7, G 20 and OECD: purpose before the headline count / continued

G 20 /members

OECD /members and partners

APEC /official members

Regional trade: separate the treaty and the organisation

Grouping	Origins / membership / purpose
MERCOSUR	Treaty of Asunción 1991;1995 institutional milestone is not original founding. Active States Parties: Argentina, Bolivia, Brazil, Paraguay, Uruguay; Venezuela suspended. Supports regional integration/trade/investment. Bolivia ratified accession 2024 with transition provisions.
IORA /formerly IOR-ARC	Established 1997; Indian Ocean regional cooperation/sustainable development.23 Member States and 12 Dialogue Partners, not source 22/9; Secretariat Mauritius.
RCEP	Signed 2020; entry into force from 2022.15 parties: ten original ASEANparties plus Australia, China, Japan, New Zealand, Republic of Korea. Built on ASEAN+1 FTAs to deepen trade/investment and narrow development gaps. India is not a party; Timor-Leste's ASEAN accession is not automatic RCEP accession.
BIMSTEC	BIST-ECfounded 6 June 1997 by Bangladesh, India, Sri Lanka, Thailand. Myanmarjoined 22 December 1997; Bhutan/Nepal 2004. Sevenmembers link South Asia/Bayof Bengal with Myanmar/Thailand. Current name: Bayof Bengal Initiativefor Multi-Sectoral Technicaland Economic Cooperation; Secretariat Dhaka.

Fact anchor	Essential fact / condition
Current international issues	External debt, trade restrictions, climate shocks and volatile capital flows create different financing/cooperation needs. Identify the institution's actual mandate rather than assuming every problem is resolved by a new loan.

MERCOSUR /States Parties and suspension

Australian Government /IORA 23 members 12 partners

BIMSTEC /founding and expansion

Five original checks / answers and primary references

Q	Original practice / answers with reasons
1	Which pair is the World Bank in the usual institutional sense? **A:**IMF/WTO / **B:**IBRD/IDA / **C:**IFC/ICSID / **D:**MIGA/IMF **Answer B:** World Bank means IBRD and IDA; the Group has five institutions.
2	Which is correct about SDRs? **A:**They are retail banknotes / **B:**They are an IMF-created reserve asset / **C:**They are shares in the WTO / **D:**They are an export subsidy **Answer B:** SDRs are not a currency.

Primary references / see chapter notes

Five original checks / answers and primary references / continued

Q	Original practice / answers with reasons
3	Which source membership entry is outdated? **A:**IMF 191 / **B:**WTO 166 / **C:**ASEAN 10 as the current count / **D:**APEC 21 economies **Answer C:** ASEAN has eleven after Timor-Leste's October 2025 admission.
4	India's IDA relationship is best described as: **A:**No prior relationship / **B:**Graduated in 2014; later transitional arrangements are separate / **C:**Still automatically a current blend borrower / **D:**The same as ICSID membership **Answer B:** Membership, borrowing eligibility and graduation are different concepts.
5	Which organisation administers trade agreements? **A:**WTO / **B:**IMF only / **C:**MIGA / **D:**ICSID **Answer A:** WTO's mandate includes administering its trade agreements.

Primary reference	Primary reference
IMF /history	IMF /quota and voting framework
World Bank /India historical archive	IDA /graduates
ICSID /Convention arbitration and remedies	World Bank /India FY 2026-31 framework
IMF /India transactions	

Primary references / see chapter notes

28 essential recall facts

No. /cue	One/two-line retrieval fact
01 /IMF	IMF origins lie in the 1944 Bretton Woods Conference.
02 /IMF	IMF Articles entered into force on 27 December 1945.
03 /IMF	IMF financial operations began on 1 March 1947.
04 /IMF	IMF headquarters are in Washington, D.C.
05 /IMF	IMF membership is 191 in the checked official description.
06 /IMF	The 2026 IMF Executive Board has 25 Executive Directors.
07 /IMF	The Managing Director chairs the IMF Executive Board.
08 /IMF	Quota share and voting share are different measures.
09 /IMF	SDRs were created in 1969.
10 /IMF	An SDR is a reserve asset, not a currency.
11 /IMF	The SDR valuation basket contains five currencies.
12 /WBG	World Bank usually means IBRD and IDA.
13 /WBG	World Bank Group comprises five institutions.
14 /WBG	IFC focuses on private-sector development.
15 /WBG	MIGA provides eligible political-risk guarantee support.
16 /WBG	ICSID concerns investment-dispute settlement.
17 /WBG	India graduated from IDA in 2014.
18 /Bodies	WTO began on 1 January 1995; headquarters Geneva.
19 /Bodies	WTO has 166 members in the checked official description.
20 /Bodies	India joined WTO on 1 January 1995.
21 /Concept	MC 14 took place in Yaounde during March 2026.
22 /Bodies	EU and euro-area memberships are different.
23 /Bodies	Bulgaria became the 21st euro-area member in January 2026.
24 /Bodies	ASEAN has eleven members after Timor-Leste's 2025 admission.
25 /Bodies	APEC has 21 member economies; India is not a member.
26 /Concept	G 20 includes 19 countries, the EU and African Union.
27 /Concept	USMCA replaced NAFTA from 1 July 2020.
28 /Concept	India is not a party to RCEP.

Primary references / see chapter notes

Sustainability: connect the three pillars

Fact anchor	Essential fact / condition
Core idea	Economic, social and environmental objectives must work together. Present progress should preserve future generations' ability to meet needs.
Chronology	Rio+20 in 2012 initiated the SDG development process; UN adoption September 2015 established 17 goals and 169 targets. SDGs build on unfinished MDG work; implementation horizon 2016-2030.
Goal / target / indicator	Goal=broad aim; target=specific commitment; indicator=measured progress. Expenditure is an input, not automatic proof of a welfare outcome.

No.	Memory anchor	What the goal addresses
1	Poverty	Basic living standards
2	Hunger	Food security / nutrition
3	Health	Healthy lives / well-being
4	Education	Inclusive learning
5	Gender	Equality / empowerment
6	Water	Clean water / sanitation
7	Energy	Affordable clean energy
8	Work / growth	Decent productive employment
9	Industry	Innovation / infrastructure
10	Inequality	Reduce within/between countries
11	Cities	Sustainable communities
12	Consumption	Responsible production / use
13	Climate	Climate action
14	Oceans	Life below water
15	Land	Terrestrial ecosystems
16	Institutions	Peace / justice / accountability
17	Partnerships	Cooperation / implementation



A road, a classroom and a river are connected

A project can create jobs while affecting access and natural resources. Assess all three pillars, not only money spent.

Primary references / see chapter notes

India: SDG progress and climate commitments

Fact anchor	Essential fact / condition
Coordination	NITI Aayog coordinates SDG implementation. States and municipal bodies translate priorities into services; leave no one behind. Swachh Bharat, Make in India, Skill India and Digital India can support different goals.
Source index /2020-21	Source score 66 versus 60 in 2019; gains highlighted water/sanitation and clean energy. Kerala 75; Himachal Pradesh/Tamil Nadu 74; Andhra Pradesh/Goa 72 (also Uttarakhand/Karnataka 72). Keep tied scores distinct from a unique rank.
Source claim /goal-level check	NITI 2025 VNR Figure 3 reports 2019-20→2020-21 scores: health 61→74; clean energy 70→92; industry/innovation/infrastructure 65→55. Source “all improved” is inaccurate. NITI warns indicator revisions limit comparability; reported score movement is not a pure same-indicator outcome change.
Later index /2023-24	National composite 71; Kerala and Uttarakhand 79. Score changes require checking coverage and method; these are not monthly 2026 readings.

COP=Conference of the Parties. NDC=Nationally Determined Contribution under the Paris Agreement.

COP 26 /Glasgow, November 2021	Measure / horizon
Net zero	2070; not zero gross emissions from every activity.
Non-fossil capacity	500 GW by 2030.
Renewable energy	Speech commitment:50% energy requirements by 2030. Do not silently substitute installed-capacity share.
Projected emissions	Reduction of projected total carbon emissions by 1 billion tonnes through 2030.
GDP carbon intensity	45% reduction by 2030 versus 2005. Source “less than 45%” has the direction/definition wrong.

Fact anchor	Essential fact / condition
OSOWOG	One Sun, One World, One Grid: solar cooperation and electricity transmission across places/times.
Plastic / Li FE	Plastic Hackathon 2021 was an innovation initiative.2022 prohibition covers identified single-use plastic items, not every plastic. Li FE=conservation/moderation and sustainable daily choices.
Original intensity example	If GDP rises 10% and emissions 5%,emissions intensity changes by 1.05/1.10−1=−4.55%. Intensity falls while absolute emissions rise.

Primary references / see chapter notes

Banking and climate: risk, finance and evidence

Fact anchor	Essential fact / condition
Two roles	Manage climate-related risks to banks/borrowers and finance the transition. Physical hazards damage operations/collateral; policy/technology shifts can create transition risk.
FSTF / SMI	Financial Services Taskforce of Sustainable Markets Initiative: common sustainable-finance definitions, scenario analysis, and assessment of financing risks/opportunities. Robust governance and risk processes support resilience.
Source 2.8% /2050	World Bank Hotspots scenario: India's projected per-person consumption loss is 2.8% under the carbon-intensive 2050 scenario versus 2011 baseline (Table B.3). It is not an observed annual 2.8% GDP-growth deduction or a uniform impact on every sector.
Awareness / proxy	Google Trends reflects relative search interest across places/times. It is not a representative awareness survey or a count of informed investors.

Year	Green-finance milestone	How to remember
December 2007	RBI CSR/sustainability/non-financial-reporting communication	Banking and sustainability
2008	National Action Plan on Climate Change	National policy framework
2011	Climate Change Finance Unit /Ministry of Finance	Coordination
2012	SEBI business-responsibility reports /top 100 listed entities	Historical reporting scope
2015	Renewable-energy lending within PSL	Eligibility remains rule-specific
May 2017	SEBI green-bond disclosure guidance	Instrument disclosure
2021-23	BRSR introduced 2021; mandatory top 1,000 from FY 2022-23; RBI green-deposit framework 2023	Later separate frameworks

Fact anchor	Essential fact / condition
Source credit / historical	Non-conventional-energy credit Rs.36,543 crore at end-March 2020;7.9% of power-generation credit versus 5.4% in March 2015. Authors' RBI Bulletin 2021 calculation excludes RRBs/SFBs. Different denominator from all bank lending; not today's total.

Primary references / see chapter notes

Separate climate vintages and financial instruments

Framework	Intensity target versus 2005	Non-fossil installed electric capacity
Initial 2015 NDC /2030	33-35% reduction	About 40%
Updated 2022 NDC /2030	45% reduction	About 50%
April 2026 NDC /2035	47% reduction	About 60%

Fact anchor	Essential fact / condition
2035 carbon sink	2026 NDC:3.5-4.0 billion tonnes CO 2-equivalent through forest/tree cover versus 2005 by 2035. The capacity target includes technology transfer/low-cost international finance. Capacity, intensity and a sink measure different things.
Green bonds	Sovereigns, intergovernmental bodies and companies can issue debt whose proceeds finance eligible environmental projects. “Green” does not remove credit/repayment risk.
Green lending / deposits	Loans finance qualifying activities; green-deposit frameworks govern allocation/reporting of deposit proceeds. A notified tax concession can affect after-tax returns; priority-credit eligibility affects credit allocation. Instrument definitions, eligibility and disclosure reduce greenwashing.
CSR / applicability	Corporate social responsibility (CSR):Companies Act 2013; Rules 2014. Section 135: net worth≥Rs.500 crore OR turnover≥Rs.1,000 crore OR net profit≥Rs.5 crore in the immediately preceding financial year. Obligations are not wholly voluntary for covered companies.
CSR / spending	At least 2% of eligible average net profits of the preceding 3 financial years, with statutory treatment for newer companies. Rs.20 crore average →Rs.40 lakh benchmark.
CSR / governance	Schedule VII guides qualifying activity areas. Board oversight, reporting and unspent-amount rules matter. CSR connects environmental, social and economic responsibilities to employees, consumers, shareholders and communities. It can support SDGs, which were not created by corporate spending.

FOUR DIFFERENT DENOMINATORS

GDP intensity

Installed capacity

Electricity generation

Total energy use

Primary references / see chapter notes

Five original checks / answer with the distinction

Q	Original practice / answers with reasons
1	Which measure is a reduction in emissions per unit of GDP? **A:**Absolute emissions only / **B:**Emissions intensity / **C:**Installed capacity / **D:**CSR turnover **Answer B:** Intensity divides emissions by output; its decline can coexist with higher absolute emissions.
2	A flood damages a financed factory. Which risk is directly illustrated? **A:**Physical climate risk / **B:**Only transition risk / **C:**No credit connection / **D:**Only foreign-exchange risk **Answer A:** Physical damage can affect operations, cash flow and collateral.
3	The SDG India Index score 71 quoted here belongs to: **A:**Every year after 2020 / **B:**The 2023-24 edition / **C:**A 2026 monthly survey / **D:**The UN's world rank **Answer B:** Always attach the edition and distinguish a score from a rank.
4	Which is the formal 2035 non-fossil target metric? **A:**Share of every household's energy use / **B:**About 60% cumulative installed electric power capacity / **C:**60% of all current electricity generation / **D:**Complete removal of all fossil fuel by 2035 **Answer B:** The denominator is installed electric power capacity, not generation or all energy use.
5	The CSR benchmark in the original INR 20 crore average-profit example is: **A:**INR 4 crore / **B:**INR 2 crore / **C:**INR 40 lakh / **D:**INR 4 lakh **Answer C:** 2% of INR 20 crore is INR 0.40 crore = INR 40 lakh.

If asked about…	Check before answering
A target	Vintage, baseline, metric and horizon-not automatic achievement.
A finance instrument	Use of proceeds, eligibility, disclosure and repayment risk.
An exam update	General IIBF cutoff: prior 31 December for March-August exams;30 June for September-February. Later developments are supplements.

UN /2030 Agenda

NITI /2025 VNR, Figure 3 and comparability note

NITI /SDG India Index 2023-24

PIB /Panchamrit and COP 26

UNFCCC /India 2031-35 NDC

World Bank /Hotspots and scenarios

SMI /banking transition guide and FSTF

Ghosh, Nath, Ranjan /RBI Bulletin 2021,author-uploaded paper

MCA /CSR frequently asked questions

SEBI /BRSR 2021 circular

Primary references / see chapter notes

28 essential recall facts

No. /cue	One/two-line retrieval fact
01 /SDGs	The SDGs were adopted in September 2015.
02 /SDGs	The SDG framework contains 17 goals and 169 targets.
03 /SDGs	The SDG implementation horizon is 2016-2030.
04 /SDGs	The SDGs followed the Millennium Development Goals.
05 /Concept	Sustainability joins economic, social and environmental aims.
06 /SDGs	Goal 6 concerns clean water and sanitation.
07 /SDGs	Goal 7 concerns affordable and clean energy.
08 /SDGs	Goal 8 joins decent work with economic growth.
09 /SDGs	Goal 13 concerns climate action.
10 /SDGs	Goal 17 concerns partnerships for the goals.
11 /SDGs	NITI Aayog coordinates India's SDG effort.
12 /SDGs	India's 2023-24 SDG Index composite score is 71.
13 /Concept	Kerala and Uttarakhand scored 79 in that edition.
14 /Concept	Mitigation limits emissions or enhances removals.
15 /Concept	Adaptation reduces vulnerability to climate impacts.
16 /Concept	Flood damage is an example of physical climate risk.
17 /Concept	Policy and technology shifts can create transition risk.
18 /Concept	Paris Agreement: adopted 2015; in force 2016.
19 /SDGs	India's long-term net-zero goal is 2070.
20 /Target	The 2022 NDC intensity target is 45% by 2030.
21 /Target	The 2035 intensity target is 47% below 2005.
22 /Target	The 2035 non-fossil capacity target is about 60%.
23 /Concept	Capacity share and generation share are different.
24 /Concept	Lower intensity need not mean lower absolute emissions.
25 /Concept	RBI's green-deposit framework began on 1 June 2023.
26 /Concept	Greenwashing involves misleading environmental claims.
27 /Concept	Section 135 is the Companies Act CSR provision.
28 /Concept	Core CSR spend: 2% of average eligible three-year profits.

Primary references / see chapter notes

Economic challenges: measure the problem

Fact anchor	Essential fact / condition
Growth / inclusion	Later supplement: IMF Deputy Managing Director's 15 September 2026 statement described India as the fastest-growing major economy. This dated assessment postdates the standard June 2026 exam cutoff; higher averages do not prove inclusion.
Challenge dashboard	Weak demand; jobless growth; unemployment/underemployment; wealth disparities; weak human capital; infrastructure bottlenecks; agricultural dependence; government debt; urban migration and infection-related disruption.
Poverty / source vintage	Planning Commission 2011-12 consumption-poverty estimates: rural 25.7%,urban 13.7%. These are not current rates or multidimensional-poverty readings. Poverty eradication remains a development objective.
Rural constraints	Limited infrastructure, food access and decent jobs can reinforce low incomes. Agriculture/agri-business, non-farm work, education, health and skills can widen earning opportunities.
Inequality	Income, wealth and access to services are distinct. World Inequality Lab 2024 research estimates 2022-23 top 1% shares: income 22.6%,wealth 40.1%. The series is not a consumption-poverty measure or proof that reforms alone caused inequality.
Wages / public services	Low earnings and unequal access to quality education/health can perpetuate disadvantage. Living wages, capabilities and service investment answer different parts of the problem.
Migration / causes	Economic opportunity mixes with social, political, cultural, health, education and environmental factors. Development and demographics also matter; isolating "purely environmental" migration is difficult.
Resources / aspirations	Housing, water, transport, jobs and service capacity determine how cities absorb migrants. Better living standards are an aspiration; a demographic or class-formation trend requires a specified definition and dataset.
Climate / remedies	Drought, floods, sea-level rise and cyclones can create displacement risks. Combine resilience, local livelihoods and urban absorption; future migration magnitude depends on the scenario and interacting economic/social conditions.



One aggregate cannot diagnose every problem

Ask separately: Are jobs improving? Who receives income? Can households access essential services?

Primary references / see chapter notes

Pandemic and external shocks: follow the chain

Fact anchor	Essential fact / condition
Before / during COVID	The slowdown predated COVID. Repeated waves worsened demand, supply chains, production capability, livelihoods and health; recovery could have persistent economic/social effects.
Policy response	Government fiscal support targeted vulnerable groups; RBI liquidity/easier policy addressed monetary-financial conditions. This describes the pandemic response, not a permanent current stance.
Source correction	COVID was not the first 21st-century pandemic: WHO characterised H 1 N 1 influenza as a pandemic in 2009. Mutations, inflation and unemployment complicated the COVID policy response.
War / recovery	Russia-Ukraine war pressures transmitted through commodity prices, trade/supply uncertainty, weaker world growth and tighter global finance. They affected an existing recovery, not its only cause.

Q	Original practice / answers with reasons
1	With 600 in the labour force and 570 employed, UR is: **A:**3% / **B:**5% / **C:**57% / **D:**60% **Answer B:** The unemployed are 30; divide by labour force 600, giving 5%.
2	Which can occur together? **A:**Falling poverty and rising inequality / **B:**Lower poverty always means no inequality / **C:**GDP growth always doubles jobs / **D:**Every inactive person is unemployed **Answer A:** Poverty and inequality measure different aspects of the distribution.
3	Which poverty comparison is sound? **A:**Mix any two published percentages / **B:**Check threshold, PPP base, survey year and methodology / **C:**Convert PPP dollars at the spot exchange rate / **D:**Treat MPI as identical to monetary poverty **Answer B:** Definitions and statistical vintages determine whether a comparison is meaningful.
4	Which statement corrects the source? **A:**COVID-19 was the first twenty-first-century pandemic / **B:**H 1 N 1 influenza was already a pandemic in 2009-10 / **C:**WHO declared all COVID-19 eradicated in 2023 / **D:**Pandemics affect only demand **Answer B:** WHO documents the earlier H 1 N 1 pandemic; ending a PHEIC does not mean eradication.
5	A destination city faces housing and sanitation pressure. The best direct response is: **A:**Assume every migrant causes a net loss / **B:**Plan service and housing capacity alongside safe mobility / **C:**Use only an interest-rate change / **D:**Ignore the origin area **Answer B:** Migration has benefits and pressures; responses should address the actual constraints.

Planning Commission /2011-12 poverty estimates

WHO / H 1 N 1 pandemic record

IMF /dated 15 September 2026 assessment

World Inequality Lab /2024 India research

RBI / annual reports and dated policy history

Primary references / see chapter notes

28 essential recall facts

No. /cue	One/two-line retrieval fact
01 /Concept	GDP growth does not guarantee equal gains for every household.
02 /Poverty	Poverty and inequality measure different things.
03 /Poverty	A poverty headcount is a share below a stated cutoff.
04 /Poverty	A poverty gap considers depth below the threshold.
05 /Poverty	Monetary poverty and MPI are different measures.
06 /Concept	PPP dollars are not converted at today's spot exchange rate.
07 /Poverty	The source's rural 25.7% poverty rate is for 2011-12.
08 /Poverty	Its urban 13.7% poverty rate is also for 2011-12.
09 /Poverty	The 2024 NITI paper estimates MPI at 11.28% for 2022-23.
10 /Poverty	That MPI endpoint is estimated, not a new NFHS survey.
11 /Poverty	National MPI uses 12 indicators; global MPI uses 10.
12 /Jobs	LFPR divides the labour force by relevant population.
13 /Jobs	WPR divides employed people by relevant population.
14 /Jobs	UR divides unemployed people by the labour force.
15 /Jobs	People outside the labour force are not all unemployed.
16 /Concept	CWS and usual-status estimates have different reference periods.
17 /Jobs	Low UR need not mean adequate hours or earnings.
18 /Concept	Jobless growth need not mean literally zero new jobs.
19 /Concept	Income is a flow; wealth is a stock.
20 /Concept	Absolute income gaps and relative inequality can differ.
21 /Concept	Migration can be seasonal, temporary or long term.
22 /Jobs	Migration can bring remittances and labour-market gains.
23 /Concept	Climate and socioeconomic drivers of migration interact.
24 /Concept	Urban services need capacity alongside population growth.
25 /Shock	H 1 N 1 influenza was a pandemic in 2009-10.
26 /Shock	WHO characterised COVID-19 as a pandemic in March 2020.
27 /Shock	COVID-19 PHEIC status ended on 5 May 2023.
28 /Concept	Liquidity support does not automatically restore solvency.

Primary references / see chapter notes

Economics: wealth, welfare and choices

Fact anchor	Essential fact / condition
Subject and activities	Economics examines production, distribution and consumption, and how individuals, firms, governments and nations allocate scarce resources. An economy is the organised activity; economics is its study.
Greek roots	Oikonomia means household management; oikos refers to the household and nemein to managing or distributing. The idea extends from household choices to society's resources.
Adam Smith / 1776	The Wealth of Nations is associated with the wealth approach: production and accumulation of wealth. Wealth is an emphasis in this classification, not the only subject Smith discussed.
Alfred Marshall / 1890	Principles of Economics is associated with material welfare and people's ordinary economic life. Wealth is a means to human welfare; human behaviour is central.



One budget, competing goals

A learner has time for a course or extra paid work. Choosing the course sacrifices the best alternative use of that time. That sacrifice is opportunity cost.

Robbins: the four conditions behind choice

Fact anchor	Essential fact / condition
Ends and means	Lionel Robbins emphasises human behaviour in relation to ends and scarce means that have alternative uses. Wants exceed the resources available for satisfying them.
1 / Many wants	Human wants are numerous and can expand; satisfying one may leave other wants unmet. This does not mean every individual wants literally everything.
2 / Scarce means	Time, money, physical ability and other resources are limited relative to competing wants. Scarcity can exist in a wealthy household too.
3 / Alternative uses	Land can support farming, a house or a factory. Resources committed to one use cannot simultaneously provide every competing use.

Primary references / see chapter notes

Robbins: the four conditions behind choice / continued

Fact anchor	Essential fact / condition
4 / Different urgency	Wants differ in priority. People choose more urgent ends and postpone others. Preferences and constraints jointly determine allocation.
Exam application	Opportunity cost is the value of the next-best forgone alternative. A zero money price does not imply zero opportunity cost; a sunk cost has already been incurred.

A scarce resource creates a decision



Microeconomics and macroeconomics: choose the level

Fact anchor	Essential fact / condition
Micro / unit	Individual consumers, households, firms and particular markets. Topics include demand, supply, production, costs, labour choices, resource allocation, prices and market equilibrium.
Micro / policy	Taxes, regulations and incentives can alter a firm's or household's choices. Financial statements inform firm decisions; accounting statements alone are not the whole of microeconomics.
Firm behaviour / correction	Microeconomics explains how choices and constraints change production, capacity, costs, competitive pricing and welfare. It does not say supply alone determines the economy's general price level; demand and supply interact in particular markets.
Macro / aggregates	Economy-wide output, employment, national income, general prices, investment, aggregate saving and broad interest-rate conditions. Government policy and domestic/international spillovers matter.
Institutional context	Analysis can examine investment, revenues, wages, profits and capitalist institutions. Macro is not limited to studying a single political or ownership system.

Primary references / see chapter notes

Microeconomics and macroeconomics: choose the level / continued

Fact anchor	Essential fact / condition
Connection	A general interest-rate change affects individual borrowers; the combined response affects spending and output. Micro often builds from individual choices upward; macro models can aggregate many products into a simplified representative output. Neither simplification is a literal description of every transaction.
Policy evaluation	Macro compares growth, employment, prices, wages, interest, profits and international spillovers to assess government strategies. Results require evidence; analysis does not automatically solve every policy problem.

Nine comparisons: avoid the common fallacies

Fact anchor	Essential fact / condition
1 / Scale	Micro: individual units and markets. Macro: aggregates and the economy as a whole.
2 / Main questions	Micro: product prices, allocation and individual choices. Macro: growth, general inflation, unemployment and aggregate stability.
3 / Examples	Price of one product versus the general price level; a firm's output versus national output.
4 / Business use and tools	Micro informs internal/operational decisions using individual demand and supply. Macro examines the external business environment using aggregate demand and aggregate supply. Government appears in both.
5 / Variables held fixed	Ceteris paribus means holding specified other influences constant. Neither branch assumes all variables in the other branch are always fixed.
6 / Employment	Micro models do not universally assume full employment. Macro studies employment and unemployment; its models use different assumptions.
7 / Prices, factors and welfare	Micro examines product/factor pricing, production, consumption and economic welfare. Land, labour, capital and enterprise prices are particular factor-market questions. Macro examines national income, aggregate consumption, distribution, money, general prices and growth.

Primary references / see chapter notes

Nine comparisons: avoid the common fallacies / continued

Fact anchor	Essential fact / condition
8 / Stability and policy use	Macro studies inflation, deflation, reflation, unemployment and poverty alongside broader stability. Firm-level decisions and economy-wide policy require both perspectives. Neither branch is inherently more useful or complete.
9 / Logical limits	Individual-to-aggregate inference can commit the fallacy of composition. Aggregate-to-individual inference can commit the fallacy of division. The source reverses the second label.

What, how and for whom? Economic systems

Fact anchor	Essential fact / condition
Three questions	What goods/services, and how much? How to produce them, using which technology and resources? For whom to produce: who receives the output and income?
Market-oriented	Private ownership, profit incentives, competition and supply-demand prices coordinate much activity. Markets still need laws, institutions and public goods.
Command-oriented	Public ownership and administrative planning have a large coordinating role. State allocation can pursue collective goals but faces information and incentive problems.
Mixed economy	Public and private activity coexist; market prices operate alongside regulation, public provision and redistribution. India is commonly described as a mixed economy.
Source correction	Socialism does not logically require dictatorship; command coordination does not mean every worker is personally controlled in every activity. These are ideal types, not universal descriptions of countries.

Primary references / see chapter notes

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	The best forgone alternative is: A. A sunk cost; B. Opportunity cost; C. Only accounting profit; D. Always zero **Answer B.** Opportunity cost concerns the next-best alternative sacrificed.
Q 02	Robbins' approach emphasises: A. Scarce means with alternative uses; B. Only national output; C. Only public ownership; D. No choices **Answer A.** Scarcity and choice are the central distinction.
Q 03	Which is primarily macroeconomic? A. One shop's price; B. One borrower's budget; C. General inflation; D. One product's demand **Answer C.** General inflation concerns the economy-wide price level.
Q 04	A mixed economy necessarily contains: A. Only government firms; B. Only private firms; C. Both market activity and public intervention; D. No prices **Answer C.** The combination varies across countries and time.
Q 05	Which is one of the three fundamental allocation questions? A. Which goods should be produced?; B. What is every firm's share price?; C. Must every economy have a dictator?; D. Can scarcity always be eliminated? **Answer A.** What, how and for whom describe production, method and distribution choices.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	NCERT: Introductory Microeconomics
NCERT: Introductory Macroeconomics	Research review: 25 October 2026

Edition and exam cutoff

Evergreen guide with dated supplements. IIBF ordinarily uses the preceding 31 December cutoff for March-August exams and 30 June for September-February. Check session notices. Later rates are supplementary; original questions are learning checks, not claimed past papers.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Economics concerns allocation under scarcity.	**15.** General inflation is a macroeconomic example.
02. Scarcity is relative to competing wants.	**16.** Micro and macro analysis are interconnected.
03. Resources can have alternative uses.	**17.** Ceteris paribus holds specified other influences constant.
04. Opportunity cost is the best forgone alternative.	**18.** Positive analysis examines what is or may happen.
05. A zero money price need not mean zero opportunity cost.	**19.** Normative analysis includes judgements about what ought to be.
06. A sunk cost is already incurred.	**20.** What, how and for whom are allocation questions.
07. Smith's Wealth of Nations was published in 1776.	**21.** Robbins identifies wants, scarce means, alternative uses and priorities.
08. Marshall's Principles of Economics appeared in 1890.	**22.** Factor prices include wages, rent, interest and profit.
09. Smith is associated with the wealth approach.	**23.** Individual-to-aggregate error is the fallacy of composition.
10. Marshall is associated with the welfare approach.	**24.** Aggregate-to-individual error is the fallacy of division.
11. Robbins emphasises scarcity and alternative uses.	**25.** Markets coordinate through prices and incentives.
12. Microeconomics studies individual units and markets.	**26.** Command systems rely heavily on administrative allocation.
13. Macroeconomics studies economy-wide aggregates.	**27.** Mixed economies combine markets and public intervention.
14. One product's price is a microeconomic example.	**28.** Government intervention can pursue public goods and social objectives.



Who chooses, and what is scarce?

Name the decision maker, objective, limited resource and best alternative forgone. Then decide whether the question concerns one market or the whole economy.

Primary references / see chapter notes

Demand: the schedule behind the curve

Fact anchor	Essential fact / condition
Demand versus desire	Demand is willingness and ability to buy quantities at alternative prices during a stated period, holding specified other influences constant. Quantity demanded is one amount at one price.
Schedule and curve	A demand schedule is a table; its plotted relationship is a demand curve. Convention: quantity on the horizontal axis and own price on the vertical.
Ordinary law	Other things equal, a higher own price normally reduces quantity demanded. The inverse relationship describes movement along one demand curve.
Forces behind demand	Income, population/number of buyers, prices and availability of related goods, preferences, expectations and special influences can shift demand. Normal and inferior goods can respond differently to income.
Individual schedule	At prices INR 100, 200, 300, 400 and 500, A's quantities are respectively 50, 40, 30, 20 and 10 units. The five-row table below preserves each pair.



Price changed or the buyer changed?

Cheaper fruit: move along demand. More buyers or changed preferences: shift demand. Identify the cause before reading the market outcome.

Add quantities at the same price

Fact anchor	Essential fact / condition
Market demand	Add all individual quantities horizontally at each common price. At INR 500, A buys 10 and B buys 30: total 40. The source prose's A=20 conflicts with its table and is corrected.
Do not add prices	A market schedule changes quantities as price changes. Adding different buyers' prices does not produce market demand.

Edition and exam cutoff

Evergreen guide with dated supplements. IIBF ordinarily uses the preceding 31 December cutoff for March-August exams and 30 June for September-February. Check session notices. Later rates are supplementary; original questions are learning checks, not claimed past papers.

Primary references / see chapter notes

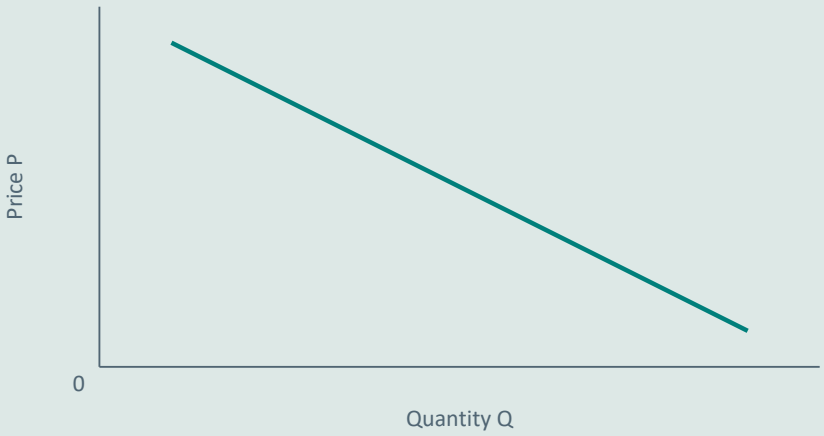
Add quantities at the same price / continued

Price / INR	A demand	B demand	Market A+B
100	50	70	120
200	40	60	100
300	30	50	80
400	20	40	60
500	10	30	40

Read a curve without inventing its data

Fact anchor	Essential fact / condition
Gasoline illustration	The readable source prose pairs price $3.50/litre with quantity 50 and $0.50/litre with quantity 250. Treat these as illustrative demand pairs, not measured current prices.
Unit problem / disclosed	The figure labels quantity as km/semester while the prose discusses litres. Several plotted prices are not explicitly labelled. Exact unlabelled coordinates and the inconsistent quantity unit are excluded from numerical teaching; the qualitative inverse relationship is retained.
Reading rule	A downward line shows the ordinary price-quantity direction. Axis units, the time period and assumptions must be stated before using a graph numerically.

Read a curve without inventing its data / conceptual model



D

Own price rises → quantity demanded falls.

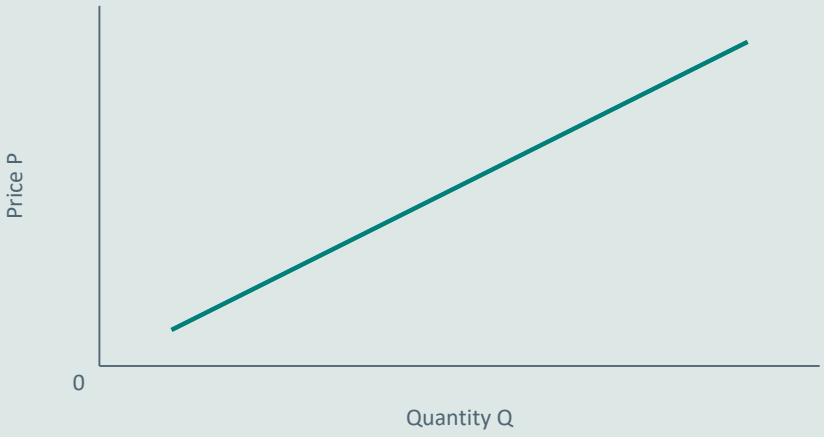
Non-price influences are held constant. A change in own price is movement along D.

Primary references / see chapter notes

Supply: willingness to offer and elasticity

Fact anchor	Essential fact / condition
Supply relationship	Supply describes quantities sellers are willing and able to offer at alternative prices over a stated period, other influences fixed. Quantity supplied is one point on that relationship.
Ordinary law	Higher own price normally raises quantity supplied, other things equal. Input costs, technology, policy, related-goods returns, weather and other conditions shift supply.
Elasticity of supply	Es = percentage change in quantity supplied / percentage change in price. State the percentage base or method; elasticity is not the slope in physical units.
Source calculation	Initial Q=1,000, P=10; price falls to 7.50. On the initial-value percentage convention, price changes -25%. With Es=3, quantity changes -75%, giving Q=250.
Method matters	The calculation assumes the specified base-value percentage response. It is not a constant point-elasticity curve over the whole interval, and an arc-elasticity method would require its own formula.

Supply: willingness to offer and elasticity / conceptual model



S

Own price rises → quantity supplied rises in the ordinary model.

Costs, technology and other influences are held constant.

Supply schedules: sellers, quantities and totals

Fact anchor	Essential fact / condition
Individual and market	Each producer has an individual supply schedule. Market supply adds producers' quantities at the same price. At INR 500, 5,000 + 7,000 = 12,000 units supplied.

Primary references / see chapter notes

Supply schedules: sellers, quantities and totals / continued

Fact anchor	Essential fact / condition
Source corrections	The table concerns producers/sellers, not customers' demand. The 12,000 total is market supply, not market demand. Both source supply schedules are rebuilt below.

Price / INR	A supply	B supply	Market A+B
100	1000	3000	4000
200	2000	4000	6000
300	3000	5000	8000
400	4000	6000	10000
500	5000	7000	12000

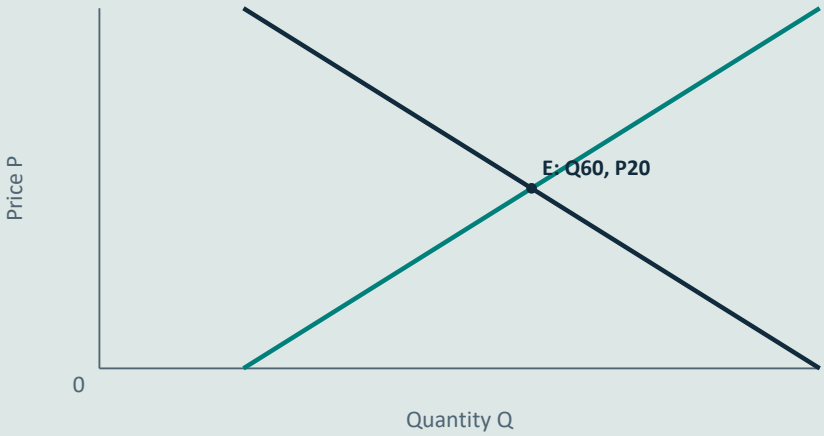
Movement, shift and equilibrium effects

Fact anchor	Essential fact / condition
Movement along a curve	A change in the good's own price moves the point along a given demand or supply curve. Other relevant determinants remain fixed.
Shift of a curve	A non-price determinant changes quantities at given prices. Rightward demand means more wanted; rightward supply means more offered.
Equilibrium	At market clearing, Qd=Qs. A price above equilibrium creates excess supply in the ordinary model; below equilibrium creates excess demand.
Demand increases	With supply fixed, a rightward demand shift raises equilibrium price and quantity. A leftward demand shift lowers both.
Supply increases	With demand fixed, a rightward supply shift lowers price and raises quantity. A leftward supply shift raises price and lowers quantity.
Both curves change	Direction and relative size matter. If demand and supply both rise, quantity rises but price cannot be determined without their relative shifts.
Original worked check	Qd=100-2 P and Qs=20+2 P. Equating them gives 4 P=80, P=20 and Q=60. Substitute the result into both equations.

Primary references / see chapter notes

Movement, shift and equilibrium effects / continued

Movement, shift and equilibrium effects / conceptual model



Demand / Supply

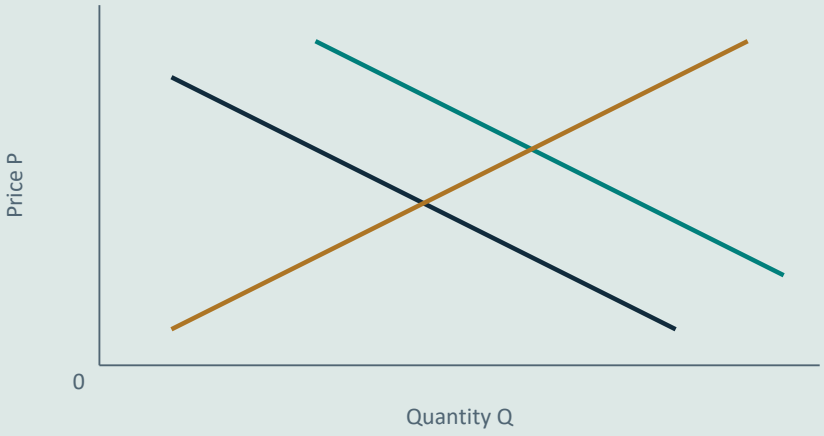
Original equations:
Qd = 100 - 2P
Qs = 20 + 2P

At P20 both quantities equal 60. Lines are scaled consistently to this example.

Visual comparison: the cause comes first

Fact anchor	Essential fact / condition
Demand right / supply fixed	New buyers, stronger preference or higher normal-good income can raise demand: P rises and Q rises.
Supply right / demand fixed	Lower costs or better technology can raise supply: P falls and Q rises.

Visual comparison: the cause comes first / conceptual model



D0 / D1 / S

D1 lies right of D0.

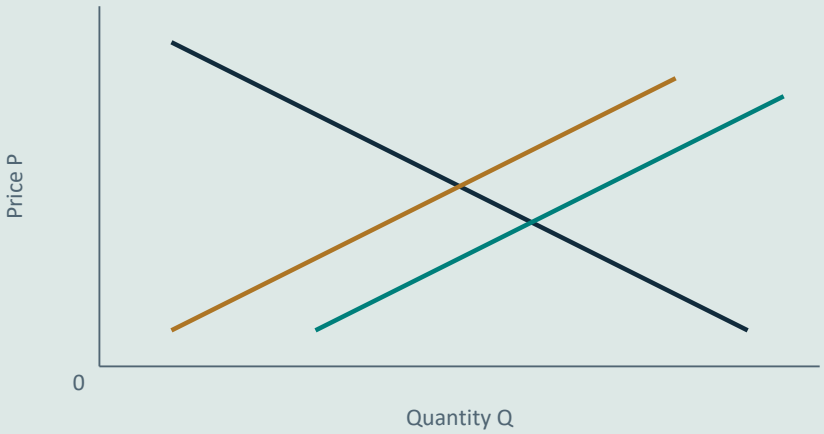
More is demanded at a given price.

With S fixed: equilibrium P and Q rise.

Primary references / see chapter notes

Visual comparison: the cause comes first / continued

Supply rightward / conceptual model



D / S0 / S1

S1 lies right of S0.

More is offered at a given price.

With D fixed: P falls and Q rises.

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	At INR 500 the rebuilt demand table gives total demand of: A. 30; B. 40; C. 50; D. 60 **Answer B.** A=10 and B=30, giving 40; the source prose contains an error.
Q 02	A fall in a product's own price ordinarily causes: A. A rightward demand shift; B. Movement along demand; C. No quantity change; D. A population increase **Answer B.** Own-price movement is distinguished from non-price shifts.
Q 03	Lower production costs normally shift: A. Supply right; B. Demand left; C. Supply left; D. Neither curve **Answer A.** More can be supplied at each given price.
Q 04	For Qd=100-2 P and Qs=20+2 P, equilibrium price is: A. 10; B. 20; C. 30; D. 60 **Answer B.** Equating the two schedules gives P=20 and Q=60.
Q 05	If demand and supply both increase, which is generally certain? A. Price rises; B. Price falls; C. Quantity rises; D. Quantity falls **Answer C.** The price direction depends on relative shift magnitudes.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	NCERT: Introductory Microeconomics

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Demand requires willingness and ability to buy.	**15.** Lower input costs can shift supply right.
02. Quantity demanded refers to a particular price.	**16.** Improved technology can increase supply.
03. Own-price changes cause movement along demand.	**17.** Market supply adds firms' quantities at a common price.
04. Non-price influences can shift demand.	**18.** Elasticity compares percentage changes.
05. Price is conventionally on the vertical axis.	**19.** Elasticity is unit-free; geometric slope is not.
06. Quantity is conventionally on the horizontal axis.	**20.** The source's base-percentage elasticity example gives 250 units.
07. Ordinary demand slopes downward, other things equal.	**21.** Equilibrium requires quantity demanded to equal supply.
08. Market demand adds buyers' quantities at a common price.	**22.** A price above ordinary equilibrium creates surplus.
09. A rightward demand shift means more at each given price.	**23.** A price below ordinary equilibrium creates shortage.
10. Income effects differ for normal and inferior goods.	**24.** Demand rising alone raises equilibrium price and quantity.
11. A substitute's price can influence demand.	**25.** Supply rising alone lowers price and raises quantity.
12. A complement's price can influence demand.	**26.** Demand and supply both rising leave price ambiguous.
13. Supply describes quantities sellers will offer.	**27.** A binding ceiling below equilibrium can create shortage.
14. Own-price changes cause movement along supply.	**28.** Always state which other influences are held constant.



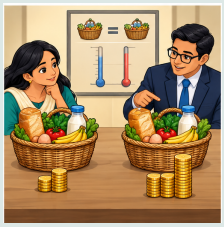
Say the cause before the arrow

Own-price change: move along the curve. A changed non-price determinant: shift the curve. Then hold the other curve fixed before predicting equilibrium.

Primary references / see chapter notes

Money: functions, stocks and Indian aggregates

Fact anchor	Essential fact / condition
Four functions	Medium of exchange; common unit/measure of value; store of purchasing power; standard of deferred payment. Inflation can weaken real purchasing power while these functions remain conceptually distinct.
Stock, not flow	Money supply is measured at a point in time. RBI publishes monetary statistics fortnightly. Money influences prices, exchange conditions, business cycles and output through conditional economic channels.
Currency with public	Currency in circulation less banks' cash holdings. Do not add banks' cash again to public currency.
M 1 / narrow money	Currency with public + demand deposits with the banking system + other deposits with RBI.
M 2, M 3 and M 4	M 2=M 1+post-office savings deposits. M 3=M 1+bank time deposits. M 4=M 3+all post-office deposits other than National Savings Certificates.
Demand versus time	Classify by payability. Current deposits, demand portions of savings and overdue deposits payable on demand are demand liabilities. Ordinary fixed/recurring/cumulative deposits payable later are time liabilities, not automatically demand deposits.



Same basket, different rupees

When an identical basket costs more rupees, each rupee buys less. Its purchasing power has fallen even though the physical basket is unchanged.

Broad money: components, counterparts and ratios

Fact anchor	Essential fact / condition
M 3 / liability components	Public currency + bank demand deposits + other RBI deposits + bank time deposits. These components sum to broad money.

Primary references / see chapter notes

Broad money: components, counterparts and ratios / continued

Fact anchor	Essential fact / condition
M 3 / source counterparts	Net bank credit to government + bank credit to commercial sector + net foreign-exchange assets of banking sector + government currency liabilities to public - net non-monetary liabilities of banking sector.
Read the identity	The four liability components and five counterpart terms describe two views of the same aggregate. A row opposite another row is not a one-to-one causal match.
Multiplier	Broad-money multiplier=M 3/reserve money (M 0). It depends on public currency/deposit preferences, required reserve/deposit ratios and banks' excess reserve/deposit choices. A fixed mechanical multiplier is a simplification.
Historical association	Milton Friedman and Anna Schwartz's A Monetary History of the United States appeared in 1963 and analysed monetary developments. Do not infer that every multiplier concept was first invented in that book.
Velocity	Income velocity=nominal GDP / a consistently defined average money stock for the period. Multiplier is stock/stock; velocity relates a flow to a stock. Broad money, reserve money and GDP are different denominators/numerators.

Inflation: cause, index and comparison period

Fact anchor	Essential fact / condition
Definition	A sustained rise in the general price level reduces money's purchasing power. A rise in one product's price is not by itself general inflation.
Demand-pull / cost-push	Aggregate demand exceeding available supply can raise prices; higher input costs or adverse supply shocks can also raise prices. The policy response depends on the cause.
Rate formula	Inflation %=100 x (current price index / comparison-period index - 1). For year-on-year inflation, use the corresponding period a year earlier, not automatically the index base year.

Primary references / see chapter notes

Inflation: cause, index and comparison period / continued

Fact anchor	Essential fact / condition
Original check	An index rising from 120 to 126 implies 5% inflation. Rising next to 129.78 implies 3%: slower inflation still means prices are rising. Disinflation differs from a falling general price level.

Price measures: learn the current base and coverage

Fact anchor	Essential fact / condition
WPI / historical	The 2011-12-base WPI series contained 697 items and was launched in May 2017 with April 2017 as its first monthly reference period. WPI measures wholesale goods prices, not a full retail services basket.
WPI / 2026 update	The new series uses 2022-23=100; the announced launch was 15 June 2026. Compare indices within the same series or an officially linked series.
CPI / purpose	CPI tracks consumer prices using an expenditure basket and weights. A simple basket-cost ratio x 100 illustrates the principle; official compilation uses the prescribed weighted methodology.
CPI / current general series	Rural, Urban and Combined CPI now use 2024=100. The January 2026 new-series release was published on 12 February 2026.
Special consumer groups	Labour Bureau CPI-IW uses 2016=100. CPI-AL and CPI-RL use 2019=100, introduced with June 2025 indices. The source's 1982, 1986-87 and 1984-85 bases are obsolete.
GDP deflator	Nominal GDP / real GDP x 100, on a consistent base and coverage. It covers domestically produced final goods and services; directly imported products are not domestic output. Its coverage differs from CPI and WPI.

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which is a stock? A. Annual GDP; B. Monthly spending; C. Money supply on a date; D. Annual investment **Answer C.** A stock is measured at a point in time.

Primary references / see chapter notes

Five original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 02	With M 1=205 and time deposits=300, M 3 is: A. 95; B. 205; C. 300; D. 505 **Answer D.** Indian M 3 adds bank time deposits to M 1.
Q 03	An index rises from 120 to 126. Inflation is: A. 5%; B. 6%; C. 20%; D. 26% **Answer A.** The change 6 is divided by the comparison index 120.
Q 04	Inflation falls from 5% to 3%, remaining positive. This is: A. Deflation; B. Disinflation; C. Zero prices; D. A guaranteed fall in the index **Answer B.** The price level can still rise.
Q 05	M 3=900, M 0=300 and nominal GDP=1,800. The multiplier and velocity are: A. 2 and 3; B. 3 and 2; C. 6 and 3; D. Both 900 **Answer B.** Multiplier=900/300=3; velocity=1800/900=2 with a suitable money-stock measure.

Reference desk / date before number

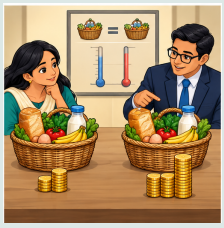
Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	RBI: monetary-aggregate definitions and methodological notes
Labour Bureau: CPI for Industrial Workers	Labour Bureau: CPI for agricultural/rural labourers
Mo SPI / CPI base 2024 launch	PIB / WPI 2022-23 launch
Labour Bureau / current indices	Research review: 25 October 2026

Edition and exam cutoff
Evergreen guide with dated supplements. IIBF ordinarily uses the preceding 31 December cutoff for March-August exams and 30 June for September-February. Check session notices. Later rates are supplementary; original questions are learning checks, not claimed past papers.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Money serves as a medium of exchange.	**15.** Velocity compares nominal GDP with a relevant money stock.
02. Money is also a unit of account.	**16.** Moving a deposit between banks need not increase total money.
03. Money can store purchasing power for later use.	**17.** Inflation concerns the general price level.
04. Money provides a standard for deferred payments.	**18.** Disinflation means slower positive inflation.
05. Money supply is a stock measured on a date.	**19.** Deflation means a falling general price level.
06. GDP is a flow over a period.	**20.** Demand-pull and cost-push describe different mechanisms.
07. Currency with public excludes banks' cash holdings.	**21.** Inflation uses the comparison-period index as denominator.
08. Indian M 1 includes demand deposits and other RBI deposits.	**22.** Year-on-year and month-on-month are different comparisons.
09. Indian M 3 equals M 1 plus bank time deposits.	**23.** CPI concerns consumer goods and services.
10. M 2 adds post-office savings deposits to M 1.	**24.** WPI and CPI use different coverage and weights.
11. M 4 excludes National Savings Certificates.	**25.** The GDP deflator equals nominal GDP / real GDP x 100.
12. Reserve money is commonly called M 0.	**26.** CPI Rural/Urban/Combined now uses base 2024.
13. The observed broad-money multiplier is M 3 divided by M 0.	**27.** CPI-IW uses base 2016; AL/RL use 2019.
14. A simple reciprocal reserve multiplier has restrictive assumptions.	**28.** WPI now uses base 2022-23; distinguish it from the old 2011-12 series.



Stock, flow, base, period

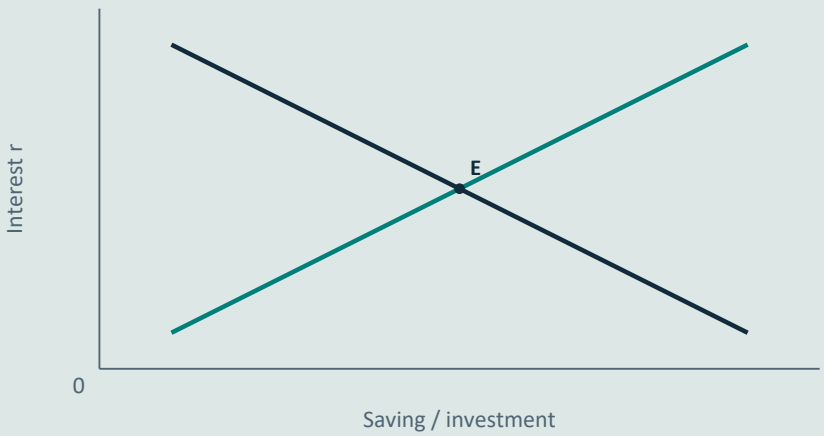
Before using a number, identify its aggregate, date or period, price-index base and comparison denominator.

Primary references / see chapter notes

Interest and the classical saving-investment model

Fact anchor	Essential fact / condition
Interest / time	Interest is payment for use of borrowed funds over a period. The traditional four factor incomes are rent for land, wages for labour, interest for capital and profit for enterprise.
Three elements	Gross loan interest can include pure payment for use of funds, compensation for lending risk and administrative/collection trouble. These components should not all be called pure interest.
Nominal versus real	Approximate real rate=nominal rate-expected inflation. Exact real rate=(1+nominal rate)/(1+expected inflation)-1. With 8% nominal and 5% inflation, 1.08/1.05-1 is about 2.86%, not exactly 3%.
Classical approach	Associated with Marshall, Fisher and Pigou: interest balances the supply of saving with demand for investment under the model assumptions. Capital productivity/expected return is compared with the cost of funds.
Saving supply	Capacity and willingness to save depend on income and psychological, economic and institutional influences. Saving defers current consumption; interest affects the trade-off between present and future consumption.
Equilibrium mechanism	At a given income, saving can rise with the rate while investment demand falls. Excess saving puts downward pressure on the rate; excess investment demand puts upward pressure on it. At E, planned saving equals planned investment.

Interest and the classical saving-investment model / conceptual model



Saving / Investment

At E, planned saving and investment balance under the model assumptions.

Income, expectations and preferences can shift the relationships.

Primary references / see chapter notes

Keynes: parting with liquidity and three motives

Fact anchor	Essential fact / condition
Critique of the classical model	Saving and investment also depend on income, expected returns and marginal efficiency of capital. During a slowdown, weak expectations can limit investment despite a lower rate.
Liquidity preference	Keynes treats interest as compensation for parting with liquidity. His General Theory of Employment, Interest and Money appeared in 1936. Cash is highly liquid.
Transactions motive	Hold money for routine obligations: groceries, rent or mortgage payments. Higher nominal living costs/income can increase transaction balances.
Precautionary motive	Hold additional liquidity for unexpected expenses, such as urgent house or car repairs.
Speculative motive	Expected future interest-rate rises imply possible bond-price falls. People may prefer cash to avoid capital losses or preserve an investment opportunity, especially when current rates are low.
Do not mix theories	The liquidity-premium explanation of the yield curve is a related but separate question from money-demand equilibrium. Short-term yields are not universally below long-term yields; expectations can produce other yield-curve shapes.



Money, time and an investment choice

If a fixed-coupon bond's market yield rises, its price falls. A person expecting that loss may prefer liquid balances now. That is the speculative motive.

Money demand at different nominal incomes

Fact anchor	Essential fact / condition
Axes and slope	At a given nominal income, LP slopes down with interest on the vertical axis and money balances on the horizontal. A lower rate reduces the opportunity cost of holding money.
Income shift	Higher nominal income raises transaction/precautionary balances: LP 1 shifts upward/right to LP 2. A change in interest along a given LP differs from a change in nominal income shifting LP.

Primary references / see chapter notes

Money demand at different nominal incomes / continued

Money demand at different nominal incomes / conceptual model



LP0 / LP1 / Supply

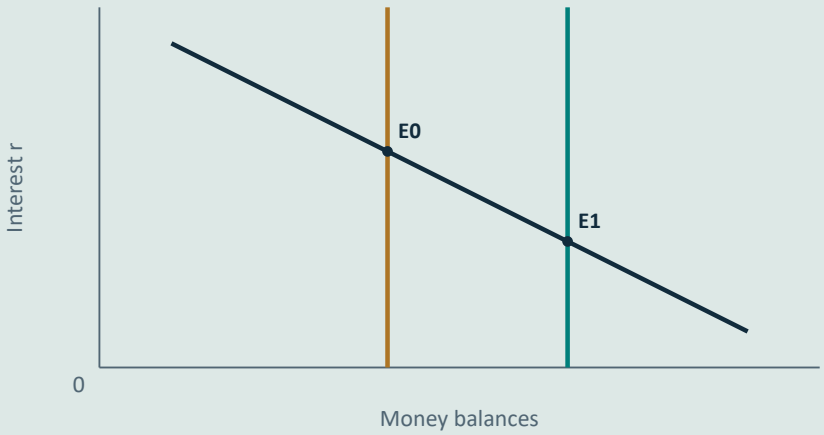
Demand shifts right/up.

Supply is fixed. The rate rises; final balances still equal the same supply.

Money supply increases: follow the bond channel

Fact anchor	Essential fact / condition
Initial point	With fixed money supply ON, equilibrium occurs where LP meets that supply at rate Or. Income and expectations are held fixed.
Supply ON to ON 1	More money creates excess cash at the initial rate. People buy bonds; bond prices rise and yields fall. Equilibrium moves down the unchanged LP to lower rate Or 1.
Condition	This is the ordinary liquidity-preference model, not a guarantee that every real-world monetary expansion produces exactly the same response.

Money supply increases: follow the bond channel / conceptual model



Money demand / M0 / M1

Supply shifts right.

At given income and demand, the equilibrium rate falls. This is movement along money demand.

Primary references / see chapter notes

Liquidity preference shifts: the supply stays fixed

Fact anchor	Essential fact / condition
Two shift determinants	Nominal income and expectations about future bond prices/interest rates can shift money demand. Higher income raises transactions/precautionary needs.
Expectations channel	If people expect a higher future rate than before, they may expect greater bond capital losses and prefer more cash now. LP 1 shifts to LP 2.
ON unchanged	At fixed supply ON, the equilibrium rate rises from Or to Oh. Desired balances at the old rate increase, but final actual money held remains ON; the rate adjusts.

Liquidity preference shifts: the supply stays fixed / conceptual model



LP0 / LP1 / Supply

Demand shifts right/up.

Supply is fixed. The rate rises; final balances still equal the same supply.

IS: derive all five income-interest combinations

Fact anchor	Essential fact / condition
Hicks-Hansen synthesis	John Hicks and Alvin Hansen combine goods-market and money-market equilibrium: first derive IS, then LM, then find their intersection.
Saving family	As income rises from Y 1 through Y 5, saving curves S 1 Y 1 through S 5 Y 5 shift right. With investment demand I fixed, successive intersections require lower interest rates.
Five pairs / IS	The source ordering is Y 1/r 5, Y 2/r 4, Y 3/r 3, Y 4/r 2 and Y 5/r 1. Plot income horizontally and interest vertically to obtain downward-sloping IS. These are conceptual labels, not numerical observations.
Slope condition	Other parameters fixed, greater investment responsiveness to interest makes IS flatter; weaker responsiveness makes it steeper. IS comprises goods-market equilibrium combinations.

Primary references / see chapter notes

IS: derive all five income-interest combinations / continued

IS: derive all five income-interest combinations / conceptual model



Investment / S1Y1 / S2Y2 / S3Y3 / S4Y4 / S5Y5

Higher Y shifts saving right.

With investment demand fixed, equilibrium r falls.

Plot those pairs on (Y,r) axes to derive downward IS.

IS / map all five income-interest pairs



IS

All five source pairs are mapped. These labels represent conceptual levels, not observed values. Income is horizontal; interest is vertical.

LM: derive all five money-market combinations

Fact anchor	Essential fact / condition
Liquidity families	At progressively higher Y 1 to Y 5, money demand LP 1 to LP 5 is higher. With money supply NS fixed, intersections occur at progressively higher r 1 to r 5.
Five pairs / LM	Map Y 1/r 1, Y 2/r 2, Y 3/r 3, Y 4/r 4 and Y 5/r 5 onto income-interest axes. LM slopes upward: higher income raises money demand and the equilibrium rate at fixed real balances.

Primary references / see chapter notes

LM: derive all five money-market combinations / continued

Fact anchor	Essential fact / condition
Slope determinants	Greater income responsiveness of money demand makes ordinary LM steeper, other things equal. Greater interest responsiveness makes it flatter. The source mentions two factors but explains only the first.
Axis repair	The source caption calls the first LM derivation panel income-interest, although its horizontal axis is money balances. Keep money-market axes separate from the income-interest LM plot.

LM: derive all five money-market combinations / conceptual model



LP1 / LP2 / LP3 / LP4 / LP5 / Supply NS

Higher Y raises money demand.

At fixed real balances, r must rise.

Plot these (Y,r) pairs on income/interest axes to obtain upward LM.

LM / map all five income-interest pairs



LM

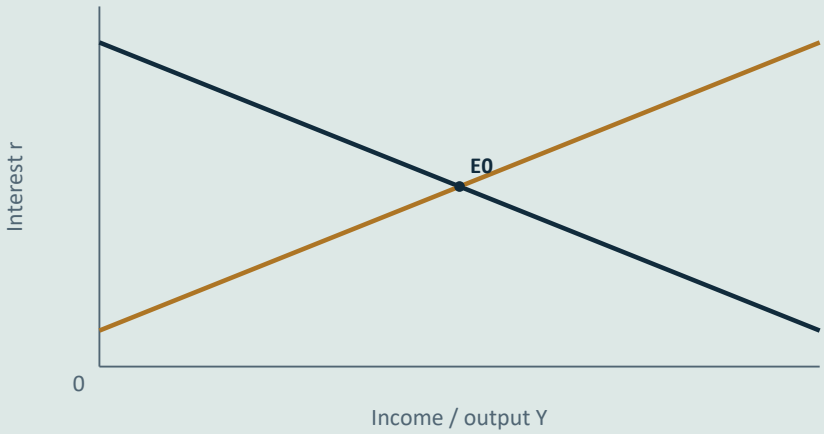
All five source pairs are mapped. These labels represent conceptual levels, not observed values. Income is horizontal; interest is vertical.

Primary references / see chapter notes

Joint equilibrium: real and monetary factors

Fact anchor	Essential fact / condition
Intersection E	Downward IS and upward LM intersect at income OY 3 and interest Or 3. Planned investment equals saving and desired money balances equal the given supply.
Four determining functions	Investment demand I(r); saving S(Y, r), or consumption; liquidity preference L(Y, r); and money supply M. Real productivity/thrift and monetary preferences/supply jointly matter.
Shifts	A change in these functions changes IS or LM and can change both income and interest. Greater real money supply shifts LM right/down; greater autonomous spending shifts IS right, under ordinary assumptions.

Joint equilibrium: real and monetary factors / conceptual model



IS0 / LM0

Both goods and money markets clear at E0.

Income is horizontal; interest is vertical.

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	In the ordinary money-market diagram, an increase in supply with demand fixed: A. Raises r; B. Lowers r; C. Shifts demand left; D. Cannot affect bonds **Answer B.** The vertical supply line moves right and equilibrium moves down money demand.
Q 02	Which is a precautionary motive? A. A buffer for unexpected costs; B. Only paying routine rent; C. A guaranteed capital gain; D. A public tax receipt **Answer A.** Precautionary balances cover uncertainty rather than planned transactions alone.

Primary references / see chapter notes

Five original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 03	The horizontal axis of the standard IS-LM diagram is: A. Money supply; B. Price of one product; C. Income/output Y; D. Saving alone **Answer C.** Interest is vertical and income/output horizontal.
Q 04	A higher real money supply ordinarily shifts: A. IS left; B. IS right; C. LM right/down; D. LM left/up **Answer C.** Money-market equilibrium is compatible with lower rates or higher income.
Q 05	At nominal return 8% and inflation 5%, exact real return is about: A. 3.000%; B. 2.857%; C. 13%; D. 8% **Answer B.** Compute 1.08/1.05 - 1 rather than treating the difference as exact.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	NCERT: Introductory Macroeconomics

Edition and exam cutoff

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Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Interest concerns the use of funds over time.	**15.** Higher income can raise money demand.
02. Nominal and real interest are different concepts.	**16.** A given money supply is vertical in the simple diagram.
03. Exact gross real return divides nominal by inflation factors.	**17.** More supply with demand fixed ordinarily lowers interest.
04. Fixed-payment bond prices and yields move inversely.	**18.** More demand with supply fixed ordinarily raises interest.
05. The classical model compares saving with investment demand.	**19.** Fixed supply means final money holdings equal that supply.
06. Saving behaviour also depends on income and preferences.	**20.** The standard IS curve slopes downward.
07. Investment depends on expected returns and financing conditions.	**21.** IS represents goods-market equilibrium combinations.
08. Accounting equality is not initial equality of every plan.	**22.** Higher autonomous spending can shift IS right.
09. Keynes links interest with liquidity preference.	**23.** The ordinary LM curve slopes upward.
10. Transactions money bridges receipts and planned payments.	**24.** LM represents money-market equilibrium combinations.
11. Precautionary balances provide for uncertainty.	**25.** LM depends on real money supply M/P.
12. Speculative demand considers money versus bonds.	**26.** More real balances shift LM right/down.
13. Higher interest raises the opportunity cost of holding money.	**27.** IS-LM intersection determines both income and interest.
14. Ordinary money demand slopes down against interest.	**28.** These diagrams are conditional models, not universal forecasts.



Two markets must clear

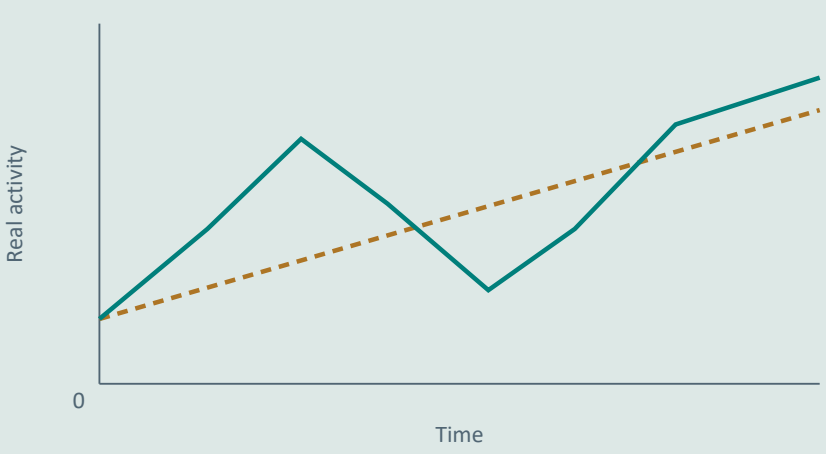
IS: planned saving and investment. LM: desired and supplied money balances. The intersection settles income and interest together in the model.

Primary references / see chapter notes

Business cycles: recurring, irregular and connected

Fact anchor	Essential fact / condition
Definition and names	Business cycle or economic cycle: economy-wide fluctuations in output/activity over months or years. Recurrence does not imply a clock-like, predictable period.
Co-movement	Industries and employment often move together; disturbances spread between sectors. The effect is pervasive, but timing and severity are not identical in every industry.
Wave and asymmetry	Expansions and contractions recur around a changing trend. Downturns can be sharper than recoveries, but this is not a universal numerical rule. No fixed duration follows from the wave shape.
Source four-phase model	Boom, recession, depression and recovery. Modern turning-point language also uses expansion, peak, contraction and trough. A depression is an unusually severe contraction, not an inevitable stage of every cycle.

Business cycles: recurring, irregular and connected / conceptual model



Trend / Activity

Illustrative path, not data or a forecast.

Activity can rise above and fall below trend. Turning points and durations vary.

Primary references / see chapter notes

Read the phase through demand, capacity and credit

Fact anchor	Essential fact / condition
Boom	High utilisation, strong demand, above-normal prices/profits and seller advantage can develop. Demand may exceed sustainable output; bottlenecks can raise inflation. Capital shortages or reduced saving can constrain expansion.
Boom / source correction	The source also says consumption and demand fall during boom. Affordability can erode late in a boom, but falling demand is not its defining condition; it can signal a turning point or slowdown.
Recession / crisis	Demand weakens, unsold goods and liquidity preference can rise, firms cut prices or output to meet obligations, employment falls and unemployment rises. Inflation may slow; an adverse supply shock can keep it high.
Depression	Severe weak aggregate demand, idle labour/materials, production cuts and retrenchment. Credit demand can be low and banks can hold idle funds. Rates/inflation may fall, but neither is guaranteed.
Recovery	Pessimism eases; postponed spending returns. Inventories become insufficient, orders and production rise, investment becomes attractive and employment improves. Wages may initially lag; low wages are not a necessary condition.
Real borrowing cost	Higher inflation does not automatically make all borrowing cheap. Approximate real rate=nominal rate-expected inflation; exact rate=(1+nominal)/(1+expected inflation)-1. Compare matching periods and expectations.

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	A business cycle is: A. A perfectly periodic clock; B. An aggregate fluctuation with variable timing; C. Only a daily stock-price change; D. Always a depression **Answer B.** Its recurrence does not imply fixed length.

Primary references / see chapter notes

Five original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 02	Output falls 10% from 100, then rises 5%. Its new level is: A. 95; B. 94.5; C. 100; D. 105 **Answer B.** 100 x .90 x 1.05 = 94.5.
Q 03	A supply shock can produce: A. Weak output and high inflation together; B. Only falling prices; C. Guaranteed cheaper credit; D. No employment effects **Answer A.** Stagflationary conditions can follow adverse supply changes.
Q 04	Peak and trough refer to: A. Turning points; B. Fixed interest rates; C. Tax categories; D. Money aggregates **Answer A.** They mark transitions in the activity path.
Q 05	Which is sound bank analysis? A. All expansion loans are safe; B. All recession borrowers are insolvent; C. Assess cash flow and resilience across scenarios; D. Ignore collateral changes **Answer C.** A cycle label alone is insufficient for individual risk appraisal.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	NCERT: Introductory Macroeconomics

Edition and exam cutoff

Evergreen guide with dated supplements. IIBF ordinarily uses the preceding 31 December cutoff for March-August exams and 30 June for September-February. Check session notices. Later rates are supplementary; original questions are learning checks, not claimed past papers.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Business cycles concern aggregate activity fluctuations.	**15.** Capacity use often strengthens during expansion.
02. Cycle timing is not mechanically predictable.	**16.** Bottlenecks can emerge near high activity.
03. Expansion and contraction are broad activity phases.	**17.** Contraction can weaken sales and employment.
04. A peak is a turning point from expansion.	**18.** Supply shocks can combine inflation with weak output.
05. A trough is a turning point toward recovery.	**19.** Leading indicators may precede broad activity changes.
06. Depression denotes unusually severe or prolonged weakness.	**20.** Coincident indicators broadly track current conditions.
07. Not every cycle must contain a separate depression.	**21.** Lagging indicators respond later in the chosen evidence.
08. Many sectors co-move, but not identically.	**22.** Data revisions can affect turning-point assessment.
09. Seasonal variation is not the same as a business cycle.	**23.** Borrower stress can emerge with a lag.
10. A growth rate differs from an output level.	**24.** Collateral values and liquidity can change over a cycle.
11. Positive growth need not restore a previous peak.	**25.** Expansion can encourage excessive risk taking.
12. A 10% fall from 100 gives output of 90.	**26.** Countercyclical policy aims to moderate fluctuations.
13. A 5% rise from 90 gives 94.5.	**27.** Policy effects operate with lags.
14. Restoring 90 to 100 needs about 11.11% growth.	**28.** A phase label does not establish every borrower's viability.



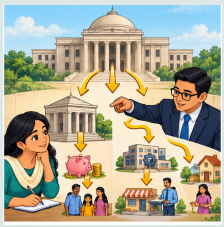
The borrower is more than a phase label

Read sales, inventories, utilisation, repayment cash flow and liquidity. An economy-wide cycle does not make every borrower equally strong or weak.

Primary references / see chapter notes

Monetary policy: objectives and toolkit

Fact anchor	Essential fact / condition
Meaning	RBI influences the availability, quantity and cost of money/credit to support price stability while keeping growth in mind. It monitors global/domestic conditions, credit quality and financial stability.
Expansionary / easy	Easier liquidity and/or lower policy rates can support spending, investment, production and employment in a downturn. It does not guarantee a fixed rise in broad money or real output.
Contractionary / tight	Tighter liquidity and/or higher rates can restrain aggregate demand and inflation; production, consumption and growth may weaken. The effect depends on transmission, expectations and the cause of inflation.
Operating instruments	Repo, reverse repo, SDF, MSF, LAF operations/corridor, Bank Rate, CRR, SLR, OMOs, MSS and specific refinance facilities. Lending benchmarks Base Rate, MCLR and external benchmarks transmit conditions to loans.



The policy rate is a starting signal

A repo change reaches a borrower through money-market conditions, the loan benchmark, spread and reset date. It does not change every loan instalment immediately.

Bank Rate and MSF: rebuild the five comparisons

Fact anchor	Essential fact / condition
Bank Rate / meaning	RBI Act 1934, section 49: published standard rate for buying/rediscounting eligible bills and other commercial paper. The source's universal definition as a long-term unsecured loan rate is inaccurate.
MSF / meaning and tenor	An overnight RBI borrowing facility and safety valve against unexpected liquidity shortages. Eligible scheduled commercial banks need the prescribed RBI current/SGL arrangements.
Eligibility comparison	Bank Rate is a statutory published rate, not a standalone entitlement for every commercial bank. MSF participation is facility-specific, rather than an automatic right of every bank.
Tenor and collateral	Section 49 does not define a universal long-term, collateral-free borrowing window. MSF is overnight against eligible securities, with the permitted SLR dip under its scheme.

Primary references / see chapter notes

Bank Rate and MSF: rebuild the five comparisons / continued

Fact anchor	Essential fact / condition
Source historical parameters	The source records a 2% NDTL SLR dip using the second preceding fortnight's base and MSF 25 basis points above repo. These are dated scheme/corridor parameters, not permanent statutory numbers. The reserve-calendar update and dated rates appear below.
Purpose comparison	Bank Rate is a policy/reference rate and eligible rediscount concept; MSF directly supplies emergency overnight liquidity. MSF is the corridor upper bound in the current framework.
Why limited direct use?	Bank lending rates are not mechanically linked to Bank Rate; banks have specific refinance routes; and fragmented/underdeveloped bill markets limit rediscount transmission. These are the source's three historical explanations.

CRR versus SLR: law, form, return and purpose

Fact anchor	Essential fact / condition
Fractional reserves	Banks hold a fraction of relevant liabilities in required reserves/liquid assets. Reserve rules support liquidity and policy implementation; they do not alone guarantee deposit safety or bank solvency.
CRR / section 42	Under the RBI Act, scheduled banks maintain the prescribed cash reserve with RBI. CRR is cash, not an ordinary earning investment or generic cash-equivalent portfolio. No interest is paid on CRR balances.
CRR / history	The 2006 amendment removed the earlier statutory 3%-20% band. The source's 1950 origin is wrong: RBI history records cash-reserve requirements in 1935, with 5% of demand and 2% of time liabilities.
SLR / section 24	Banking Regulation Act 1949: prescribed eligible cash, gold and unencumbered approved securities maintained in India. Gold valuation and securities valuation follow the prescribed rules; ordinary company shares are not generally SLR assets.
SLR / amount and return	Maintain the required ratio at close of business on each day. The statutory ceiling is 40%; the source's 1 June 2022 SLR snapshot was 18%. Interest-bearing SLR securities can earn income; cash and gold do not provide the same interest return.
Maintenance and use	CRR is maintained with RBI and influences liquidity/credit conditions. SLR is the bank's qualifying asset holding and constrains usable balance-sheet resources. Neither should be described as a complete solvency test.

Primary references / see chapter notes

CRR versus SLR: law, form, return and purpose / continued

Fact anchor	Essential fact / condition
Current reference period	The old last-Friday fortnight convention was replaced: calendar fortnights are 1st-15th and 16th-month end from December 2025. From 16 January 2026, the relevant base is the last day of the second preceding fortnight.
Worked date check	For the 16-31 January 2026 maintenance fortnight, the second preceding fortnight is 16-31 December 2025: base date 31 December. Read the current directions for the bank category concerned.

Demand and time liabilities: retain every example

Fact anchor	Essential fact / condition
Demand / deposit balances	Current deposits; demand portion of savings; overdue fixed, cash-certificate, cumulative or recurring deposits payable on demand; and unclaimed deposits. Classification follows payability, not merely the original product name.
Demand / other balances	LC/guarantee margins payable on demand; outstanding telegraphic/mail transfers and demand drafts; credit balances in cash-credit accounts; security for advances payable on demand.
Outside-bank borrowing	Money at call and short notice received from outside the banking system is shown as liability to others. It is not automatically an interbank liability simply because of its short tenor.
Time liabilities	Fixed deposits, cash certificates, cumulative/recurring deposits, time portion of savings, staff security deposits, LC margins and security for advances not payable on demand; gold deposits payable later. Gold held as an asset and interbank gold borrowing require separate classification.

SDF, MSS and the Base Rate: keep the exceptions

Fact anchor	Essential fact / condition
SDF / introduction	Introduced on 8 April 2022 after the 2018 amendment to RBI Act section 17. All eligible LAF participants may place funds without collateral. Normally overnight; RBI can absorb for longer tenors with appropriate pricing.
SDF / reserve treatment	SDF balances do not qualify for CRR under section 42, but are eligible for SLR under section 24. SDF replaced fixed reverse repo as the corridor floor; the fixed reverse repo instrument was not abolished.
MSS / sterilisation	Government, in consultation with RBI, issues Treasury bills/dated securities beyond normal borrowing requirements to absorb enduring liquidity. MSS proceeds are sequestered for the scheme, not ordinary budget spending money.

Primary references / see chapter notes

SDF, MSS and the Base Rate: keep the exceptions / continued

Fact anchor	Essential fact / condition
Base Rate / 1 July 2010	Replaced BPLR for the relevant lending framework. Each bank determines its own Base Rate under RBI's methodology; RBI does not announce one universal bank Base Rate.
Base Rate / exclusions	The original floor exceptions include DRI advances, loans to the bank's own employees and loans against the borrower's own deposits. Subvention treatment follows the applicable directions; a vague government mandate is not the complete exception list.

Lending benchmarks, repo and tri-party repo

Fact anchor	Essential fact / condition
MCLR / 1 April 2016	Marginal Cost of Funds based Lending Rate framework applies to relevant new loans. Tenor benchmarks, spreads, reset dates and exemptions matter; legacy Base Rate loans did not all disappear automatically.
Transmission review	The RBI Internal Study Group chaired by Dr Janak Raj reported in 2017 that internal benchmarks had weakened transmission and recommended transition toward external benchmarks.
External benchmark / 1 October 2019	New floating-rate personal/retail loans and loans to micro and small enterprises moved to the mandated external benchmark framework. The requirement later extended to medium enterprises from 1 April 2020.
Four benchmark choices	RBI policy repo; Government 3-month Treasury-bill yield published by FBIL; Government 6-month Treasury-bill yield published by FBIL; or another market interest-rate benchmark published by FBIL.
Repo / reverse repo	A repo exchanges funds against securities with an agreement to reverse the transaction. From the cash lender's perspective, reverse repo buys securities now with an agreed future resale price including financing return.
Loan-rate consequence	Policy rates influence funding and benchmark conditions. Final bank rates also reflect spreads, credit risk, tenor and contractual reset dates; transmission is not an instant one-for-one rule for every loan.
TREPS / 5 November 2018	Tri-party repo uses an agent for collateral selection, payments/settlement, custody and collateral management during the transaction. TREPS launched in November 2018 as CBLO was discontinued.

Primary references / see chapter notes

Term liquidity: source scheme details, accurately dated

Fact anchor	Essential fact / condition
SLTRO / historical 2021	Special long-term repo operations for small finance banks provided a total INR 10,000 crore envelope, not that amount every month. The scheme supported small businesses, micro/small industries and unorganised entities hit by the pandemic.
SLTRO / deployment	Three-year funding at policy repo for fresh lending up to INR 10 lakh per borrower. Participation was for LAF-eligible SFBs. Borrowed amounts had to remain deployed to the specified segments, not general unrelated lending.
SLTRO / auction procedure	Monthly operations used the RBI CBS e-Kuber platform; unutilised auction amounts could carry forward. Banks requested amounts in the notified window at the prevailing policy repo rate. Bids above or below that fixed rate were rejected. This is a closed historical programme, not a standing current offer.
Term repo / October 2013	Liquidity longer than overnight, including 7-, 14- and 28-day tenors. The aim includes developing interbank benchmarks and improving loan/deposit pricing and policy transmission.
LTRO / correction	One- and three-year LTROs were introduced in February 2020, not 2019 as stated in the source. They supported transmission and credit offtake.
TLTRO	Targeted long-term repo operations direct liquidity toward specified stressed sectors/entities under the programme's conditions, unlike an unrestricted general liquidity description.

Absorption, OMO, refinance and LAF

Fact anchor	Essential fact / condition
Reverse repo and VRRR	A higher reverse repo return can make parking excess funds with RBI more attractive. Variable-rate reverse repo auctions absorb liquidity through auction-determined rates and notified maturities.
Historical rebalancing	The source describes the 2021 shift from fixed overnight reverse repo into longer VRRR auctions. That episode is not a permanent rule that every surplus must follow the same auction pattern.
OMO / purchase	RBI buys government securities in the secondary market, injecting reserve liquidity. Other things equal, buying pressure raises bond prices and lowers yields: the source's yield-rise claim is corrected.
OMO / sale	Selling securities absorbs liquidity; other things equal, bond prices fall and yields rise. An OMO is an outright transaction, distinct from a repo's agreed reversal.

Primary references / see chapter notes

Absorption, OMO, refinance and LAF / continued

Fact anchor	Essential fact / condition
Sector refinance	Programme-specific refinance supplies liquidity for selected sector objectives, sometimes at a cost linked to policy repo. Eligibility, security, tenor and use depend on that facility.
LAF / origins and evolution	The 1998 Narasimham banking-reforms recommendations preceded phased LAF implementation from 2000. Repo injects and reverse repo absorbs liquidity; today's operational framework also uses SDF and MSF.
Policy balance	Monitor domestic/global developments; support sound credit expansion and growth while protecting credit quality, price stability and financial stability. Interest, inflation and liquidity management are connected objectives.

Statutory framework, MPC and the operating corridor

Fact anchor	Essential fact / condition
2016 legislative framework	The May 2016 RBI Act amendment formalised flexible inflation targeting. Government sets the inflation target in consultation with RBI under section 45 ZA.
MPC / section 45 ZB	Six members determine the policy rate needed to achieve the inflation target; the decision binds RBI. Three RBI members and three Government-appointed external members constitute the committee.
RBI members	Governor as ex officio chair; Deputy Governor in charge of monetary policy; and one RBI officer nominated by the Central Board.
External members	Three Government appointees of ability, integrity and standing, with knowledge/experience in economics, banking, finance or monetary policy. Decisions are by majority; Governor has a casting vote on a tie.
Transmission chain	Policy repo and liquidity operations anchor money-market rates around the operating objective; financial conditions affect aggregate demand, then inflation and growth with lags. Main and fine-tuning operations adjust liquidity over notified tenors.
Current target / April 2026-March 2031	The renewed inflation target is 4% CPI with a tolerance band of 2%-6%. A tolerance band is not permission to target either edge.
Later supplement / 25 October 2026	RBI displayed repo 5.50%, SDF 5.25%, MSF 5.75%, Bank Rate 5.75%, fixed reverse repo 3.35%, CRR 3% and SLR 18%. These July-October readings are supplementary for an exam using the 30 June 2026 cutoff.

Primary references / see chapter notes

Statutory framework, MPC and the operating corridor / continued

Statutory framework, MPC and the operating corridor / conceptual model

5.25%	5.50%	5.75%
SDF / floor	Repo / policy	MSF / upper

RBI rates checked 25 October 2026 / later exam supplement

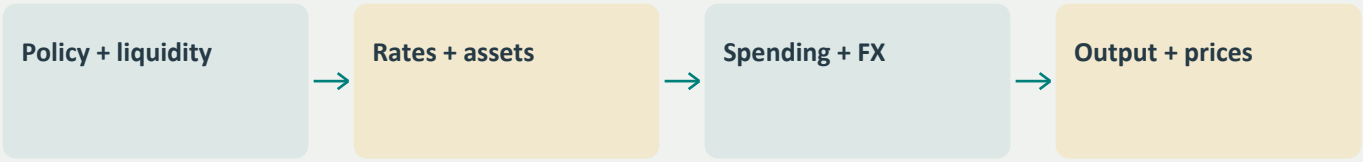
Easy versus tight: six linked channels, with conditions

Fact anchor	Essential fact / condition
1 / Initial stance	Easy: lower rates/easier liquidity. Tight: higher rates/tighter liquidity. Broad money may not move mechanically in a fixed proportion.
2 / Existing bond prices	Easy conditions tending to reduce yields raise existing fixed-coupon bond prices; tightening tends to reverse that relationship.
3 / Capital investment	Lower funding costs can encourage investment; higher costs can restrain it. Expected returns, demand and credit risk can dominate the response.
4 / Relative asset demand	Lower domestic yields, other things equal, can reduce attraction to domestic bonds relative to foreign assets; higher yields can have the reverse effect. Risk and expectations also matter.
5 / Currency	Capital-flow pressure can weaken the domestic currency after easing and strengthen it after tightening. State the quote: depreciation means more rupees per foreign-currency unit, not a fall in every numerical exchange-rate quote.
6 / Trade balance	Depreciation may favour exports and restrain imports; appreciation may reverse that. Elasticities, invoicing, imported inputs and adjustment lags mean a trade-balance improvement/deterioration is not guaranteed.

Primary references / see chapter notes

Easy versus tight: six linked channels, with conditions / continued

Do not skip the conditional steps



Syllabus addition: response to the global financial crisis

Fact anchor	Essential fact / condition
2008-09 setting	The global financial crisis disrupted confidence, funding and external demand. RBI shifted toward liquidity support and monetary easing while Government used fiscal measures to cushion activity.
RBI rate response	Between the pre-easing 2008 levels and April 2009, repo fell from 9% to 4.75%, reverse repo from 6% to 3.25%, and CRR from 9% to 5%. These are historical crisis-response levels, not today's corridor.
Beyond rate cuts	Reserve releases, liquidity/refinance windows and other measures addressed funding stress. Fiscal tax/spending measures supported demand; crisis stimulus and long-run debt discipline answer different questions.

Fiscal policy: spending, taxes and economic effects

Fact anchor	Essential fact / condition
Two main instruments	Government revenue collection, especially taxation, and expenditure influence economic activity. Monetary policy instead works chiefly through rates, liquidity and money/credit conditions. The two policies interact.
Three principal effects	Aggregate demand/activity; allocation of resources between uses; and distribution of income/wealth. Keynes made a major contribution to demand-management theory, but did not invent all fiscal activity.
Tax and disposable income	Taxes affect household purchasing power, consumption, saving and living standards. They affect firms' saving/investment, production and per-capita income through incentives and demand.
Tax and relative prices	Production/product taxes can change costs and relative prices, altering economic behaviour. Incidence and behavioural response determine who ultimately bears the burden.
Objectives	Growth and price stability; mobilisation of resources; allocative efficiency; reduced income/wealth inequality; and conditions supportive of private investment. Composition and financing matter, not only the deficit total.

Primary references / see chapter notes

FRBM: history, discipline and the legal distinctions

Fact anchor	Essential fact / condition
Committee and commencement	E.A.S. Sarma committee formed in January 2000, reported in July 2000 and recommended fiscal-responsibility legislation. Fiscal Responsibility and Budget Management Act enacted in 2003; Act/Rules took effect on 5 July 2004.
Original policy documents	Medium-Term Fiscal Policy Statement; Fiscal Policy Strategy Statement; Macroeconomic Framework Statement. Later amendments/presentation formats changed the framework; original labels do not mean the format never evolved.
Old targets are historical	The source's 31 March 2008 revenue-deficit deadline belongs to an early vintage. The July 2004 announcement moved the deadline toward 2008-09. Targets and escape provisions have subsequently changed; 3% is not a description of every year's actual deficit.
Guarantee ceiling	The FRBM framework limits additional guarantees to 0.5% of GDP in a financial year. This is an annual addition limit, not a statement that the entire outstanding guarantee stock must be below 0.5%.
RBI financing restrictions	Restrictions on direct RBI borrowing and primary subscription do not ban all RBI-government transactions. Permitted temporary WMA, specified deviation financing and RBI secondary-market securities purchases must be distinguished.
Review and correction	The original framework required quarterly review of receipts/expenditure and reporting to Parliament with corrective measures. Subsequent reporting provisions/formats must be read in their applicable vintage; the current DEA describes half-yearly/mid-term statements.
Purpose	Medium-term fiscal responsibility, transparency, prudent debt management and macroeconomic stability. Better discipline can reduce fiscal impediments; it does not guarantee a surplus in every year.
Current Budget / February 2026	The FY 2026-27 policy documents present the Macroeconomic Framework and combined Medium-Term Fiscal Policy-cum-Fiscal Policy Strategy with a deviation statement. They distinguish statutory past targets from the current consolidation path: BE fiscal deficit 4.3% of GDP.

Primary references / see chapter notes

N.K. Singh review: proposals are not automatic law

Fact anchor	Essential fact / condition
January 2017 report	The review proposed debt as the principal fiscal anchor: combined government debt 60% of GDP, with Centre 40% and States 20%, on its proposed path to FY 2022-23. These were recommendations, not a claim those ratios were achieved.
Proposed glide path	Progressive fiscal/revenue-deficit reductions toward the debt goal. The proposed Centre fiscal-deficit path included 3% through 2019-20, then 2.8%, 2.6% and 2.5% through 2022-23; proposed revenue deficit 0.8% by 2022-23.
Proposed Fiscal Council	Autonomous council with a chair and two members appointed by the Centre. Do not describe the recommendation as proof such a council currently operates.
All five council functions	Multi-year fiscal forecasts; recommend fiscal-strategy changes; improve fiscal data; advise whether deviation conditions exist; recommend corrective action for non-compliance.
Three deviation families	National security/war/calamity/agricultural collapse affecting output/incomes; structural reforms with fiscal implications; or real output growth at least 3 percentage points below the preceding four-quarter average. This is not merely a 3% proportional decline.
Deviation cap	Proposed deviation no more than 0.5% of GDP in a year, on the council-advised framework. A proposal and the enacted escape-clause wording must not be treated as identical texts.
States and RBI	Ask the Fifteenth Finance Commission to recommend state-specific debt paths reflecting fiscal prudence and health. Preserve the exceptions for temporary receipts shortfalls, permitted deviation financing and RBI secondary-market purchases.

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which is a fiscal instrument? A. Repo; B. SDF; C. Government expenditure; D. VRRR **Answer C.** Fiscal policy uses expenditure and receipts; repo/SDF/VRRR belong to monetary operations.
Q 02	An outright RBI purchase of government securities ordinarily: A. Absorbs liquidity; B. Injects liquidity; C. Is a new tax; D. Raises the yield mechanically **Answer B.** The purchase pays funds into the system; a price rise corresponds to a yield fall, other things equal.

Primary references / see chapter notes

Five original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 03	The current operating corridor floor is: A. Fixed reverse repo by definition; B. SDF; C. Every bank's Base Rate; D. Corporate bond yield **Answer B.** SDF became the floor in April 2022; dated rates can differ.
Q 04	The repo move from 5.25% to 5.50% equals: A. 25 percentage points; B. 0.25 basis point; C. 25 basis points; D. A 25% relative increase **Answer C.** One percentage point contains 100 basis points.
Q 05	A Fiscal Council recommendation in a 2017 committee report is: A. Proof of current establishment; B. A committee proposal requiring separate implementation evidence; C. The annual fiscal deficit; D. An RBI liquidity tool **Answer B.** Separate proposed policy, law, implementation and actual outcomes.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	RBI: current policy rates and reserve ratios, accessed 25 October 2026
RBI Annual Report: monetary response to the global crisis, 2008-09	Ministry of Finance: Budget at a Glance 2026-27
Ministry of Finance: FRBM fiscal-policy statements, February 2026	RBI Deputy Governor speech on inflation targeting, hosted by BIS, May 2026
RBI: lending-rate external benchmark guidance	RBI / SDF scheme, April 2022
RBI / reserve-calendar amendment, December 2025	RBI / Base Rate directions, July 2010
DEA / Sarma and original FRBM history	DEA / N.K. Singh report, January 2017
RBI / MCLR study group 2017	Research review: 25 October 2026

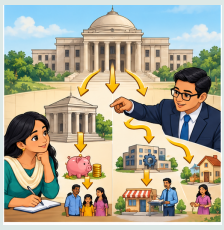
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Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Monetary and fiscal policy use different instruments.	**15.** Ordinary company shares are not generally SLR securities.
02. RBI's monetary framework prioritises price stability with growth in mind.	**16.** OMO purchases inject liquidity; sales absorb it.
03. The MPC has six members.	**17.** Fixed-payment bond price and yield move inversely.
04. Section 45 ZB anchors the statutory MPC.	**18.** MSS sterilises liquidity through government securities.
05. The Governor chairs the MPC.	**19.** Base Rate and MCLR are internal bank benchmarks.
06. The Governor has a casting vote in a tie.	**20.** Base Rate began in July 2010; MCLR in April 2016.
07. One percentage point equals 100 basis points.	**21.** Specified external benchmarking began in October 2019.
08. Repo is a collateralised liquidity-injection instrument.	**22.** Medium enterprises joined that framework from April 2020.
09. SDF provides uncollateralised liquidity absorption.	**23.** LTRO and TLTRO are not ordinary fiscal grants.
10. SDF became the LAF corridor floor in April 2022.	**24.** Inflation target: 4%, with a 2%-6% band, through March 2031.
11. MSF is an overnight standing borrowing facility.	**25.** Government taxes and expenditure are fiscal tools.
12. Bank Rate is not adequately defined as any unsecured long loan.	**26.** Fiscal multipliers depend on assumptions and conditions.
13. CRR balances are maintained with RBI.	**27.** FRBM was enacted in 2003.
14. SLR uses permitted liquid assets under applicable rules.	**28.** Committee recommendations are not proof of legal implementation.



Four questions for any policy instrument

Who is eligible? What is the tenor? Which collateral or balance counts? Is the number historical, current, or outside the exam cutoff?

Primary references / see chapter notes

SNA and rebasing: historical change versus current series

Fact anchor	Essential fact / condition
Integrated framework	SNA links production, income, spending, accumulation and balance sheets through consistent definitions/classifications/accounts. It supports research, economic decisions and policy comparisons.
International milestones	First international standard 1953; major revisions 1968, 1993 and 2008; SNA 2025 is the newer international standard. Adoption internationally does not mean India instantly implements every new standard.
Revision exercise	Update the base year; review databases and estimation methods; and implement relevant international guidance. The SNA partnership includes UN, IMF, World Bank, OECD and the European Commission/Eurostat.
January 2015 / historical	India replaced base 2004-05 with 2011-12, moved headline growth to constant-market-price GDP and sector reporting to basic-price GVA rather than factor-cost GVA.
Corporate coverage	MCA 21 annual accounts widened manufacturing/services coverage, including non-manufacturing activity of manufacturing companies. Financial coverage added brokers, exchanges, asset managers, mutual/pension funds and relevant SEBI/PFRDA/insurance-regulator information.
Local bodies / historical	Coverage improved through local-body/autonomous-institution accounts. Mo SPI's contemporary description says captured local-body accounts represented around 60% of funds transferred to such bodies; this is not a current census-completeness ratio.
Current base / February 2026	The 2022-23-base GDP series was released on 27 February 2026. The source's proposed 2017-18 base is obsolete. Rebasing improves structural relevance and methods; a five-year ideal is not an automatic implementation deadline.
Base-year purpose	A common reference supports volume/real-growth comparisons. Changing bases also updates weights, coverage and methods; do not splice levels from different series without official linkage. India's current series remains aligned principally with SNA 2008; migration to SNA 2025 is a separate implementation exercise.

GDP and GNI: territory, residence and expenditure

Fact anchor	Essential fact / condition
GDP boundary	Value of final goods/services produced within the economic territory during the period. Foreign-owned production inside the territory is included; ownership/citizenship does not define the domestic boundary.

Primary references / see chapter notes

GDP and GNI: territory, residence and expenditure / continued

Fact anchor	Essential fact / condition
GNI / national boundary	GNI=GDP+net primary income from abroad. Residence, not passport nationality, determines the national-accounting boundary. GNP is the older term commonly used in textbook bridges.
Primary income components	Net compensation of employees, net property income and relevant net taxes/subsidies on production/imports receivable from abroad. Capital holding gains are not current primary income. Correct the source's inclusion of overseas capital gains.
Three approaches	Production: sum value added plus the appropriate net product taxes. Expenditure: final uses. Income: production-generated factor incomes plus applicable net taxes. Consistent scope produces the same aggregate in principle.
Expenditure identity	GDP=C+I+G+(X-M). C: household final consumption such as food, housing/rent and health. I: gross capital formation; G: government final purchases. Avoid counting government investment twice if it is already in I.
Real investment examples	New mine, machinery/equipment, software, new housing and inventory additions are real capital formation. Buying an existing financial share is not current GDP investment.
Exports and imports	Exports are domestic output sold abroad. Imports are subtracted because foreign production can already be included in C, I or G; imported capital/intermediate goods also matter, not only household consumption. Transfers are not government final purchases.

Income, value added and the price basis

Fact anchor	Essential fact / condition
Income approach	GDP at market prices=compensation of employees + gross operating surplus + gross mixed income + taxes less subsidies on production/imports. Gross components include consumption of fixed capital.
Factor incomes	Land/rent, labour/wages, capital/interest, enterprise/profit are teaching categories. Do not add distributed dividends on top of the profit from which they are distributed; property income must not be double counted.
Factor cost to market	Traditional GDP at factor cost=GDP at market prices-(indirect taxes-subsidies). Modern GVA at basic prices instead bridges to GDP at market prices using net product taxes; other production taxes distinguish basic from factor cost.

Primary references / see chapter notes

Income, value added and the price basis / continued

Fact anchor	Essential fact / condition
Real versus nominal	Nominal GDP values output at current prices; real GDP removes price changes using the chosen base/method. Constant prices do not literally mean yesterday's prices. GDP deflator=nominal/real GDP x 100.
Historical eight groups	Agriculture/forestry/fishing; mining; manufacturing; utilities; construction; trade/hotels/transport/communication; finance/real estate/professional services; public administration/other services. These are a historical broad presentation, not an unchangeable current eight-sector rule.

National-income bridges: signs that earn marks

Fact anchor	Essential fact / condition
Gross to net	NDP=GDP-CFC; GDP=NDP+CFC. NNP=GNP-CFC. CFC means consumption of fixed capital, commonly called depreciation in these textbook identities.
Domestic to national	GNP=GDP+NFIA; GDP=GNP-NFIA. NNP=NDP+NFIA; NDP=NNP-NFIA. Add net factor income from abroad when moving domestic to national; the source's final subtraction instruction is wrong.
Four price-basis variants	GDPfc=GDPmp-NIT; GNPfc=GNPmp-NIT; NDPfc=NDPmp-NIT; NNPfc=NNPmp-NIT. Use a consistent simplified textbook net-indirect-tax definition and the same period.
NDP / factor incomes	NDPfc=compensation of employees + net operating surplus + net mixed income. NDPmp=NDPfc+indirect taxes-subsidies. Net domestic output excludes CFC.
Do not assume equality	NDPfc and NDPmp coincide only when the relevant net indirect taxes are zero, not simply because the economy is stable.
NI versus NNPmp	Traditional national income is NNP at factor cost. NNPmp=GNPmp-CFC; then NIfc=NNPmp-NIT. NNPmp is not automatically NIfc.
NSO / 23 May 2019	The order merged CSO and NSSO into the National Statistical Office under the Ministry of Statistics and Programme Implementation. Mo SPI is the ministry; NSO is the statistical office.

Primary references / see chapter notes

National-income bridges: signs that earn marks / continued

National-income bridges: signs that earn marks / conceptual model

Domestic → national

Add net primary income from abroad.

Gross → net

Deduct consumption of fixed capital.

Basic → market

Add product taxes less product subsidies.

Ten performance indicators: preserve the denominator

Fact anchor	Essential fact / condition
GDP growth	Change in output; distinguish real from nominal growth and comparison period.
GDP per capita	GDP/population. Useful average-output comparison; not a complete welfare or distribution measure.
Employee compensation/hour	An hourly labour-cost measure; not the same as physical labour productivity.
Employee compensation/GVA	Employee income share in value added; keep GVA in the denominator.
Operating surplus/GVA	Operating-surplus share, a capital-income-related measure; mixed income and other components mean it is not every recipient's total capital return.
GFCF/GDP	Share of gross fixed capital formation. Inventories and valuables are outside GFCF, so it is not all gross capital formation.
Saving/GDP	National saving rate on the specified gross/net basis.
Saving/GFCF	Saving relative to fixed investment; useful financing comparison but not a complete funding identity when other capital formation/external flows differ.
Sector saving/total saving	Contribution of an institutional sector to total saving.
Household saving/disposable income	Household saving rate. Match gross/net concepts and sector boundaries.

Primary references / see chapter notes

Personal, private and real income: repair double counts

Fact anchor	Essential fact / condition
Private income / conventional bridge	National income minus government property/enterprise income and saving of non-departmental public enterprises, plus national-debt interest and net current transfers from government and abroad. Use a consistent sector/income boundary.
Personal income	Private income less corporate income taxes and undistributed corporate profits, on the textbook private-income convention. Do not also subtract all corporate profits and retained earnings again.
Personal disposable income	Personal income less personal current taxes and compulsory non-tax payments, such as applicable fees/fines in the textbook convention. Personal taxes must not be subtracted twice under a second direct-tax label. PDI funds both consumption and saving.
Real national income	Real NNP=nominal NNP x base-year price index / current price index, when using a suitable consistent deflator. A current-price rise alone need not mean more real output.
Operating surplus	Production-generated surplus after employee compensation and relevant production charges; net surplus excludes CFC. Rent/interest/dividend flows can redistribute this surplus and should not be added again indiscriminately.
Mixed income	Self-employed unincorporated enterprise income where labour and capital/enterprise returns cannot be separately identified. It is not every household's sum of all labour and property receipts.
Net indirect taxes	Indirect taxes MINUS subsidies, not plus subsidies as one source line states. Distinguish product taxes from other production taxes in basic-price GVA bridges.

Disposable national income and an original bridge

Fact anchor	Essential fact / condition
GNDI and NNDI	Gross national disposable income=GNI+net current transfers from the rest of the world. Net national disposable income=NNI+net current transfers from the rest of the world; gross versus net differs by CFC.
Worked bridge / original	GDPmp=1,000; net primary income abroad=20; CFC=80; simplified NIT=100; net current foreign transfers=10. GNI=1,020; NNI at market prices=940; traditional NIfc=840; GNDI=1,030 and NNDI=950.

Primary references / see chapter notes

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	If GDP=1,000 and NFIA=20, GNI/GNP in the elementary exercise is: A. 980; B. 1,020; C. 20; D. 1,000 minus depreciation **Answer B.** Add positive net primary/factor income from abroad.
Q 02	With sales 100,160,250 and intermediate inputs 0,100,160, total value added is: A. 510; B. 260; C. 250; D. 110 **Answer C.** 100+60+90=250, equal to the final product value.
Q 03	Net indirect taxes are: A. Taxes plus subsidies; B. Taxes less subsidies; C. Only subsidies; D. Always zero **Answer B.** The source plus sign is an error.
Q 04	Nominal GDP 120 and real GDP 100 imply a deflator of: A. 20; B. 83.33; C. 100; D. 120 **Answer D.** Nominal/real x 100 =120.
Q 05	GDP primarily uses: A. Citizenship of owners; B. Domestic production boundary; C. Overseas capital gains; D. Only household receipts **Answer B.** GNI uses resident primary income; GDP uses domestic production.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	Mo SPI: GDP rebasing methodological FAQs
UN Statistics: System of National Accounts 2025	NCERT: Introductory Macroeconomics
Mo SPI / GDP 2022-23 base, June 2026 release	Mo SPI / historical local-body coverage

Edition and exam cutoff

Evergreen guide with dated supplements. IIBF ordinarily uses the preceding 31 December cutoff for March-August exams and 30 June for September-February. Check session notices. Later rates are supplementary; original questions are learning checks, not claimed past papers.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. GDP measures a period's domestic production.	**15.** Buying an existing share is not itself new capital formation.
02. GDP is a flow, not a wealth stock.	**16.** Nominal GDP uses current prices.
03. Economic residence is not simply citizenship.	**17.** Real GDP aims to measure volume change.
04. GNI adds net primary income from abroad to GDP.	**18.** GDP deflator equals nominal divided by real GDP times 100.
05. Capital gains are not automatically primary income.	**19.** GDP at market prices includes the product-tax/subsidy bridge.
06. Gross minus consumption of fixed capital gives net.	**20.** Net taxes mean taxes less subsidies.
07. NDP equals GDP less depreciation in simple exercises.	**21.** Positive NFIA is added, not deducted, to move to national income.
08. NNI equals GNI less consumption of fixed capital.	**22.** Market-price and factor-cost aggregates need not be equal.
09. Final and intermediate use depend on context.	**23.** Disposable income can finance consumption and saving.
10. Value added subtracts intermediate consumption from output.	**24.** Mixed income combines inseparable labour/capital returns.
11. Adding all gross supply-chain sales double counts inputs.	**25.** GDP per capita is not every person's actual income.
12. Production, expenditure and income are three approaches.	**26.** India's new GDP series uses base 2022-23.
13. The expenditure identity is C+I+G+(X-M).	**27.** The new Indian series was released in February 2026.
14. Transfers are not government purchases of final output.	**28.** The UN adopted the updated SNA standard in 2025.



Walk the income bridge

Domestic to national: add net primary income abroad. Gross to net: deduct CFC. Then check the price basis before comparing income totals.

Primary references / see chapter notes

Union Budget: classify the receipts first

Fact anchor	Essential fact / condition
Annual statement	The Union Budget presents the Government's annual receipts/expenditure. The constitutional Annual Financial Statement is under Article 112. Distinguish Revenue Account, Capital Account and financing.
Tax receipts	Corporation/income taxes, customs, Union excise, other taxes/duties and relevant UT taxes. GST is part of the current structure; the source's service-tax heading is a legacy category, not a separate current general service-tax regime replacing GST.
Gross to net tax	Centre's net tax receipts deduct States' share and applicable assigned/transferred amounts from gross collections. Read the budget's reconciliation; do not deduct a calamity-duty transfer twice.
Non-tax receipts	Interest, dividends/profits, external grants, other non-tax revenue and relevant UT receipts. Revenue receipts=net tax+non-tax receipts. External grants are not external borrowing.
Non-debt capital	Loan/advance recoveries and miscellaneous capital receipts, including disinvestment. Recoveries reduce a financial asset; they are not fresh tax income.
Debt / financing examples	Market loans, short-term borrowings, net external assistance, securities against small savings, net provident-fund movements and other net liabilities. Public Account financing flows are not all identical to Consolidated Fund capital receipts.

Expenditure: current heads and the historical Plan split

Fact anchor	Essential fact / condition
Revenue expenditure	Interest/prepayment premium, current defence spending, subsidies, State/UT grants, pensions, police, disaster assistance, economic services (agriculture, industry, power, transport, technology), social services (education, health, broadcasting), postal deficit and foreign-government grants.
Capital expenditure	Defence assets and other capital outlay; loans to public enterprises, States/UTs and foreign governments. Classification depends on the transaction, not just the ministry's name.

Primary references / see chapter notes

Expenditure: current heads and the historical Plan split / continued

Fact anchor	Essential fact / condition
Asset-creation grants	A grant remains revenue expenditure in the grantor's budget even if the recipient builds an asset. Effective capital expenditure adds the specified capital-asset-creation grants to capital expenditure.
Historical Non-Plan	Non-Plan expenditure=revenue Non-Plan+capital Non-Plan. The source's old revenue/capital examples belong to this former presentation.
Historical Plan	Central Plan and Central assistance for State/UT Plans each had revenue and capital components. Plan expenditure=revenue Plan+capital Plan; total expenditure=Plan+Non-Plan in that old framework.
Current presentation	Plan/Non-Plan classification ended from FY 2017-18. Use revenue/capital and the current functional/programme classifications; Plan was never synonymous with capital expenditure.

Deficits: correct the labels and check the arithmetic

Fact anchor	Essential fact / condition
Revenue deficit	Revenue expenditure minus revenue receipts. It is not the entire borrowing requirement.
Gross fiscal deficit	Total expenditure minus revenue receipts minus non-debt capital receipts. Include loan recoveries once only: do not subtract them again if expenditure is already net of recoveries. Financing includes debt/other liabilities and cash-balance drawdown.
Primary and net concepts	Gross primary deficit=GFD-interest payments. Net fiscal deficit=GFD-net lending; net primary deficit=net fiscal deficit-net interest payments. The source wrongly labels GFD-interest as net fiscal deficit.
NCCD / source repair	National Calamity Contingent Duty, not the unrelated organisation expanded in the source. The former National Calamity Contingency Fund was succeeded by NDRF; preserve the period and budget-transfer treatment.
FY 2026-27 BE / Rs crore	Revenue receipts 35,33,150; revenue expenditure 41,25,494; non-debt capital receipts 1,18,397; total expenditure 53,47,315; interest 14,03,972. These are Budget Estimates, not actual outturns.
Compute the four gaps	RD=5,92,344; FD=16,95,768; primary deficit=2,91,796. Grants for capital assets=4,92,702, so effective RD=99,642. Published GDP ratios: 1.5%, 4.3%, 0.7% and 0.3% respectively, on the Budget's own denominator.

Primary references / see chapter notes

Five original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which is a non-debt capital receipt? A. Income tax; B. A new market loan; C. Loan recovery; D. Routine government fee **Answer C.** Recovery reduces a financial asset without creating new debt.
Q 02	Fiscal deficit minus interest payments is ordinarily: A. Revenue deficit; B. Primary deficit; C. Capital receipts; D. Tax devolution **Answer B.** The source labels this shortcut incorrectly.
Q 03	If total expenditure=1,250, revenue receipts=800 and non-debt capital receipts=50, fiscal deficit is: A. 450; B. 400; C. 150; D. 280 **Answer B.** 1250-800-50=400.
Q 04	Plan/Non-Plan classification was discontinued from: A. 2003-04; B. 2011-12; C. 2017-18; D. 2026-27 **Answer C.** Retain it as a historical syllabus term.
Q 05	NCCD in this budget context expands to: A. National Council on Crime and Delinquency; B. National Calamity Contingent Duty; C. Net Central Capital Deficit; D. National Currency Conversion Duty **Answer B.** The capsule gives an unrelated expansion.

Reference desk / date before number

Primary reference	Primary reference
IIBF: JAIIB Rules and Syllabus 2026	Ministry of Finance: Budget at a Glance 2026-27
Ministry of Finance: FRBM fiscal-policy statements, February 2026	Ministry of Finance: ending Plan/Non-Plan classification

Edition and exam cutoff

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Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. The Annual Financial Statement is associated with Article 112.	**15.** A grant for capital assets can remain Centre revenue spending.
02. Budget estimates are plans, not audited actuals.	**16.** Capital spending is not automatically an efficient project.
03. RE means Revised Estimates.	**17.** Revenue deficit equals revenue spending less revenue receipts.
04. Tax and non-tax receipts form revenue receipts.	**18.** Fiscal deficit excludes debt receipts from its receipt offset.
05. Net Centre tax receipts differ from gross tax collections.	**19.** Primary deficit equals fiscal deficit less interest payments.
06. Loan recovery is a non-debt capital receipt.	**20.** Effective revenue deficit deducts capital-asset grants.
07. Disinvestment can be a non-debt capital receipt.	**21.** Net fiscal variants require an explicit net-lending convention.
08. Borrowing creates a financing liability.	**22.** Borrowing finances the fiscal gap; it does not erase it.
09. A grant and an external loan need not share classification.	**23.** Debt is a stock; fiscal deficit is a flow.
10. Gross borrowing differs from net borrowing.	**24.** NCCD means National Calamity Contingent Duty here.
11. Revenue and capital are expenditure classifications.	**25.** The 2026-27 BE fiscal-deficit ratio is 4.3% of GDP.
12. Plan/Non-Plan is a historical classification.	**26.** The 2026-27 BE revenue-deficit ratio is 1.5% of GDP.
13. Plan/Non-Plan was discontinued from 2017-18.	**27.** A deficit ratio depends on both numerator and GDP denominator.
14. Revenue expenditure is not automatically unproductive.	**28.** Always check year, units, coverage and estimate status.



Revenue, capital or financing?

A tax, a loan recovery and a fresh borrowing belong to different classifications. Identify the transaction first, then compute the deficit without double subtraction.

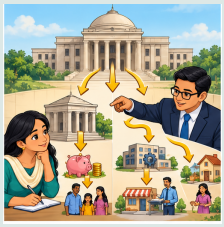
Primary references / see chapter notes

Financial system: connect savings to productive uses

Fact anchor	Essential fact / condition
Capital formation	Businesses need funds to establish operations, acquire productive assets and bear risk. Saving supplies resources that can support investment; finance connects those who currently have a surplus with those needing funds.
Surplus and deficit units	Households, firms, corporations and governments can each be savers or borrowers at different times. A wealthy entity is not permanently a surplus unit; its planned spending and available funds determine its position.
The financial link	Bank deposits, loans and securities channel funds, provide payment mechanisms and allocate financial risk. Productive investment can expand capacity, but finance alone does not guarantee that a project will succeed.

Follow one saver's rupee

Saving surplus → **Deposit / security** → **Borrower / issuer** → **Investment + income**



Money needs a route

Learner: My deposit is small. Mentor: An intermediary pools many deposits, assesses borrowers and provides liquidity to savers. Credit appraisal and repayment risk still matter.

Formal versus informal: identify the arrangement

Fact anchor	Essential fact / condition
Informal channels	Personal loans from relatives, neighbours, traders or moneylenders; local associations and funds. Social knowledge and personal relationships can make access quick and procedures flexible.
Costs and procedures	An informal arrangement can have low paperwork or transaction costs. It can also carry high interest, weak disclosure, coercive recovery or limited legal protection. Low cost and low default are not universal properties.
Source classification repair	Partnership brokers, pawnbrokers, finance/investment companies and chit funds cannot all be classified as unregulated merely by their names. Chit-fund and moneylending laws, company law and sector regulation may apply.

Primary references / see chapter notes

Formal versus informal: identify the arrangement / continued

Fact anchor	Essential fact / condition
Economic role	Informal credit has historically reached communities and rural areas underserved by institutions. Its role explains why access matters; it does not establish that every informal contract is transparent, safe or cheaper.

Map the formal financial system

Fact anchor	Essential fact / condition
Formal organisation	An institutional framework with defined legal/regulatory responsibilities connects savings, investment, payments and risk management. Its three broad components are institutions, instruments and markets.
Institutions / full source set	Regulators; commercial/cooperative banks; NBFCs; development financial institutions; insurers and insurance brokers; mutual funds and pension funds. A regulator oversees activity; it is not ordinarily a retail funding intermediary.
Depository institutions	Banks and relevant cooperative credit institutions accept permitted deposits and extend credit/investment services. Public money collected is a liability of the institution, with withdrawal and repayment obligations.
Non-bank institutions	Insurers pool insured risks; funds pool investments; brokers facilitate transactions. Premiums or mutual-fund units are not bank deposits. Certain RBI-authorised deposit-taking NBFCs may accept specified deposits, so the source's blanket prohibition is too broad.
Regulatory role	RBI, SEBI and IRDAI supervise different parts of the system; PFRDA oversees the relevant pension framework. Institutional roles can overlap, but regulators and regulated intermediaries are different categories.
Intermediary and development roles	SBI, Bank of Baroda and PNB illustrate commercial intermediation. NABARD and SIDBI provide development/refinance functions. Calling the latter simply non-intermediaries for corporate customers misses their refinance and sector mandates; SIBDI in the source is a spelling error.
Instrument / service branches	Asset products: loans and investments for the institution. Liability products: deposits or other funding obligations. Services: payments, advice, distribution and other fee-based facilities. The customer and bank can see opposite sides of the same contract.
Market branches	Money markets: short-term funds; capital markets: longer-term debt/equity; forex markets: currencies; insurance markets: risk-cover contracts. An institution can participate in more than one market.

Primary references / see chapter notes

Map the formal financial system / continued

Three connected branches

Institutions / who → Instruments / claim → Markets / exchange

Banking chronology: origins and presidency banks

Fact anchor	Essential fact / condition
Source and syllabus periods	Source:1770-1969,1969-1991,post 1991. IIBF syllabus: pre 1951(early banks/RBI);1951-mid 1980s(planned expansion, SBI, nationalisation, RRBs); post 1990s(liberalisation/reforms). These overlapping historical lenses do not change event dates.
Earlier than 1770	RBI's historical account records a joint-stock Bank of Bombay in 1720. Bank of Hindostan, Calcutta, operated 1770-1832 and was an important early bank; calling it the first bank of every kind in India is inaccurate.
Other early institutions	General Bank of India operated 1786-1791. Oudh Commercial Bank belongs to the later nineteenth-century history of Indian-managed banking. Many early institutions failed; a precise total of all pre-independence registrations needs a defined period and counting basis.
Bengal / distinguish foundation and rename	Bank of Calcutta began 2 June 1806; SBI's institutional history dates its redesignation as Bank of Bengal to 2 January 1809. These are two events, not competing dates for a single event.
Bombay and Madras	Presidency Bank of Bombay began 15 April 1840; Bank of Madras 1 July 1843. These are distinct from the earlier 1720 Bank of Bombay. The three presidency banks served colonial finance and commerce.
Imperial Bank to SBI	The three presidency banks merged as Imperial Bank of India on 27 January 1921. SBI was constituted under the SBI Act on 1 July 1955 following the rural-credit reform agenda.
Founding-date caution	Incorporation, opening for business, renaming and merger dates differ. PNB incorporated 19 May 1894 and opened 12 April 1895; the source's 1894 founding year is retained with that distinction.

Primary references / see chapter notes

Banking chronology: origins and presidency banks / continued

Source bank	Foundation / incorporation year
Allahabad Bank	1865
Punjab National Bank	1894; business opened 1895
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

Nationalisation: dates, purpose and all twenty banks

Fact anchor	Essential fact / condition
Why the change?	At independence, much commercial banking was privately controlled and institutional access in rural areas was limited. Nationalisation sought wider branch/credit coverage, mobilisation of savings and finance for development priorities.
Do not confuse the Acts	RBI became state-owned on 1 January 1949 under the Reserve Bank (Transfer to Public Ownership) Act 1948. Commercial-bank nationalisations rested on separate acquisition/transfer legislation; the Banking Regulation Act 1949 was not itself their nationalisation statute.
1969 / fourteen	Nationalisation took effect 19 July 1969, not gradually throughout 1969-1991. The statutory selection referred to deposits of not less than INR 50 crore. All fourteen names are retained below.
1980 / six	A further six banks were nationalised on 15 April 1980: Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab & Sind Bank and Vijaya Bank. This brought that historical total to 20; later mergers changed the institutional count.

Primary references / see chapter notes

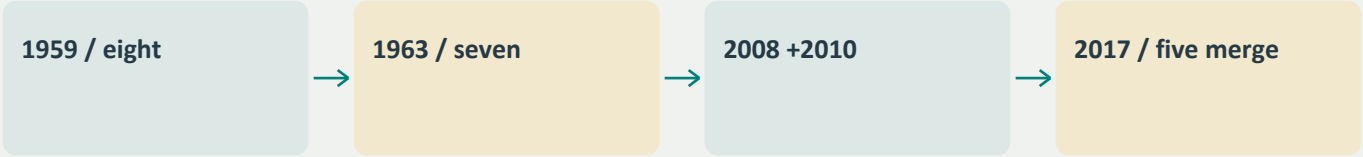
Nationalisation: dates, purpose and all twenty banks / continued

1969 / banks 1-7	1969 / banks 8-14
Allahabad Bank	Indian Overseas Bank
Bank of India	Indian Bank
Bank of Baroda	Punjab National Bank
Bank of Maharashtra	Syndicate Bank
Central Bank of India	Union Bank of India
Canara Bank	United Bank of India
Dena Bank	UCO Bank

SBI associates and rural banking: repair the sequence

Fact anchor	Essential fact / condition
1959 framework	The SBI (Subsidiary Banks) Act 1959 enabled takeover of eight former state-associated banks. The source retrospectively lists seven, including Bikaner & Jaipur, which arose from the merger of two associates in 1963.
Seven later associate names	State Banks of Patiala, Hyderabad, Bikaner & Jaipur, Mysore, Travancore, Saurashtra and Indore. Bikaner and Jaipur were separate members of the original eight.
Merger chronology	State Bank of Saurashtra merged with SBI in 2008; State Bank of Indore in 2010; the remaining five associates merged on 1 April 2017. These former associates must not be listed as separate current banks.
RRBs /1975	Regional rural banks began in 1975 for rural development and financial inclusion. Their legal foundation is the 1975 ordinance followed by the RRB Act 1976, distinct from the 1991/1998 Narasimham reform committees.

Keep four dates separate



Primary references / see chapter notes

Liberalisation and the ten-bank source cohort

Fact anchor	Essential fact / condition
1991 onward	Reform sought greater competition, efficiency, prudential discipline and commercially sound banking. Private banks already existed;1990s reform reopened entry to new private banks rather than inventing private banking.
The source's ten names	Global Trust Bank; ICICI Bank; HDFC Bank; UTI Bank (now Axis); Bank of Punjab; Indus Ind Bank; Centurion Bank; IDBI Bank; Times Bank; Development Credit Bank (now DCB). RBI records ten licences under the 1993 entry framework.
Read historical identities	IDBI Bank in that cohort refers to the commercial-bank entity established in the 1990s, not the original 1964 development institution. UTI Bank's later name is Axis Bank. Mergers/renamings mean the list is not a current count.
Examples of subsequent change	Times Bank merged into HDFC Bank in 2000; Global Trust Bank into Oriental Bank of Commerce in 2004. Bank of Punjab/Centurion combined before the later HDFC merger. These events illustrate why a source-era list needs dates.

Banking milestones: define what “first” means

Fact anchor	Essential fact / condition
Hindostan and Oudh	Hindostan 1770-1832 is an early agency-house bank, preceded by the 1720 Bank of Bombay in RBI's account. Oudh Commercial Bank is associated with early Indian-managed banking; an unrestricted first-bank superlative needs its precise category.
PNB / founders	PNB's origins reflect a group effort. Sardar Dyal Singh Majithia was the first chairman; Lala Lajpat Rai helped promote the idea and was an early account holder. Naming Lajpat Rai as the sole founder is misleading.
HSBC / institutional lineage	HSBC traces its Indian heritage to the 1853 Mercantile Bank in Bombay. This lineage should not be turned into an unqualified claim that it was India's first foreign banking institution.
Canara / certification	Canara Bank identifies obtaining ISO certification for a branch among its pioneering achievements. Branch certification is a defined scope; it is not proof that every branch or the entire bank had one identical certification.
Bank of India / overseas	Bank of India's London branch opened in 1946, an important Indian-bank overseas milestone identified by the bank's own history.
ATM / HSBC	HSBC introduced India's first ATM in 1987 in Mumbai. ATM cash access is different from a new bank licence or the creation of electronic deposits.

Primary references / see chapter notes

Banking milestones: define what “first” means / continued

Fact anchor	Essential fact / condition
Allahabad / joint-stock claim	Allahabad Bank dates to 1865 and has since merged into Indian Bank. It cannot be the earliest Indian joint-stock bank because RBI records much earlier joint-stock institutions.
ICICI / universal banking	The 2002 ICICI-ICICI Bank merger implemented a universal-banking strategy, combining a wider financing/service range. Retain the specific institutional transition rather than treating universal banking as one globally uniform first-event label.

From savings to digital services: distinguish the event

Fact anchor	Essential fact / condition
Savings and cheques	A savings account is a deposit product; a cheque is a payment instruction on a banker. RBI's museum records a Government Savings Bank in 1833. The source's precise priority claims for Presidency/Bengal banks and cheque introduction cannot be treated as interchangeable evidence.
Internet banking / ICICI	ICICI Bank's own twenty-year review dates its internet-banking launch to 1998 and identifies it as the first Indian-bank launch.
Mutual funds / SBI	SBI Mutual Fund was constituted in 1987 as a bank-sponsored fund. Sponsoring a mutual fund and being the first bank to distribute/sell fund units are different claims; UTI predates the bank-sponsored industry.
Credit cards / Central Bank	Central Bank of India's institutional record dates Centralcard to 1980 and identifies it as India's first bank credit card. This is distinct from debit cards and ATM cards.
Mobile-only / digibank	DBS launched digibank in India on 26 April 2016 and described it as India's first mobile-only bank. Digibank is a DBS banking proposition, not evidence of a separate generic licence category called digital bank.
First RRB / Prathama	Prathama Bank began on 2 October 1975 with Syndicate Bank as sponsor. It belongs to the original RRB programme; later amalgamations changed the operating entity.
In-principle /2014 round	RBI selected IDFC and Bandhan for in-principle new-bank approvals on 2 April 2014. This does not mean India had never issued an in-principle bank approval before 2014.

Primary references / see chapter notes

From savings to digital services: distinguish the event / continued

Fact anchor	Essential fact / condition
Merchant banking	Issue management, underwriting and corporate financial advice developed as specialised services. The source's exact first-provider attribution to Grindlays requires separately reconciled historical evidence; the service itself remains part of the system.
Blockchain / ICICI	In 2016, ICICI Bank and Emirates NBD completed blockchain-based trade/remittance transactions. Preserve the specified transaction use; blockchain does not make credit risk disappear.
Voice authentication / correction	ICICI Bank's 25 May 2015 release identifies its voice-recognition authentication as the first Indian-bank offering of that service. The source's blanket Citi-first attribution is corrected for this defined service.
Branch assistance / HDFC	HDFC Bank introduced its interactive humanoid assistant IRA to guide branch visitors. This concerns branch assistance, not a robot replacing every banking control, credit decision or employee.



Ask the missing question

Learner: The source says “first bank”. Mentor: First at what - incorporation, Indian management, overseas branch, ATM or mobile-only service? A precise category prevents a false answer.

Legislation: identify the institution and purpose

Fact anchor	Essential fact / condition
RBI Act 1934	Constitutes RBI and governs its organisation, central-banking powers and specified regulation.
Banking Regulation Act 1949	Core banking-company regulation: business, licensing, governance, prudential powers and related supervision, with specified application to cooperative banks.
SBI Act 1955	Constitutes State Bank of India following the Imperial Bank transition.
SBI Subsidiary Banks Act 1959	Historical framework for the associate banks; do not infer that these institutions remain separately active.
DICGC Act 1961	Deposit-insurance corporation/statutory framework. Deposit insurance and a bank's capital adequacy are different protections.

Primary references / see chapter notes

Legislation: identify the institution and purpose / continued

Fact anchor	Essential fact / condition
Acquisition/transfer Acts 1970 and 1980	Legal frameworks for the respective commercial-bank nationalisation rounds. The nationalisation effective dates and Act titles/years are distinct.
State Banks repeal/amendment 2018	Legislative cleanup following SBI associate amalgamation; retain the historical statute without presenting repealed institutional arrangements as current.

Narasimham I /1991: all eight reform themes

Fact anchor	Essential fact / condition
Bank structure	A four-tier proposal: a small top group of 3-4 internationally capable large banks, national banks, local banks and rural institutions. A recommended hierarchy is not a statutory current list of banks.
Supervision	Proposed a quasi-autonomous RBI-sponsored supervisory body to strengthen oversight of banks and financial institutions.
Reserves and capital	Phased SLR reduction and achievement of 8% risk-weighted capital adequacy. Reserve pre-emption and loss-absorbing capital address different issues.
Entry and branches	Opening private entry and reducing branch-licensing constraints would promote competition and operational flexibility. Recommendations must be distinguished from the conditions actually adopted.
Prudential accounting	Proper asset classification, income recognition, provisioning and disclosure reveal financial condition rather than hiding stressed assets.
Interest rates	Deregulate administered rates in stages so market conditions play a greater role. Deregulation does not mean absence of customer-protection rules.
Bad-asset proposal	An Asset Reconstruction Fund was proposed to take over part of banks' stressed loan portfolios. A proposal is not proof that a single identical fund was implemented immediately.

Implementation: capital, recovery, competition and supervision

Fact anchor	Essential fact / condition
Reserve reduction	Lower SLR/CRR pre-emption increased potentially lendable resources and reduced some profitability constraints. Actual lending still depends on capital, borrower demand and risk assessment.

Primary references / see chapter notes

Implementation: capital, recovery, competition and supervision / continued

Fact anchor	Essential fact / condition
Capital / April 1992	RBI introduced risk-weighted capital requirements under the Basel approach. CRAR=eligible regulatory capital/risk-weighted assets x 100. The source's broken line “capital to risk / weighted assets” is one denominator, not two unrelated concepts.
1996 deadline is not universal achievement	RBI's historical review records eight nationalised banks that had not achieved 8% by end-March 1996 and received an extension. The source assertion that all public-sector banks had achieved 8% by then is wrong.
Rates and competition	Deposit/lending rates were progressively freed from 1992; new private-bank entry increased competition. Historical FII/NRI investment ceilings must not be substituted for today's aggregate foreign-investment/ownership framework.
Debt recovery	The Recovery of Debts Due to Banks and Financial Institutions Act 1993 created a specialist tribunal framework to expedite qualifying debt recovery. Its later title is Recovery of Debts and Bankruptcy Act 1993. Tribunal creation and recovery success are separate matters.
Public equity	Amendments enabled nationalised banks to access the capital market while retaining at least 51% Central Government ownership under their governing framework. Public listing does not necessarily mean private-sector control.
Operational freedom	Eligible banks received greater scope to open branches/upgrade extension counters and rationalise non-viable non-rural branches, subject to prudential/branch conditions. This was not unrestricted closure of all rural branches.
LAB correction	Local Area Bank policy dates to August 1996, not 1966. The aim was local mobilisation of rural savings and investment within the designated districts. Approval, licensing and actual opening counts are different milestones.
Supervision chronology	An independent Department of Supervision was established in 1993; RBI's Board for Financial Supervision followed in November 1994. These are separate institutional steps, not merely two names for one event.

Primary references / see chapter notes

Narasimham II /1998: strengthen the banking system

Fact anchor	Essential fact / condition
Report and purpose	The Committee on Banking Sector Reforms reviewed reform progress and reported in April 1998. It examined resilience, competitiveness, governance and the legal environment.
Stronger banks and convertibility	Banks needed to manage domestic liquidity and exchange-rate risks in a more open economy. Merger of strong banks was proposed to build capability; combining banks does not automatically cure weak balance sheets.
Narrow banking	For severely stressed banks, a conservative asset strategy emphasising safer, liquid investments was discussed as a rehabilitation approach. Define any NPA ratio's denominator; an undated percentage of total assets must not be confused with NPAs/gross advances.
Capital adequacy	RBI moved from 8% to 9% CRAR effective end-March 2000 following the reform agenda. The 1998 Budget also envisaged a further move toward 10%. Capital targets, their effective dates and actual compliance are different facts.
Ownership and autonomy	Review bank boards and the tension between government control and commercial autonomy; strengthen professional strategy and governance. Do not convert a recommendation into proof that all government ownership ceased.
Legal reforms	Review the RBI Act, Banking Regulation Act, SBI Act and nationalisation legislation so the framework supports the changing financial system. Later amendments must be read by their own commencement dates.

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Who can be a financial-system deficit unit? A. Only households; B. Only government; C. A household, firm or government depending on its position; D. Only a bankrupt company **Answer C.** Surplus/deficit describes current funding needs, not a permanent identity.
Q 02	The source claim that every non-bank institution cannot accept deposits is: A. Always correct; B. Too broad because authorised deposit-taking NBFCs exist; C. A definition of a mutual fund; D. A condition for every broker **Answer B.** Deposit acceptance depends on legal category and authorisation; investment units and premiums are not bank deposits.

Primary references / see chapter notes

Original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 03	SBI was constituted in: A. 1921; B. 1934; C. 1949; D. 1955 **Answer D.** Imperial Bank dates to 1921; SBI was constituted on 1 July 1955.
Q 04	Fourteen major commercial banks were nationalised with effect from: A. 19 July 1969; B. 1 January 1949; C. 15 April 1980; D. 1 April 2017 **Answer A.** These dates respectively distinguish the 1969 round, RBI nationalisation, the 1980 round and the SBI associate mergers.
Q 05	A bank has eligible capital 12 and risk-weighted assets 100. CRAR is: A. 8%; B. 10%; C. 12%; D. 112% **Answer C.** 12/100 x 100=12%. Regulatory eligibility and the applicable minimum must be checked separately.

Reference desk / read the date

Primary reference	Primary reference
RBI / banking history	RBI / early-bank museum chronology
SBI / institutional evolution	PNB / founders and opening
RBI / private-bank licensing review 2020	Finance /1998 reform response
HSBC / Indian history	Bank of India / London 1946
Canara / branch ISO scope	Central Bank / credit-card chronology
ICICI / internet banking 1998	ICICI / voice authentication 2015
DBS / digibank 2016	HDFC / institutional milestones

Edition and examination cutoff

Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

28 facts / final recall

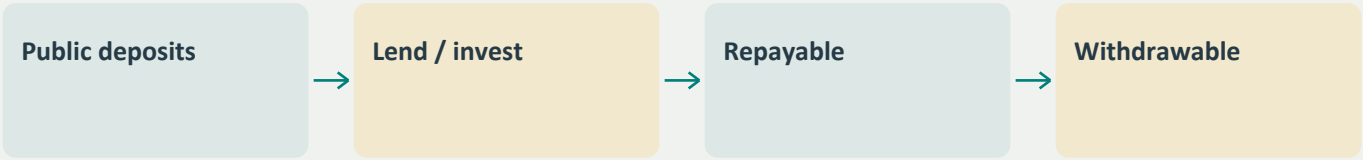
01-14 / retrieve the fact	15-28 / retrieve the fact
01. Finance connects surplus and deficit units.	**15.** SBI was constituted on 1 July 1955.
02. Households, firms and governments can each save or borrow.	**16.** Fourteen banks were nationalised on 19 July 1969.
03. Saving and productive investment are different activities.	**17.** Six further banks were nationalised on 15 April 1980.
04. Formal finance operates within an institutional/legal framework.	**18.** PNB incorporated in 1894 and opened in 1895.
05. Informal finance does not guarantee low cost or low default.	**19.** SBI's original eight associates became seven after the 1963 merger.
06. A mutual-fund unit is not a bank deposit.	**20.** Saurashtra merged with SBI in 2008; Indore in 2010.
07. Some authorised NBFCs can accept specified deposits.	**21.** Five remaining SBI associates merged on 1 April 2017.
08. Regulators and regulated intermediaries perform different roles.	**22.** RRBs began in 1975; their governing Act is 1976.
09. RBI records an early Bank of Bombay in 1720.	**23.** Narasimham I reported in 1991; Narasimham II in 1998.
10. Bank of Hindostan operated 1770-1832.	**24.** CRAR uses risk-weighted assets as its denominator.
11. Bank of Calcutta began in 1806 and became Bank of Bengal in 1809.	**25.** An 8% deadline does not prove every bank achieved 8%.
12. Presidency banks merged into Imperial Bank in 1921.	**26.** Local Area Bank policy dates to 1996,not 1966.
13. RBI began operations in 1935.	**27.** HSBC introduced India's first ATM in 1987.
14. RBI became state-owned on 1 January 1949.	**28.** ICICI Bank's internet-banking launch dates to 1998.

Primary references / see chapter notes

Banking: the statutory tests

Fact anchor	Essential fact / condition
Banking /5(b)	Accepting public deposits for lending or investment; repayable on demand or otherwise; withdrawable by cheque, draft, order or otherwise. Lending only one's own funds does not satisfy the public-deposit element.
Sections 5(c),6 and 7	A banking company transacts banking business in India. Section 6 specifies additional permitted business. Section 7 restricts bank/banker/banking names and requires the appropriate word for banking companies; statutory exceptions include specified associations/subsidiaries. A name alone does not authorise banking.
Constitution and regulation	RBI Act 1934: central bank and scheduled-bank framework. Banking Regulation Act 1949: banking business, licensing and supervision. SBI Act 1955: SBI constitution. SBI Subsidiary Banks Act 1959: historical associate-bank framework.
Insurance and ownership statutes	DICGC Act 1961: deposit-insurance framework. Acquisition and Transfer of Undertakings Acts 1970 and 1980: nationalised banks. State Banks (Repeal and Amendment) Act 2018: cleanup following SBI associate amalgamation. The former associates are not separate current banks.

Four tests for banking



Scheduled and non-scheduled banks

Fact anchor	Essential fact / condition
Scheduled / section 42(6)	Inclusion in the Second Schedule of the RBI Act 1934 establishes scheduled status. Conditions include paid-up capital plus reserves of at least INR 5 lakh, conduct not detrimental to depositors and the specified legal eligibility. The source incorrectly calls reserves collected funds.
Non-scheduled	Not included in the Second Schedule; not simply a bank with capital below INR 5 lakh. Licensing capital and scheduling are separate tests. BR Act section 11 is not confined to non-scheduled banks.
Facilities	RBI liquidity/clearing access depends on facility, collateral and membership conditions. Scheduling is not an unconditional borrowing entitlement. Ordinary access differs from exceptional liquidity support.
2015 examples	RBI's 2015 non-scheduled UCB list includes Bangalore City Co-operative Bank and Baroda City Co-operative Bank. Current classification requires current notifications; retain these as dated examples.

Primary references / see chapter notes

Scheduled and non-scheduled banks / continued

Fact anchor	Essential fact / condition
Commercial branches of the map	Public-sector, private-sector and foreign banks are ownership/presence categories; RRBs, SFBs and payments banks have specialised mandates. LABs also belong to commercial banking. Do not assume every institution in a category automatically has scheduled status.
Cooperative branch	Scheduled cooperative banks form a separate branch from scheduled commercial banks. Urban, state and district cooperative institutions require their own legal classification. PACS are not automatically licensed banks.
Historical names repaired	SBI associates such as Travancore merged in 2017. Karur Vysya illustrates an old private bank and HDFC a 1990s entrant. HSBC Holdings plc is the parent, not the name to substitute for the licensed Hongkong and Shanghai Banking Corporation.
Commercial activity	Commercial banking includes scheduled and non-scheduled commercial banks governed by the relevant BR Act provisions. Deposit mobilisation, loans to people/business/government and long-term housing credit support income generation; public mandates and prudential duties still apply.

Read the classification in order

Licensed institution → **Second Schedule?** → **Commercial / cooperative** → **Specific category**

Ownership and bank mergers

Fact anchor	Essential fact / condition
Public-sector banks	Government holds the controlling majority under the relevant statutory framework; shares can be listed. SBI, Bank of Baroda, PNB, Canara and Bank of India are examples. Corporation Bank is a historical name: it merged into Union Bank in 2020.
Private-sector banks	Private ownership/control predominates; banks are incorporated as limited-liability companies, subject to RBI ownership and governance rules. ICICI is a source example. ING Vysya merged into Kotak Mahindra Bank with effect from 1 April 2015.
Merger lesson	The continuing bank assumes the amalgamating institution's business under the scheme. A historical list of twenty nationalised banks or separate SBI associates is not a current count of independent PSBs.

Primary references / see chapter notes

Ownership and bank mergers / continued

Continuing bank / effective date	Source names absorbed
Bank of Baroda /1 April 2019	Vijaya Bank and Dena Bank
Punjab National Bank /1 April 2020	Oriental Bank of Commerce and United Bank of India
Union Bank /1 April 2020	Andhra Bank and Corporation Bank
Canara Bank /1 April 2020	Syndicate Bank
Indian Bank /1 April 2020	Allahabad Bank

Universal-bank entry

Fact anchor	Essential fact / condition
Historical capital / source correction	Private-bank entry rules have changed across licensing rounds. The 2013/2016 framework used INR 500 crore capital/net worth. RBI's current 2025 Universal Bank Licensing Guidelines require INR 1000 crore initially and minimum net worth of INR 1000 crore thereafter; NBFC conversion also requires INR 1000 crore net worth.
Eligible individual / experience	Resident individuals/professionals need at least ten years of senior-level banking and finance experience and must meet fit-and-proper tests. Eligibility does not guarantee a licence. Large industrial houses are excluded as promoters under this framework; limited passive investment up to 10% is distinct from permission to promote/control a bank.
Foreign capital	Private-bank aggregate foreign investment ceiling is 74%, subject to the FDI framework, approvals and ownership conditions. The automatic route extends to 49%; above 49% and up to 74% requires government approval. Aggregate foreign investment, an individual shareholder limit and voting rights are different limits.
Plan and listing	A realistic viable business plan must show how financial inclusion will be achieved. Universal banks must list within six years of commencement. A promoter's promise does not replace the prescribed application and RBI assessment.
Rural reach and PSL	At least 25% of banking outlets opened during a financial year must be in unbanked rural centres under the applicable branch framework. This is not a blanket 25% of every existing branch stock. Achieve the prescribed PSL target and sub-targets; do not apply payments-bank investment rules to universal banks.
Number trap	Distinguish scheduling threshold, licensing capital, net worth, capital adequacy and shareholding. INR 5 lakh is not the entry capital for a universal bank.

Primary references / see chapter notes

Universal-bank entry / continued



Which capital is the question asking?

Learner: Both numbers appear in banking rules. Mentor: First identify the law and category. A scheduling threshold and a new universal-bank entry requirement cannot be interchanged.

Foreign banks: branches and WOS

Fact anchor	Essential fact / condition
Two modes	Indian branches or an Indian-incorporated wholly owned subsidiary (WOS), subject to single-mode rules and cases requiring WOS. The subsidiary has its own capital/board; its parent is incorporated abroad.
Source examples / institutional scope	The Hongkong and Shanghai Banking Corporation, Citibank N.A. and Standard Chartered are source examples of foreign-bank presence. American Express Bank is a historical source example; names/business transfers must be dated rather than treated as a frozen current roster. Reforms from 1991 widened foreign-bank participation.
Approval screen / all source factors	Economic/political relations with the home country; reciprocity; financial soundness; ownership pattern; international/home-country ranking and rating; international presence; adequate risk management and internal controls. Home-supervisor approval and consolidated prudential supervision also matter.
WOS capital / current 2025 guidelines	Initial paid-up voting equity capital: INR 500 crore, brought upfront by free foreign-exchange remittance from the parent. A branch-to-WOS conversion needs at least INR 500 crore net worth and must fund any shortfall upfront. This INR 500 crore requirement must not be replaced with the separate universal-bank INR 1000 crore rule.
Capital adequacy and funding	Meet Basel III continuously. Initial three years: minimum capital adequacy 10%, plus applicable capital conservation/other buffers. A WOS can raise permitted non-equity rupee resources like domestic banks. Borrowed resources are not a substitute for required voting equity.
Management responsibility	Core management functions cannot be outsourced, including to group entities in India or abroad. Group support and IT arrangements remain subject to outsourcing controls; the local board cannot outsource accountability.

Primary references / see chapter notes

Foreign banks: branches and WOS / continued

Branch and subsidiary differ

Foreign parent → Branch / WOS choice → Indian WOS capital → Local board accountability

Local Area Banks

Fact anchor	Essential fact / condition
Origin and purpose	The Government scheme was announced in August 1996. LABs mobilise rural/semi-urban savings for local investment within two or three contiguous districts, with a maximum of three under the original scheme.
Legal identity	A public limited company requires a BR Act banking licence. The source describes non-scheduled LABs; scheduled status should always be checked against actual Second-Schedule inclusion rather than inferred permanently from a category label.
Original entry / dated scheme	Minimum startup capital INR 5 crore, brought upfront. Individuals, firms/corporate entities and societies could promote LABs. The original family-equity ceiling was 40%; NRI promoters could not exceed 20% of the NUMBER of promoters, not 20% of equity. These are original scheme features, not a universal-bank licence formula.
Original branch pattern	One urban centre per district, remaining branches in rural/semi-urban centres, with the original rural-branch clearance involving the District Consultative Committee. Prudential norms, accounting and RBI directions apply.
Finance focus	Agriculture/allied activity, small-scale industry, agro-industry, trade and non-farm enterprise in the rural/semi-urban economy. Local lending remains subject to prudent appraisal.
PSL / identify the denominator	Overall PSL 40% of ANBC or credit-equivalent off-balance-sheet exposures, whichever is higher, under the applicable PSL framework. Weaker-sections sub-target 12% was reached by FY 2023-24. It is 12% of the prescribed base, not 12% of the 40% target.



Local money, local use

Learner: Why limit the territory? Mentor: The original LAB model links local savings with nearby agriculture, trade and small enterprises. Local knowledge helps appraisal but does not remove credit risk.

Primary references / see chapter notes

Regional Rural Banks

Fact anchor	Essential fact / condition
1975 is the correct committee context	RRBs followed the 1975 Narasimham Working Group, not the 1991/1998 banking-reform committees. The ordinance was promulgated 26 September 1975; the first five RRBs began 2 October 1975. The governing Act followed in 1976.
Institutional idea	Combine local rural familiarity with commercial-bank organisation and sponsor support. The aim is productive rural finance, not merely an urban bank with rural branding.
Activities and beneficiaries	Agriculture, trade, commerce, industry and other productive rural activities; small/marginal farmers, agricultural labourers, artisans, small entrepreneurs and individuals. Credit and related facilities should meet local development needs.
Two objectives	Bridge rural credit gaps and reduce outflow of rural deposits; finance employment-generating rural activities. These are development aims, not a promise to retain every deposit in its village.
Area and branches	Operate within districts/state notified by the Central Government; head office lies in the notified operational area under section 4. Branch expansion follows RBI's RRB-specific policy with reference to section 23 of the BR Act.
Dated update /1 May 2025	One State-One RRB amalgamations reduced the number from 43 to 28, effective 1 May 2025. The count refers to RRB institutions, not sponsor banks, states, branches or banking outlets.

RRB chronology

1975 working group → **26 September ordinance** → **2 October first five** → **1976 Act**

RRB capital and ownership

Fact anchor	Essential fact / condition
Authorised capital	2015 amendment: INR 2000 crore authorised share capital. This ceiling differs from actual issued/paid-up capital.
Original split	Centre 50%; State 15%; sponsor 35%: total 100%.
Other investors	Permitted under the 2015 amendment: Centre plus sponsor must retain at least 51% of paid-up capital. The original 50/15/35 split can therefore change.
State safeguard	Union Government must consult the State before reducing its stake below 15%. This is separate from the combined 51% safeguard.

Primary references / see chapter notes

RRB capital and ownership / continued

Fact anchor	Essential fact / condition
Transition to payments banks	Payments banks target financial inclusion through small savings and payment/remittance access for migrant labour, low-income households, small entrepreneurs and other unbanked/underbanked users. This is a separate bank model, not an RRB capital clause.

Owner / traditional share	After permitted outside capital
Centre /50%	Centre plus sponsor: at least 51% combined
State /15%	Consult State before reduction below 15%
Sponsor /35%	Combined floor is not its individual floor

Payments banks

Fact anchor	Essential fact / condition
Legal form and objective	Companies Act 2013 registration plus banking regulation, RBI Act 1934, FEMA 1999 and Payment and Settlement Systems Act 2007 requirements. A differentiated licence supports high-volume low-value inclusion; it is not a universal banking licence.
Capital and promoter	Minimum paid-up equity capital INR 100 crore; promoter holds at least 40% for the first five years under the licensing framework.
Deposit ceiling /7 April 2021 update	Maximum end-of-day balance INR 2 lakh per individual customer. It is a balance ceiling, not an annual transaction limit or permission to offer fixed deposits. Savings/current demand deposits are allowed.
Deployment / apart from CRR	At least 75% of demand-deposit balances goes into SLR-eligible government securities/Treasury Bills with maturity up to one year; at most 25% may be held in current/time deposits with other scheduled commercial banks for operational/liquidity purposes. Minimum 75 and maximum 25 are not compulsory exact allocations.
Permitted services	Domestic payments/remittances; eligible inward cross-border personal remittances under permissions; ATM/debit cards; non-risk-sharing distribution of insurance and mutual funds subject to approvals. Distribution is not underwriting insurance or guaranteeing a fund return.
Prohibited activities	No own lending, credit-card issuance, ordinary term deposits or NRI deposits; no subsidiaries for non-banking financial services. A debit card spends available money; a credit card creates credit. Acting as another bank's permitted business correspondent does not make a loan its own asset.

Primary references / see chapter notes

Payments banks / continued

Fact anchor	Essential fact / condition
Inclusion benefit	Wider rural/formal access through savings and payments; complements other banks without their full credit function.



Can my payments bank lend my deposit?

Learner: My account has money, so can this bank give me its own loan? Mentor: Its licence allows payments and demand deposits, with prescribed safe deployment. Own lending and credit cards are prohibited.

Small finance banks

Fact anchor	Essential fact / condition
Purpose	Provide savings vehicles and credit to small businesses, small/marginal farmers, micro/small industries and unorganised-sector entities using technology with low operating costs. Unlike payments banks, SFBs lend on their own books.
Promoter eligibility	Resident professionals/individuals: at least ten years of senior-level banking/finance experience. Resident-owned/controlled private companies and societies: successful business track record at least five years under the current guidelines. Eligible NBFCs, MFIs, LABs and PBs can apply for conversion, subject to all approvals and fit-and-proper requirements.
Entry capital / dated sequence	Original 2014 minimum INR 100 crore;2019 on-tap framework INR 200 crore. Current 2025 SFB licensing guidelines: initial paid-up voting equity/net worth INR 300 crore. UCB transition starts at INR 150 crore net worth and reaches INR 300 crore within five years; do not apply the ordinary entry amount blindly to this exception.
Conversion and capital adequacy	NBFC/MFI/LAB/PB conversions need INR 300 crore net worth by eighteen months from in-principle approval or commencement, whichever is earlier. The capital must be ready when obtaining the licence. Continuous CRAR minimum 15%, subject to a higher prescribed rate.
Promoter / old versus current	The source's 40% first five years,30% by ten and 15% by fifteen is an older dilution path. Current ordinary path: at least 40% throughout first five years, down to 26% within fifteen years. UCB-transition promoters have an initial 26% floor; approved conversion exceptions can differ. Listing is mandatory within eight years under 2025 guidelines.

Primary references / see chapter notes

Small finance banks / continued

Fact anchor	Essential fact / condition
Source exposure rule / historical	The 2014 framework capped single-obligor loan/investment exposure at 10% of capital funds and group exposure at 15%. Preserve this as a dated source-era rule; current exposure questions require the applicable updated concentration-risk directions and obligor definition.
PSL / effective FY 2025-26	Overall target reduced from 75% to 60% of ANBC or CEOBE, whichever is higher. Within this,40% follows the prescribed PSL sub-sector allocation and the remaining 20% can support sectors of competitive advantage. At least 50% of the loan portfolio must comprise borrower-wise loans/advances up to INR 25 lakh under current licensing conditions.

PB versus SFB

PB / payments	PB / no own loans	SFB / deposits	SFB / small credit

Cooperative credit structure

Fact anchor	Essential fact / condition
Origins	Cooperative Credit Societies Act 1904 supported credit societies; the 1912 Cooperative Societies Act widened the framework, including cooperative central institutions. Their reach and local membership make them important to rural and small-business finance.
Short-term rural chain	State Cooperative Bank at state level; District Central Cooperative Bank at district/intermediate level; Primary Agricultural Credit Societies at grassroots. PACS are credit societies and are not automatically RBI-licensed banks.
Long-term rural and urban	Agricultural and rural development cooperative institutions form the long-term rural branch. Urban cooperative banks form a separate urban/semi-urban cooperative-banking branch. The source diagram incorrectly mixes rural tiers under urban banking.
Governing laws	Relevant State Cooperative Societies Act or Multi-State Cooperative Societies Act 2002 plus the BR Act 1949 as applicable to cooperative banks. The source label Cooperative Societies Act 1965 is not a correct general governing-Act title;1965 banking amendments extended specified banking provisions, effective 1966.

Primary references / see chapter notes

Cooperative credit structure / continued

Short-term rural cooperative chain

State Cooperative Bank → District Central Bank → PACS / society → Member credit

Commercial versus cooperative

Comparison	Commercial bank / cooperative bank
Meaning	Commercial: services to individuals/businesses. Cooperative: member-governed rural/agricultural and urban trade/small-enterprise finance.
Governing law	Commercial: BR Act plus constitution-specific law. Cooperative: relevant State or Multi-State Cooperative Societies law plus applicable BR Act provisions; no generic Cooperative Societies Act 1965.
Operating area	Commercial networks are often wider; cooperative area follows registration/licence and can span states. Large versus small is not a legal universal.
Motive	Commercial return versus member service is a useful emphasis. Both need viability and serve customers.
Borrowers	Commercial: eligible appraised customers. Cooperative: membership and category permissions/restrictions matter; not every depositor automatically receives a loan.
Core function	Both mobilise permitted deposits and extend eligible credit. Cooperatives emphasise farmers/small businesses and can accept permitted non-member public deposits.
Service range	Commercial banks commonly offer broader products; cooperative variety depends on permissions, category and institutional capability.
Deposit interest	No fixed ranking: cooperative rates are not always higher, commercial rates not always lower. Compare actual product, maturity and terms.

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	A bank is scheduled because it: A. Has 100 branches; B. Is included in the RBI Act Second Schedule; C. Has government ownership; D. Uses bank in its name **Answer B.** Second-Schedule inclusion defines scheduled status; size and ownership do not.

Primary references / see chapter notes

Original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 02	An original RRB ownership arrangement is: A. 50:15:35 Centre: State: sponsor; B. 51:49 Centre: sponsor; C. 40:30:30; D. Equal thirds **Answer A.** The traditional split is 50/15/35; outside-capital conditions preserve Centre+sponsor at least 51%.
Q 03	A payments bank receives INR 100 of demand deposits apart from CRR. Which conforms to the basic deployment rule? A. INR 60 qualifying securities and 40 bank deposits; B. INR 80 qualifying short government securities and 20 SCB deposits; C. INR 75 retail loans and 25 securities; D. INR 100 credit-card receivables **Answer B.** Minimum 75% qualifying securities and maximum 25% SCB deposits; it cannot lend on its own books.
Q 04	From FY 2025-26 the overall SFB PSL target is: A. 40%; B. 60%; C. 75%; D. 100% **Answer B.** RBI 20 June 2025 changed 75% to 60% of ANBC or CEOBE, whichever is higher.
Q 05	The current ordinary SFB entry capital/net-worth requirement in the 2025 licensing guidelines is: A. INR 5 lakh; B. INR 100 crore; C. INR 200 crore; D. INR 300 crore **Answer D.** INR 100/200 crore are earlier entry amounts; UCB transition has its own 150-to 300 crore path.

Reference desk / read the date

Primary reference	Primary reference
India Code / Banking Regulation Act 1949	RBI / universal licensing 2025
RBI / SFB licensing 2025	RBI / foreign-bank WOS 2025
RBI / PB licensing framework	RBI / SFB PSL 20 June 2025
DFS / RRBs	RBI / dated 2015 non-scheduled UCB examples
ICSI / LAB original scheme	Parliament / historical SFB 10/15% exposure
RBI / current SFB concentration directions	Checked 25 October 2026

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Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Banking is defined in section 5(b) of the BR Act 1949.	**15.** WOS initial three-year minimum capital adequacy is 10%,plus buffers.
02. Section 5(c) defines a banking company.	**16.** LAB policy began in August 1996.
03. Section 6 specifies additional permitted banking business.	**17.** Original LAB territory is at most three contiguous districts.
04. Section 7 restricts use of bank/banker/banking names.	**18.** RRBs began in 1975; their Act is 1976.
05. Second-Schedule inclusion defines a scheduled bank.	**19.** RRB traditional ownership is Centre 50%,State 15%,sponsor 35%.
06. Scheduling and licensing capital are different tests.	**20.** Centre plus sponsor retain at least 51% with permitted outside capital.
07. Paid-up capital plus reserves is the section 42(6) expression.	**21.** The 2025 RRB merger reduced 43 institutions to 28.
08. SBI associates are historical separate banks after 2017 mergers.	**22.** Payments-bank minimum capital is INR 100 crore.
09. Bank of Baroda absorbed Vijaya and Dena in 2019.	**23.** Payments-bank individual end-of-day balance ceiling is INR 2 lakh.
10. The four other listed PSB mergers took effect 1 April 2020.	**24.** Payments banks can issue debit cards, not credit cards.
11. Universal-bank current entry/net worth is INR 1000 crore.	**25.** PB deployment: minimum 75% qualifying government paper, max 25% SCB deposits.
12. Universal-bank listing deadline is six years.	**26.** Current ordinary SFB entry capital/net worth is INR 300 crore.
13. Private-bank aggregate foreign investment ceiling is 74%,subject to conditions.	**27.** SFB PSL target is 60% from FY 2025-26.
14. Foreign-bank WOS initial voting equity is INR 500 crore.	**28.** Rural short-term cooperative tiers are State bank, DCCB and PACS.

Primary references / see chapter notes

RBI origin and mandate

Fact anchor	Essential fact / condition
1926-1934	Hilton Young / Royal Commission on Indian Currency and Finance 1926 recommended a central bank. A 1927 bill was withdrawn. The 1933 constitutional White Paper revived the proposal; the fresh bill received assent 6 March 1934.
Operations /1 April 1935	RBI began as a private shareholders' central bank with INR 5 crore paid-up capital. It is not an ordinary privately owned retail bank. Nationalisation took effect 1 January 1949 under the Reserve Bank (Transfer to Public Ownership) Act 1948.
Burma and Pakistan	RBI served Burma even after its 1937 separation, interrupted by Japanese occupation during 1942-45 and later continuing until April 1947. Thus 1942 was not the final endpoint. Following partition, RBI also served Pakistan until June 1948; State Bank of Pakistan began 1 July 1948.
Preamble	Regulate banknote issue and reserves; secure monetary stability; operate the currency and credit system to India's advantage. The modern monetary-policy framework prioritises price stability while keeping growth in mind. Price stability does not mean a promise that every price remains unchanged.

Four anchor dates

1926 / proposal → **1934 / Act** → **1935 / operations** → **1949 / public ownership**

RBI Act: the map

Fact anchor	Essential fact / condition
Five principal chapters	I Preliminary; II Incorporation, Capital, Management and Business; III Central Banking Functions; IV General Provisions; V Penalties. Inserted IIIA-IIIF are additional lettered chapters, so five principal headings is not the total number of current chapter headings.
IIIA to IIIC	IIIA: collection/furnishing of credit information. IIIB: non-banking institutions and financial institutions. IIIC: restrictions on deposits accepted by unincorporated bodies.
IIID to IIIF	IIID: derivatives, money-market instruments and securities. IIIE: joint mechanism for regulatory differences. IIIF: monetary policy/MPC. Two schedules: Local Board territories and scheduled-bank listing.
Sections 1 and 2(e)	Act title and whole-India extent; a scheduled bank is a bank included in the Second Schedule. Inclusion is a legal status, not simply a synonym for government ownership.

Primary references / see chapter notes

RBI Act: the map / continued

Fact anchor	Essential fact / condition
Sections 3 and 4	RBI is a body corporate with perpetual succession and common seal, able to sue/be sued. Statutory capital is INR 5 crore. Paid-up capital and the changing balance-sheet reserves/contingency accounts are different quantities.

RBI governance

Fact anchor	Essential fact / condition
Section 7	Central Board exercises general superintendence/direction, subject to lawful Central Government directions issued in the public interest after consultation with the Governor. Consultation is a statutory requirement.
Section 8 / full composition	Governor plus not more than four Deputy Governors; four directors, one from each Local Board; ten other nominated directors; two government officials. Central Government makes the appointments/nominations. Maximum composition on this basis is 21, not a claim that all seats are always occupied.
Terms	Governor and Deputy Governors work whole time; appointment term at most five years, eligible for reappointment. Government officials serve at government pleasure. Local-Board nominees remain linked to Local-Board membership; other nominated directors ordinarily serve four years, subject to statutory continuation/term limits.
Section 9 / Local Boards	Four areas, five government-appointed members in each; represent territorial/economic interests and cooperative/indigenous banks as far as possible. Four-year terms; reappointment cannot exceed two terms aggregating eight years, continuously or intermittently.
Section 11 / removal	Central Government can remove the Governor, a Deputy Governor, another director or a Local-Board member. Removal power and an ordinary expiry of a term are distinct.
Section 13 / meetings	At least six Central-Board meetings per year AND at least one each quarter. Governor presides; an authorised Deputy Governor can act when the Governor is absent. The presiding Governor/authorised deputy has a casting vote if votes are equal.

Edition and examination cutoff
Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

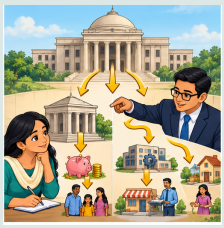
Primary references / see chapter notes

RBI governance / continued

Body	Do not confuse these numbers
Central Board	Governor + up to 4 DG +4 local +10 other +2 official
Local Boards	4 areas x 5 members;4-year terms
Central-Board meetings	Minimum 6/year and 1/quarter
MPC meetings	Different body; minimum 4/year

RBI business: powers and limits

Fact anchor	Essential fact / condition
Section 17 / permitted	Accept specified deposits without interest from governments, banks, local authorities and other authorised persons; buy/sell foreign exchange and permitted securities; rediscount eligible bills/promissory notes; grant authorised loans/advances. Each transaction remains subject to its statutory terms.
SDF exception	Section 17 permits interest-bearing deposits under the Standing Deposit Facility scheme approved by the Central Board for liquidity management. Therefore no interest on any deposit is an incorrect blanket rule.
Section 18 A / validity	An RBI loan/advance is not invalid merely because another law, contract, resolution, memorandum or articles was not complied with. Exception: this does not validate borrowing by a company/cooperative society whose memorandum does not empower it to borrow.
Section 19 / trade and shares	Generally bars direct commercial/industrial trading interests, purchase of company shares and loans on such shares, subject to express exceptions elsewhere in the Act. Permitted statutory institutional investments cannot be erased by quoting the prohibition alone.
Property / other restrictions	Generally no mortgage lending on immovable property or ownership beyond own business premises and staff residences. Loans/advances, non-demand bills and deposit interest are restricted EXCEPT as expressly permitted by the Act. Section 19 is not a ban on all section 17 lending or SDF interest.



Read the exception with the prohibition

Learner: Section 19 says RBI cannot lend? Mentor: It restricts unauthorised business. Sections 17 and 18 expressly permit specified central-banking transactions. Read the provisions together.

Primary references / see chapter notes

Government and currency

Fact anchor	Essential fact / condition
Sections 20 and 21 A	RBI accepts Union Government money, makes payments up to account balance, handles exchange/remittance and Union public debt. State government banking, interest-free cash balances, public-debt management and loan issues rest on an agreement under 21 A.
Section 22 / banknotes	RBI has the sole right to issue banknotes. Government-issued INR 1 currency notes and coins are a separate legal category; do not infer from section 22 that RBI issues coins or the INR 1 note.
Section 24 / denominations	Statutory list: INR 2,5,10,20,50,100,500,1000,5000 and 10000; Government can specify other denominations not exceeding INR 10000 on Central-Board recommendation. Statutory authorisation does not prove each denomination is currently issued or legal tender.
Non-issue and legal tender	Government can direct non-issue/discontinuance of a denomination. Under section 26,banknotes are legal tender for their stated amount and government-guaranteed, subject to lawful withdrawal of tender status on Central-Board recommendation. Withdrawal from circulation and loss of legal-tender status are different: INR 2000 withdrawal did not itself demonetise those notes.
Sections 27 and 28	Do not reissue torn, defaced or excessively soiled banknotes. No unconditional right to recover the value of lost, stolen, mutilated or imperfect notes; refund is governed by rules/circumstances prescribed with prior government sanction.
Sections 29 and 30	RBI banknotes are exempt from stamp duty. If RBI fails statutory obligations, the Central Government can supersede its Central Board by Gazette notification and entrust its powers to another agency. This is different from RBI superseding a commercial bank's board.

Keep the powers separate

24 / denomination → **22 / note issue** → **26 / legal tender** → **28 / note refund**

Issue Department and CRR

Fact anchor	Essential fact / condition
Section 33 / backing	Issue Department assets: gold coin/bullion, foreign securities, rupee coins and rupee securities; aggregate assets must cover its liabilities. Minimum reserve framework: INR 200 crore in gold/foreign securities, including at least INR 115 crore gold. This is not 100% gold backing.

Primary references / see chapter notes

Issue Department and CRR / continued

Fact anchor	Essential fact / condition
Section 34 / liability	Liability equals Government currency notes and RBI banknotes in circulation. Note-issue assets/liabilities belong to the Issue Department; do not confuse them with bank customer deposits.
Section 40 / forex	RBI buys/sells foreign exchange with authorised persons at the rates/conditions determined under the statutory framework, having regard to IMF obligations. No entitlement to demand a transaction below INR 2 lakh. This statutory RBI transaction threshold is not a minimum retail forex purchase or LRS remittance.
Section 42 / scheduled-bank CRR	Maintain the prescribed average daily cash balance with RBI against the relevant demand/time-liability base. RBI notifies the percentage for monetary stability; the old statutory 3%-20% band was removed. Distinguish the notified rate from the Act's power to set it.
Dated reserve update	From 15 December 2025,fortnight follows 1st-15th and 16th-last day of a calendar month rather than alternate Fridays. RBI's 23 October 2026 table reports CRR 3% and SLR 18% for the latest displayed week; these are dated readings, not permanent statutory numbers or automatic exam-cutoff facts.

Illustrative base INR 1000 crore	Required amount at the stated dated rate
CRR /3%	INR 30 crore in the prescribed RBI cash-reserve framework
SLR /18%	INR 180 crore qualifying liquid assets; distinct from CRR

Credit-information safeguards

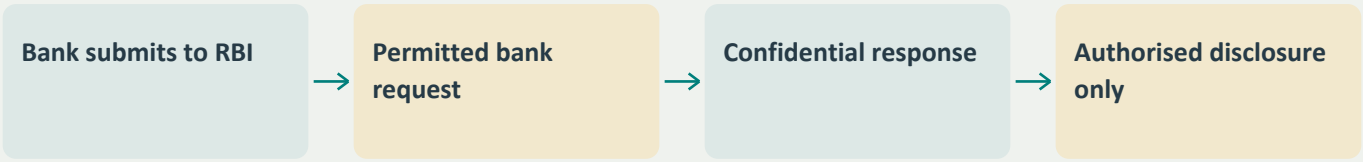
Fact anchor	Essential fact / condition
Sections 45 A-45 G / scope	Loan/advance amounts and nature, other credit facilities, security, guarantees, borrower antecedents, means, creditworthiness, financial transaction history and other relevant information. RBI can collect it and direct banking companies to submit statements; banks must comply.
45 D / furnishing	A banking company applying in relation to an actual/proposed financial arrangement can receive relevant information in RBI's possession. The furnished information must not name the banks that SUPPLIED it; the source incorrectly refers to banks making applications. Statutory fee ceiling: INR 25 per application.
45 E / general rule	Submitted/furnished credit information is confidential and cannot be published/disclosed outside the Chapter except under an authorised exception. Collection power is not a public right to inspect an individual's credit file.

Primary references / see chapter notes

Credit-information safeguards / continued

Fact anchor	Essential fact / condition
Exceptions / all four	Bank disclosure with prior RBI permission; RBI publication in the public interest in consolidated form without identifying banks/borrowers; inter-bank/customary banking disclosures or disclosures permitted/required by another law; disclosures under the Credit Information Companies (Regulation) Act 2005. The public-interest publication power here belongs to RBI, not an unrestricted commercial-bank discretion.

Information control



NBFC statutory supervision

Fact anchor	Essential fact / condition
Definition /45 I(f)	NBFC includes a financial institution that is a company; a non-bank company principally accepting deposits or lending; and notified other non-bank institutions/classes with previous Central Government approval. The source's 45 I(b) is the wrong reference for this definition.
Registration /45 IA	Obtain RBI registration and meet category-specific net-owned-fund requirements, unless a valid exemption applies. The Act's INR 25 lakh baseline and notification power up to INR 100 crore are statutory architecture, not the current entry requirement for every NBFC category. C 06 covers the actual category/glide-path amounts.
45 IB /45 IC	45 IB: maintain the prescribed percentage of assets for the applicable deposit/liquidity framework.45 IC: reserve fund; ordinarily at least 20% of annual net profit before dividend, subject to statutory exemption conditions.
45 J /45 L /45 M	45 J: control/prohibit deposit-soliciting prospectuses/advertisements.45 L: obtain financial-institution information and issue directions.45 M: non-bank institutions furnish required statements.
45 MA /45 MC /45 N	45 MA: auditors' duties and RBI powers over audit.45 MC: RBI winding-up petition powers.45 N: inspection. A registration certificate is not a blanket deposit-taking permission or an RBI repayment guarantee.

Primary references / see chapter notes

NBFC statutory supervision / continued

Section	Remember the supervisory tool
45 IB /45 IC	Liquid-asset percentage / reserve fund
45 J /45 L	Deposit advertisements / information and directions
45 M /45 MA	Institution statements / auditor duties
45 MC /45 N	Winding-up petition / inspection

Deposits and market powers

Fact anchor	Essential fact / condition
45 S / deposit restriction	Individuals, firms and unincorporated associations cannot accept deposits when their business includes specified financial activities or their principal business is deposit-taking/lending. Statutory relative-loan exceptions apply to individuals/partners' relatives; the rule is not a ban on every family loan. Deposit solicitation advertisements are also restricted.
45 U / derivative	A future-settlement instrument whose value depends on an underlying interest rate, forex rate, credit rating/index, security price or combination. Examples: interest-rate swaps, FRAs, foreign-currency swaps, currency-rupee swaps, foreign-currency options and currency-rupee options, plus notified instruments.
Securities and money markets	Central/State Government securities and specified local-authority securities; for repo/reverse repo, the definition also includes corporate bonds/debentures. RBI has powers over specified derivatives/money-market transactions and to call for information. Not every security becomes a banknote.
45 Y / Joint Committee	For a jurisdictional difference over a hybrid/composite instrument involving money-market, securities, insurance or another component, the statutory mechanism brings together Government, RBI, SEBI, IRDAI and PFRDA representatives. Multiple product features can trigger regulatory coordination.



One product, several rulebooks

Learner: It combines an investment and insurance. Mentor: Identify each component and the statutory regulator. The joint mechanism addresses a regulatory disagreement; a marketing name does not settle jurisdiction.

Primary references / see chapter notes

MPC and general provisions

Fact anchor	Essential fact / condition
IIIF /45 ZA-45 ZO	Government sets the inflation target in consultation with RBI once every five years. MPC determines the policy rate needed to achieve it. The Act covers constitution, appointments, member duties/information, meetings, decisions and published deliberations.
Six-member MPC	Governor chairs; Deputy Governor in charge of monetary policy; one nominated RBI officer; three Central Government-appointed external members. External members serve four years and cannot be reappointed. At least four meetings yearly; quorum four with Governor or, in absence, Deputy Governor.
Decision and transparency	One vote each; Governor has a casting vote on a tie. Members receive relevant RBI information and observe confidentiality/conflict safeguards. Publish the resolution after the meeting and minutes on the fourteenth day; the minutes include votes and member statements.
Dated target /2026-31	The March 2026 notification retained 4% inflation with a 2%-6% tolerance band for 1 April 2026-31 March 2031. A tolerance band is not permission to target 6% instead of 4%.
48 /49 /59	48: RBI income, profits and gains exempt from income-tax/super-tax under the statutory provision.49: publish the standard Bank Rate for buying/rediscounting eligible bills/commercial paper.59: ordinary Companies Act liquidation does not apply; liquidation requires Central Government order and directed procedure.
Chapter V / offence-specific	False information, failure to produce records, unauthorised credit-information disclosure and deposit/registration breaches attract distinct penalties. The source's universal three-year maximum is wrong:45 IA registration contravention under 58 B(4 A) can attract one-five years and fine; certain other deposit/advertisement breaches carry up to three years. Read the specified offence, not one penalty for the whole Act.

The two RBI schedules

Fact anchor	Essential fact / condition
First versus Second	First Schedule specifies four Local-Board territories under section 9. Second Schedule establishes scheduled-bank listings under 2(e)/42,updated by notifications; an old compilation does not provide a reliable current bank count.
Western / printed source wording	Goa, Gujarat, Madhya Pradesh, Maharashtra; the then separately named Dadra and Nagar Haveli, and Daman and Diu. This reproduces the source/compiled statutory wording as a dated legal-text reading.

Primary references / see chapter notes

The two RBI schedules / continued

Fact anchor	Essential fact / condition
Eastern / printed source wording	Arunachal Pradesh, Assam, Bihar, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Sikkim, Tripura, West Bengal; Andaman and Nicobar Islands. Orissa is the historical spelling in that text; today Odisha.
Northern / printed source wording	Jammu and Kashmir, Punjab, Haryana, Himachal Pradesh, Rajasthan, Uttar Pradesh; Chandigarh and Delhi. The source list predates later state/UT reorganisations.
Southern / printed source wording	Andhra Pradesh, Karnataka, Tamil Nadu, Kerala; Pondicherry and Lakshadweep. Pondicherry is today Puducherry. These printed lists must not be mistaken for a complete current administrative map or current RBI regional-office jurisdictions.

BR Act: the foundations

Fact anchor	Essential fact / condition
Evolution	Special banking provisions in the Indian Companies Act 1913 proved inadequate. The comprehensive Banking Companies Act 1949 commenced 16 March 1949 and was renamed Banking Regulation Act with effect 1 March 1966. It extends throughout India.
Structure /1-56	Source: five principal parts, five schedules; lettered insertions add provisions.1-5 A: preliminary;6-36 A: business, management, prudential, accounts/licensing/RBI powers;36 AA-36 AJ: intervention/acquisition;37-45: suspension, winding-up/amalgamation;45 A-45 X: special winding-up procedure;45 Y-45 ZF: records/nomination;46-55 A: miscellaneous penalties, applications/exemptions;56: cooperative-bank modifications.
Purposes / full source set	Define banking; restrict unauthorised demand-deposit banking and trading; prescribe capital/dividend safeguards; cover foreign-incorporated banking companies; licence banks/branches; standardise accounts and returns; enable RBI inspection; protect depositors through intervention, emergency support and more effective liquidation procedures.
Section 3 / current exclusion	Primary agricultural credit societies and cooperative societies primarily providing long-term agricultural-development finance are outside the specified banking application when they satisfy statutory conditions, including not using bank/banker/banking and not acting as drawee of cheques. The source's old land-mortgage-bank label alone is insufficient.
5(b) /5(c)	Banking: public deposits for lending/investment, repayable on demand or otherwise, withdrawable by cheque/draft/order/otherwise. Banking company: company transacting banking in India. A manufacturing/trading company taking money merely to finance its own business is not thereby a banking company. Additional section 6 services are distinct from the core definition.

Primary references / see chapter notes

BR Act: the foundations / continued

Fact anchor	Essential fact / condition
5(cc) / branch	Any pay office, sub-pay office or other office at which deposits are received, cheques cashed or money lent, whatever its name. Marketing a place under another name does not remove the definition.

Section 6: financial business

Fact anchor	Essential fact / condition
Funding and credit	Borrow/raise money; secured or unsecured lending/advances; negotiate loans/advances. A bank can lend without collateral when permitted and prudently appraised.
Instruments / complete source list	Draw, make, accept, discount, buy, sell, collect or deal in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments/securities, whether negotiable/transferable or not.
Payments and forex	Letters of credit, travellers' cheques and the statutory currency-note business wording; buy/sell bullion, specie and foreign exchange, including foreign banknotes. This does not give commercial banks RBI's exclusive banknote-issue power or a right to print legal tender.
Investment and custody	Acquire/hold/issue on commission/underwrite/deal in stock, funds, shares, debentures, debenture stock, bonds, obligations and investments; buy/sell securities for customers; receive bonds, scrips and valuables for safe custody; provide safe-deposit vaults; collect/transmit money and securities.
Agency, issues and guarantees	Act for Government, local authorities or other persons within agency restrictions; contract/negotiate/issue public or private loans; participate in and manage state, municipal or corporate security issues; related issue financing, underwriting, guarantees and indemnities.
Claims, security and trusts	Manage, sell or realise property received to satisfy claims; acquire/hold/deal with property/rights forming loan security; undertake and execute trusts. Actual sector regulation/approvals still govern how a permitted line of business is conducted.

Sections 6-9: scope and limits

Fact anchor	Essential fact / condition
Estates and employee welfare /6(i)-(j)	Administer estates as executor/trustee; support employee/ex-employee associations, institutions, funds, trusts and dependants; pensions, allowances, insurance support and charitable/benevolent/public-useful contributions.

Primary references / see chapter notes

Sections 6-9: scope and limits / continued

Fact anchor	Essential fact / condition
Own assets and acquisitions /6(k)-(m)	Construct, maintain or alter own-use buildings/works. Sell, improve, manage, develop, exchange, lease, mortgage or dispose of the company's PROPERTY/RIGHTS under 6(l); acquire another business when its nature is permitted under 6. The source incorrectly makes 6(l) a general right to conduct any outsider's business.
Incidental / notified /6(n)-(o)	Things incidental/conducive to the bank's business; other government-notified lawful business. Leasing and factoring are notified examples, subject to the applicable conditions.
Section 7 / naming	Banking companies use bank/banker/banking; unauthorised companies/firms/persons cannot use restricted words to imply banking. Specified bank subsidiaries with identifying names and mutual-interest bank associations have statutory exceptions. Naming compliance alone is not a licence.
Section 8 / trading	Generally no buying/selling/bartering goods or trading for self/others. Exceptions include realising security, collection/negotiation bills, permitted estate administration and notified 6(1)(o)business. Money, bullion, securities and specified instruments are excluded from goods for this section.
Section 9 / immovable property	Non-own-use immovable property normally must be disposed of within seven years; RBI may extend by up to five more years in depositors' interests. Own-use premises are excepted. Distinguish property taken in recovery from property used for the bank's office.

Recovered property decision



Management and governance

Fact anchor	Essential fact / condition
Section 10 / employment	No managing agent. Bar employment of adjudicated insolvents/persons who suspended payment or compounded creditors, or convictions involving moral turpitude. RBI can object to excessive remuneration.
Commission / profit pay	Restriction on staff remuneration by commission/profit share has exceptions for permitted bonuses and contracted non-regular staff such as brokers/auctioneers. It is not a prohibition on every lawful performance bonus or agency commission.

Primary references / see chapter notes

Management and governance / continued

Fact anchor	Essential fact / condition
Person managing the company	Restrictions on other-company directorships, another vocation and terms over five years apply to the managing role, not indiscriminately to every employee. Subsidiary/non-profit directorship exceptions and permitted temporary periods apply; renewal can be for further periods of at most five years under the statutory terms.
10 A / board expertise	At least 51% of directors require specified knowledge/practical experience: accountancy, agriculture/rural economy, banking, cooperation, economics, finance, law, small-scale industry or other useful fields. At least two from agriculture/rural economy, cooperation or SSI; relevant conflict restrictions also apply.
10 B / chair and management	A whole-time chair manages affairs under Board superintendence/control. A permitted part-time chair arrangement must have a managing director managing the bank; therefore every bank must always have a whole-time chair is too broad. The chair is a director.
16 / common directors	Ordinary rule prohibits a director common to two banking companies, subject to statutory exemptions. The 2025 amendment permits the specified central-cooperative-bank/state-cooperative-bank overlap; do not treat all inter-bank directorships as freely permitted.
Dated governance changes /2025	Substantial-interest money threshold rose from INR 5 lakh to INR 2 crore. Cooperative directors other than chair/whole-time directors can serve up to ten years instead of eight; ordinary banking-company tenure rules were not universally changed to ten.

Capital and statutory reserves

Fact anchor	Essential fact / condition
Section 11 / statute versus licence	Source statutory INR 5 lakh capital-plus-reserves threshold for specified Indian banks established after 16 September 1962 differs from amounts for other place/type/foreign-bank cases. Modern licensing capital is much higher. Do not apply 5 lakh as the current universal-bank entry requirement.
Section 12 / capital ratios	Subscribed capital at least 50% of authorised; paid-up at least 50% of subscribed. With authorised INR 100,subscribed must be at least 50 and paid-up at least 25 if subscribed is 50. These are capital-subscription ratios, not CRAR.
Shares and votes / source repaired	Equity plus permitted preference shares can form capital following the 2012 amendment; equity-only is outdated. A shareholder's voting-right ceiling is 26% under RBI's 2016 notification, not the source's 10%. Ownership limits and acquisition approvals remain separate.

Primary references / see chapter notes

Capital and statutory reserves / continued

Fact anchor	Essential fact / condition
Section 15 / dividend	Write off capitalised expenses such as preliminary/organisation costs, share-selling commission, brokerage, losses and non-tangible expenditure before dividend. Statutory exceptions cover specified investment depreciation and bad debts where accounting/provision conditions are satisfied; it is not an unrestricted ban until every asset value stops falling.
Section 17 / reserve transfer	Statutory minimum 20% of annual profit before dividend. RBI's commercial-bank directions require at least 25% of net profit before appropriations for their applicable bank scope. Do not confuse this transfer with CRR/SLR or assume the statutory 20% overrides a higher RBI direction.
Exemption and appropriation	Government exemption on RBI recommendation requires reserve fund plus share premium at least equal paid-up capital and an appropriate order; reaching the threshold does not automatically stop transfers. Source's blanket no-use-until-capital statement is incorrect. Appropriation is subject to required RBI approval; report it within 21 days with reasons, subject to RBI extension/condonation.

Assume net profit INR 100 crore	Transfer before dividend
Statutory 20% minimum	INR 20 crore
Applicable RBI 25% requirement	INR 25 crore; use higher binding requirement

Cash, subsidiaries and loans

Fact anchor	Essential fact / condition
Section 18 / non-scheduled banks	Maintain the prescribed cash reserve in India on a daily basis through permitted own cash, RBI current balance or eligible net current-account balances. Source alternate-Friday reference is superseded by the 2025 calendar reporting amendments. Scheduled banks' RBI cash-reserve duty instead follows RBI Act 42.
Section 19 / subsidiaries	Allowed purposes: permitted section 6 business; banking exclusively outside India with prior written RBI permission; other useful/public-interest business RBI allows with prior Central Government approval. Thus subsidiaries are conditionally permitted, not universally forbidden.
Section 20 / own shares	No loan/advance against security of the bank's OWN shares. This differs from a permitted loan against another issuer's shares under prudential limits.

Primary references / see chapter notes

Cash, subsidiaries and loans / continued

Fact anchor	Essential fact / condition
20 / connected borrowers	Restrictions cover bank directors; firms where a director is partner, manager, employee or guarantor; specified companies with director connections/substantial interest, including relevant holding/subsidiary links; individuals for whom a director is partner/guarantor. Statutory company exceptions include the bank's subsidiary, section 8/non-profit and government companies as specified.
Section 21 / directions	RBI can direct advances' purposes, margins, maximum exposure to one borrower and rates/other terms. Banks must comply; a customer's request or local business practice does not waive the direction.

Licensing and intervention

Fact anchor	Essential fact / condition
22 /23 / entry and branches	A banking company needs an RBI licence; applying in writing is not a guarantee of grant. New places of business and location changes follow section 23 and category-specific general/prior permissions. Movement within the same city/town/village has statutory treatment distinct from moving elsewhere; overseas branches also require the relevant approvals.
Temporary branch exception	A temporary office for at most one month at an exhibition, conference, mela or similar occasion is excepted where the bank already has a place of business in that city/town/village. It is not a permanent branch-opening exemption.
24 / SLR	Qualifying cash, gold or unencumbered approved securities against the prescribed liability base; notified percentage cannot exceed 40%. The old 25% statutory minimum was removed. Dated October 2026 requirement 18% is separate from the ceiling and from CRR.
26 /26 A / unclaimed money	Section 26: return to RBI within 30 days after calendar-year end for accounts not operated for ten years. Section 26 A: transfer qualifying ten-year inoperative/unclaimed amounts to DEAF within three months after the prescribed ten-year point. A depositor's claim is not extinguished by transfer; the bank handles the claim/refund process.
35 /35 A	RBI can inspect books/accounts on its own or government direction and scrutinise affairs; officers must produce information/cooperate.35 A enables binding directions for public/banking-policy interests, depositor protection and proper management.
35 AA /35 AB / chronology repaired	Inserted in 2017,not invoked for the 2015 AQR. Under 35 AA, Central Government authorisation enables RBI directions to initiate IBC 2016 proceedings for specified defaults;35 AB concerns stressed-asset resolution directions. They do not provide unrestricted generic insolvency-filing authority for every borrower.

Primary references / see chapter notes

Licensing and intervention / continued

Fact anchor	Essential fact / condition
36 ACA / commercial-bank board	RBI, in consultation with Central Government and for recorded statutory reasons, can supersede a banking company's Board initially for up to six months, total extension at most twelve months. Appoint an administrator experienced in law, finance, banking, economics or accountancy. Cooperative-bank provisions have their own modified framework.

Nomination and cooperatives

Fact anchor	Essential fact / condition
Nomination / identify the section	45 ZA: deposits.45 ZC: articles in safe custody.45 ZE: safe-deposit lockers. Nomination facilitates payment/delivery/access after the relevant holder's death; joint-deposit nomination operates after all joint depositors' deaths under the applicable framework.
From 1 November 2025	Up to four nominees. Deposits: simultaneous percentage allocations totalling 100%,or successive nomination in priority order. Safe-custody articles/lockers: successive nomination, not percentage-wise division among simultaneous nominees. The source's one-nominee ceiling is superseded.
Discharge and title	Payment in accordance with nomination discharges the bank's deposit liability; lawful article delivery/locker access similarly facilitates settlement. Nomination does not by itself settle every inheritance/beneficial-ownership dispute among legal heirs.
Part IV /49 A	Restrictions on deposits withdrawable by cheque apply to unauthorised persons. Statutory permission covers banking companies, RBI, SBI and other government-notified banking institutions/persons as specified. Read the list rather than treating any business accepting money as authorised banking.
Part V /56 / cooperative banks	The 1965 banking amendment brought specified cooperative banks into RBI banking regulation from 1 March 1966. Registration/cooperative matters involve the relevant State/Central registrar; banking licensing/regulation rests with RBI. The 2020 amendment strengthened RBI governance/supervisory powers, so an absolute all-management-is-only-State statement is outdated.

Claim type	Current nomination choice
Bank deposits	Up to 4; simultaneous(total 100%) OR successive
Articles in safe custody	Up to 4; successive
Safe-deposit lockers	Up to 4; successive

Primary references / see chapter notes

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	RBI began operations and became government-owned, respectively, in: A. 1934 and 1935; B. 1935 and 1949; C. 1949 and 1969; D. 1933 and 1934 **Answer B.** Operations began 1 April 1935; nationalisation 1 January 1949.
Q 02	Central-Board minimum meetings are: A. 4/year only; B. 6/year and at least 1/quarter; C. 1/year; D. 12/year **Answer B.** Both annual and quarterly conditions must be satisfied; MPC is a different body.
Q 03	A bank's authorised capital is 100 and subscribed capital 60. Minimum paid-up under the 50% subscription rule is: A. 25; B. 30; C. 50; D. 60 **Answer B.** Paid-up must be at least 50% of actual subscribed 60,so 30;25 applies only if subscribed is 50.
Q 04	Which is correct after 1 November 2025? A. All accounts/lockers have only one nominee; B. Lockers allow four simultaneous percentage shares; C. Deposits allow up to four simultaneous or successive nominees; D. Nominees always override succession law **Answer C.** Deposits can use either mode; articles/lockers use successive nomination. Bank discharge differs from inheritance title.
Q 05	The source's 25% minimum SLR claim is: A. An unchanged statutory floor; B. Superseded; the old floor was removed; C. A requirement to keep 25% cash with RBI; D. The maximum SLR ceiling **Answer B.** SLR has a 40% statutory ceiling; the dated October 2026 notified level is 18%.

Reference desk / read the date

Primary reference	Primary reference
India Code / RBI Act (read with later amendments)	IFSCA / BR Act reference text (read with updates)
RBI / legal foundations and functions	RBI / current board composition
PIB / Banking Laws 2025 changes	RBI /23 October 2026 reserve-ratio readings
RBI / statutory reserve directions 2025	RBI Deputy Governor /2026-31 inflation target
Supreme Court /35 AA scope and 36 ACA text	RBI / monetary-policy framework
RBI / Burma and Pakistan chronology	Checked 25 October 2026

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. RBI Act assent was 6 March 1934; operations began 1 April 1935.	**15.** INR 2000 withdrawal from circulation did not itself end legal tender.
02. RBI became state-owned on 1 January 1949.	**16.** RBI Act 42 governs scheduled-bank CRR.
03. RBI statutory capital under section 4 is INR 5 crore.	**17.** RBI Act 45 I(f) gives the NBFC definition.
04. Section 2(e) defines a scheduled bank.	**18.** 45 IA concerns NBFC registration and NOF.
05. Central Board has Governor, up to 4 DGs,4 local,10 other and 2 government officials.	**19.** 45 E credit-information confidentiality has specified exceptions.
06. Governor/DG appointment terms cannot exceed five years at a time.	**20.** MPC has six members and meets at least four times/year.
07. Each of four Local Boards has five members.	**21.** Bank Rate publication falls under RBI Act 49.
08. Central Board meets at least six times/year and once/quarter.	**22.** BR Act commenced 16 March 1949.
09. RBI Act 17 permits specified central-banking business.	**23.** BR Act 10 A requires 51% board expertise composition.
10. Section 19 restrictions must be read with express statutory permissions.	**24.** BR Act 12 requires subscribed 50% of authorised and paid-up 50% of subscribed.
11. Section 20 covers Union government banking;21 A State agreements.	**25.** Bank voting-right ceiling is 26%,distinct from ownership approvals.
12. RBI issues banknotes; Government issues INR 1 notes and coins.	**26.** Section 17 statutory profit transfer is 20%; applicable RBI direction can require 25%.
13. Section 24 denomination authorisation is not a current issue list.	**27.** 35 AA/35 AB were inserted in 2017,not for 2015 AQR.
14. Section 26 concerns legal-tender status.	**28.** From 1 November 2025,deposit nomination permits up to four nominees.

Primary references / see chapter notes

DFIs: fill the long-term funding gap

Fact anchor	Essential fact / condition
Why a DFI?	A development financial institution supplies longer-term finance and development support where ordinary short-term banking/capital markets do not adequately meet productive investment needs. Direct finance reaches a project/enterprise; refinance supplies an intermediary that lends onward.
Early institutions /1948-1964	IFCI 1948; State Financial Corporations under the 1951 Act; ICICI 1955; LIC 1956; Refinance Corporation for Industries 1958,later taken over by IDBI; Agricultural Refinance Corporation 1963,precursor to ARDC/NABARD; UTI and IDBI 1964. Formation, Act and commencement years must be distinguished.
Sector expansion /1969-1972	REC 1969 and HUDCO 1970; Industrial Reconstruction Corporation of India 1971,predecessor in the later IRBI/IIBI lineage; GIC 1972. Insurance/investment institutions supported long-term resources but are not identical to an industrial term-lending DFI.
1980s institutions	NABARD Act 1981,established 12 July 1982; EXIM Act 1981,operations March 1982; SCICI 1986,merged into ICICI 1997; PFC and IRFC 1986; IREDA 1987; RCTC/TDICI 1988,later IFCI Venture/ICICI Venture identities; NHB 1988; TFCI 1989.
1990 onward	SIDBI Act 1989,operations 2 April 1990; IDFC 1997; NaBFID 2021. The source incorrectly substitutes the Act year for NABARD/SIDBI operations. These dates describe institution-building, not proof each historical entity remains separate today.
RBI legal evolution	The 1963 banking-law amendment introduced the relevant non-bank framework, operative in 1964;1974 amendments refined the financial-institution definition under 45 I(c). Calling IIIB newly inserted only in 1974 is misleading.
Refinance and supervision	SIDBI, NABARD and NHB provide development/refinance support, but their mandates differ. NABARD inspects specified rural banks; RBI regulates HFCs after the 2019 transfer, while NHB retains relevant supervisory/development work. Refinance does not automatically confer a general regulator's powers on every DFI.

Two funding routes



Primary references / see chapter notes

Four gaps and the development objectives

Fact anchor	Essential fact / condition
Gap 1 / maturity	Commercial banks historically emphasised trade/industry working capital. Long-gestation industrial projects needed longer funding. Financing a ten-year asset entirely with short deposits creates refinancing/maturity risk.
Gap 2 / confidence	Misuse of funds, speculation and manipulation weakened capital-market investor confidence. DFI appraisal, underwriting and institutional finance helped address funding constraints; public sponsorship does not eliminate project risk.
Gaps 3 and 4 / risk and intermediation	Managing-agency houses were reluctant to support risky ventures; few issue houses/underwriters supported securities issues. Emerging enterprises could therefore struggle to build equity and mobilise debt.
Growth and priorities	Accelerate economic growth; support industry, agriculture and international trade; channel resources to priority sectors; promote private industrialisation, production and employment.
Inclusion and capacity	Develop entrepreneurs, rural areas, housing, small-scale industry, infrastructure and social utilities; foster public-private partnerships. Finance and capability-building work together.
Planning and coordination	Identify industrial gaps; plan/promote/develop projects; coordinate institutions financing or promoting industry, agriculture and trade. Reduce duplication rather than merely create another lender.
Promotional assistance	Stimulate project ideas, conduct feasibility studies and provide technical, financial and managerial support for implementation. This development role differs from simply sanctioning a loan.



A viable bridge needs more than a loan

Learner: Is the money enough? Mentor: A long-life project also needs sound design, approvals, feasibility, monitoring and a repayment plan matched to its cash flows.

DFI classification and historical resources

Fact anchor	Essential fact / condition
Development banks / historical map	IFCI, IDBI, ICICI, SCICI, SIDBI and NaBFID. The source classification is functional/historical: ICICI and IDBI subsequently became banking entities; SCICI merged.

Primary references / see chapter notes

DFI classification and historical resources / continued

Fact anchor	Essential fact / condition
Other three categories	Specialised FIs: EXIM, NABARD, TFCI, TDICI. Investment institutions: LIC, UTI. State-level FIs: SFCs and State Industrial Development Corporations (SIDCs). A category tree is not a current licence roster.
Term-lending role	New units, expansion, modernisation, diversification and rehabilitation across industries. The source's usual tenor up to ten years with an initial moratorium describes historical practice, not a universal maturity cap. A mortgage/charge on fixed assets commonly secured assistance.
Concessional resource model	Government equity and preferential market access; multilateral funding lines; RBI National Industrial Credit (Long-Term Operations) resources; SLR-eligible/tax-saving bonds; channels involving capital gains and investment-allowance reserves. These are historical supports, not a list of concessions every DFI can claim today.
Other funding channels	Tax-law provisions helped mobilise medium/long-term funds; permitted external commercial borrowings could be intermediated for on-lending. Eligibility, foreign-exchange rules and the relevant vintage matter.
Diversification / caution	Serving different industries can diversify exposures, but does not ensure a well-diversified or safe portfolio automatically. Correlated projects, funding risk and weak appraisal can still cause losses.

Funding/asset distinction	What it means
Equity or borrowings	Resources on the institution's liability/capital side
Direct project loan	DFI has the enterprise exposure
Refinance	DFI funds a primary lender's eligible portfolio
Moratorium	Specified repayment deferment, not a waiver

IFCI: origin and financial assistance

Fact anchor	Essential fact / condition
Origin	Established 1 July 1948 under the Industrial Finance Corporation Act 1948 as India's first DFI. Supported industry/infrastructure and projects in manufacturing, services, agriculture and allied activities.
Corporate change	Following liberalisation, converted from a statutory corporation to a Companies Act 1956 company in 1993 to improve capital-market access. Renamed IFCI Limited from October 1999. A change of legal form does not erase the original 1948 establishment.

Primary references / see chapter notes

IFCI: origin and financial assistance / continued

Fact anchor	Essential fact / condition
Historical authorised capital	Initial INR 10 crore. The 1986 amendment enabled authorised capital up to INR 250 crore, subject to government notification; it did not mean every rupee was paid up immediately. These are historical figures, not current IFCI capital.
Project finance	Greenfield/new projects and expansion, diversification, modernisation/balancing of existing projects. Medium/long-term rupee or foreign-currency loans; subscription/underwriting of shares/debentures; guarantees for loans and deferred payments.
Fund-based catalogue	Equipment finance/credit/leasing; supplier/buyer credit; assistance involving leasing/hire-purchase concerns; working-capital term loans, short-term loans, equipment procurement and instalment credit. Tailor assistance to the corporate need; these are source-era service descriptions, not current product promises.
Fee-based / development branches	Guarantees and letters of credit generate contingent commitments/fees rather than an immediate funded loan. The source activity tree separates financing from promotional activities; advice, appraisal and institutional support complement credit.

Project cash-flow check



IFCI: advisory services and foreign investors

Fact anchor	Essential fact / condition
Five advisory areas	Projects; infrastructure; corporate finance; investment banking; corporate restructuring. The objective is to design and implement a viable financing/transaction structure.
Six customised assignments	Investment appraisal, corporatisation, disinvestment, business restructuring, bid-process management and joint-venture formation. Corporatisation changes legal/organisational form; disinvestment changes an ownership stake.
Foreign-business entry support	Information services, startup office infrastructure and coordination for approvals/clearances from government departments, regulators and statutory agencies. Assistance is not an exemption from required approval.

Primary references / see chapter notes

IFCI: advisory services and foreign investors / continued

Fact anchor	Essential fact / condition
Operating inputs	Information on local markets, materials, manpower and available manufacturing facilities; capital syndication; research on tax incentives, tariff protections and acquisition/merger/amalgamation opportunities.
Exam distinction	A term loan supplies funds; underwriting supports a security issue; a guarantee creates a contingent obligation; advisory work supplies expertise. The same institution can undertake more than one permitted role.

ICICI: from project finance to universal banking

Fact anchor	Essential fact / condition
1955 institution	Established with World Bank, Government of India and Indian-industry initiative for medium/long-term project financing. Emerging private enterprises often lacked adequate equity and access to underwriting/capital markets. Earlier IFCI/SFC emphasis on lending did not exhaust their legal underwriting powers.
Business evolution	Project finance dominated through the late 1980s. Liberalisation in the 1990s encouraged diversification through subsidiaries/group companies and a wider product/client range as India became more market-oriented and internationally integrated.
1994 and 1999	ICICI Bank was incorporated as part of the group in 1994. ICICI's 1999 NYSElisting was the first Indian-company listing and first non-Japan-Asian bank/financial-institution listing as identified by its own institutional history. Keep the issuer and market precisely identified.
Why universal banking?	Low-cost demand-deposit access, a broader product range, payments/transaction banking and fee/commission income complemented project lending. Conversion also brought banking reserve, capital and regulatory requirements; deposits were not free money.
2002 merger / two dates	ICICI and the relevant retail-finance subsidiaries merged with ICICI Bank, integrating wholesale/retail financing and banking. Indian-GAAP appointed/effective date 30 March 2002; High Court/RBI approvals followed in April 2002. An unrestricted first-universal-bank claim is not needed to explain this verified transition.

ICICI chronology

1955 / DFI → **1994 / bank subsidiary** → **1999 / NYSE** → **2002 / integration**

Primary references / see chapter notes

ICICI: objectives and historical assistance

Fact anchor	Essential fact / condition
Industrial objectives	Permanent/long-term funds for non-public-sector enterprise creation, growth and modernisation; private industrial ownership and market expansion; equipment finance and rehabilitation of industrial units.
Core functions	Medium/long-term loans and equity participation; sponsor/underwrite shares and other securities; guarantee loans from other lenders. Pre-investment advice covers government policies/procedures, feasibility, joint-venture search and specified policy issues for Central/State governments.
Source image / funding	Underwrite industrial-bond public issues/offers for sale; directly subscribe to securities; historical rupee loans repayable up to fifteen years; foreign-currency loans for imported capital equipment and technical services. A historical fifteen-year facility is not a current universal tenure.
Source image / other assistance	Guarantee credit provided by other FIs; credit to manufacturers selling industrial equipment on deferred-payment terms; leasing and instalment-sale finance. These seven image points have been rebuilt rather than pasted.
Merchant/advisory work	The historical Merchant Banking Division advised on suitable financing, financial restructuring, amalgamations, FI/bank proposals and negotiation of loan/underwriting support. It managed capital issues and public-issue/loan legal formalities; NRI industrial-investment counselling was an additional service.

Service	Risk/claim distinction
Equity subscription	Ownership capital and enterprise risk
Loan	Contractual debt repayment
Guarantee / underwriting	Specified contingent commitment
Pre-investment advice	Feasibility/policy expertise, not a funding guarantee

ICICI: institution-building and historical subsidiaries

Fact anchor	Essential fact / condition
Risk capital and market infrastructure	Venture-fund activity supported greenfield projects/risk capital. ICICI participated with other FIs in SHCIL, CRISIL and the OTC Exchange of India. Stock holding, ratings and trading platforms serve different market functions.

Primary references / see chapter notes

ICICI: institution-building and historical subsidiaries / continued

Fact anchor	Essential fact / condition
Brokerage / source-era identity	ICICI Brokerage Services began in the 1990s under I-SEC, with brokerage operations/stock-exchange participation. The exact incorporation/commencement pair is kept out where a primary match was not established; do not confuse a former brokerage subsidiary with today's complete group structure.
Retail finance	ICICI Credit later operated under the ICICI Personal Financial Services name, offering retail products. ICICI PFS and ICICI Capital Services were among the subsidiaries integrated in the 2002 merger.
Capital Services	Originated as SCICI Securities, an SCICI subsidiary; institutional broking, underwriting, primary-market placement/distribution and industry/company research. Later ICICI ownership is a historical succession, not evidence SCICI remains an independent present DFI.
Housing and credit ratings	ICICI helped promote HDFC for long-term home purchase/construction finance, including middle/lower-income households. HDFC Ltd later merged into HDFC Bank in 2023. CRISIL was promoted with institutional partners including UTI to provide corporate credit ratings; a rating is an opinion on credit risk, not a repayment guarantee.

IDBI: apex coordination and historical resources

Fact anchor	Essential fact / condition
Origin /1 July 1964	Established as a wholly RBI-owned DFI to coordinate development-finance institutions, supplement resources and fund viable nationally important projects with limited institutional access. Overlap/duplication and large project needs motivated the apex role.
Ownership milestones	Transferred to Central Government 16 February 1976.1994 amendments allowed public participation up to 49%; the 1995 IPOraised over INR 2000 crore and reduced government ownership to about 72%. Conversion/redemption of part of government equity as preference capital in 2000-01 reduced its equity share to about 58% (58.47% at end-March 2001 in its report). These are dated historical shares.
Authorised capital / historical	Original INR 50 crore;1994 framework increased it to INR 2000 crore with power for a further increase to INR 5000 crore. Borrowings from Government, RBI and other FIs supplemented share capital. Authorised capacity differs from actual capital/resources raised.

Primary references / see chapter notes

IDBI: apex coordination and historical resources / continued

Fact anchor	Essential fact / condition
Coordination and refinance	Coordinate industrial-term-lending institutions; refinance FIs and scheduled banks providing medium/long-term industrial loans. Direct lending and refinancing are complementary funding routes.
Technical role / eligible industry	Technical/administrative assistance, market surveys and techno-economic studies; direct credit for manufacturing, preservation/processing, mining, hotels, fishing, shipping/transport, power generation/distribution and other eligible concerns.
All source scheme names	Direct Assistance; Soft Loans; Technical Development Fund; Refinance Industrial Loans; Bill Rediscounting; Seed Capital Assistance; Overseas Investment Finance; Development Assistance Fund. The following sections explain the source's principal mechanisms.
Later transition	IDBI's apex-DFI period ran to 30 September 2004; banking-company operations followed. Its historical mandate and today's banking-company status must not be conflated.

IDBI: direct finance and modernisation schemes

Fact anchor	Essential fact / condition
Direct versus indirect	Direct assistance reaches an industrial concern through project, soft-loan, technical-development or rehabilitation finance. Indirect assistance refinances/rediscounts eligible intermediaries' assets; the enterprise does not thereby become IDBI's direct borrower.
Project finance	Project loans, subscription/underwriting of shares/debentures and loan/deferred-payment guarantees for new projects, expansion, modernisation and renovation.
Backward-area development	A 1969 historical scheme offered lower rates/longer repayment for eligible small/medium units in backward areas. Collaboration with IFCI/ICICI expanded concessional support; exact unreconciled legacy amount ceilings are itemised in the audit.
Soft Loan Scheme /1976	Modernisation support for selected cement, cotton textiles, jute, sugar and engineering industries, with IFCI/ICICI participation. Soft refers to concessionary terms, not a grant or an automatic waiver.
Technical Development Fund	Government's 1976 TDFsupported import licences for small-value balancing equipment, technical know-how, foreign consultancy, drawings and designs to improve capacity use, technology and exports. IDBI's 1977 matching-rupee-loan scheme helped eligible units use those import licences.

Primary references / see chapter notes

IDBI: direct finance and modernisation schemes / continued

Fact anchor	Essential fact / condition
Industrial rehabilitation	Sickness harms output, employment, income and resource utilisation. The historical refinance-rehabilitation route supported eligible sick units financed by SFCs/SIDCs. Rehabilitation requires a viable turnaround plan; additional credit alone is not proof of viability.



Machine finance or refinance?

Learner: Who receives the DFI money? Mentor: A direct loan funds the enterprise. Refinance funds its lender. Trace that first payment before choosing the category.

IDBI: refinance, bills and seed capital

Fact anchor	Essential fact / condition
Eligible refinance network	Refinance industrial term loans for new projects, expansion, modernisation and diversification. Source institutions: commercial banks, RRBs, State Cooperative Banks, SFCs, SIDCs and other eligible term-lending bodies.
Machinery bills /1965	The buyer accepts the machinery seller's bill/promissory note, payable in instalments. Seller discounts it with a bank; bank rediscounts with IDBI. This releases the seller's funds while the buyer repays over time. The scheme also extended to expansion/diversification.
Seed capital /1976	Assist first-generation entrepreneurs with skills but insufficient financial resources/promoter contribution. Seed support, working-capital refinance and machinery-bill rediscounting address different bottlenecks.
Worked distinction	If a bank discounts a machinery bill of face value 100 for 94,the seller receives 94 now. IDBI rediscounting then funds the bank, not a second payment of 100 to the seller. Actual discount, recourse, maturity and eligibility follow the scheme.

Machinery-bill finance

Buyer accepts bill → **Seller discounts at bank** → **Bank rediscounts at DFI** → **Buyer pays on maturity**

Primary references / see chapter notes

SIDBI: MSME finance and development

Fact anchor	Essential fact / condition
Constitution and start	SIDBI Act 1989; operations began 2 April 1990 as an IDBI subsidiary, taking over its small-scale portfolio/activities. Principal FI for promotion, financing, development and coordination of the small-scale/MSME sector.1989 is the Act year, not the operations year.
Functions / credit	Direct and indirect finance; refinance Primary Lending Institutions (PLIs); discount/rediscount bills; support factoring/leasing and timely working-capital/term-credit flows with banks.
Functions / development	Expand domestic/international marketing channels; promote employment-oriented enterprises, particularly semi-urban opportunities that reduce distress migration; support modernisation and technology upgrades.
Direct finance menu	Working-capital assistance, term loans, foreign-currency loans, receivable finance, equity support and energy-saving finance under eligible schemes. Product purpose must match the enterprise's need and repayment capacity.
Indirect finance menu	Refinance banks/state-level institutions and other eligible lenders to strengthen their resources for onward MSME lending. Microfinance support reaches small entrepreneurs through appropriate institutional channels as well as applicable direct routes.

SIDBI refinance route



SIDBI: source-era direct schemes / I

Fact anchor	Essential fact / condition
Read the date first	The following terms rebuild the historical source table, with verified corrections; they are not an offer or current 2026 eligibility sheet. SIDBI's FY 2023-24 report records rationalising SPEED PLUS, PRATHAM, ARISE and others into SPEED. COVIDschemes belong to their emergency period.
SMILE	SIDBI Make in India Soft Loan Fund for MSMEs: minimum INR 10 lakh for equipment finance and INR 25 lakh for other loans. Historical repayment up to ten years INCLUDING up to three years' moratorium; do not add three years to ten.
SEF	SMILE Equipment Finance: historical minimum INR 10 lakh; repayment up to 72 months.72 months equals six years, not 72 years.

Primary references / see chapter notes

SIDBI: source-era direct schemes / I / continued

Fact anchor	Essential fact / condition
OEM partnership	Equipment finance under Original Equipment Manufacturer partnerships: normally up to INR 1 crore and up to five years in the source-era table; official scheme material allowed higher assistance under Bank guidelines. The normal figure is not an unconditional hard maximum for every case.
Cash credit	Working-capital amount depends on financial appraisal; tenure/renewal follows facility terms. Cash credit is not the same as a fixed five-year equipment instalment loan.
SPEED	Loan for Purchase of Equipment for Enterprise's Development: historical up to 100% machinery cost, maximum INR 1 crore new-to-bank and INR 2 crore existing; two-five years INCLUDING three-six months' moratorium.
SPEED PLUS	Historical high-end machinery variant: up to 100% cost, maximum INR 2 crore new-to-SIDBI and INR 3 crore existing; two-five years INCLUDING three-six months' moratorium. Compare customer category before selecting the amount.

SIDBI: source-era direct schemes / II

Fact anchor	Essential fact / condition
TULIP	Top Up Loan for Immediate Purposes: source-era quantum 30% of existing exposure or 20% of net sales, subject to INR 2 crore maximum. Up to five years INCLUDING up to six months' moratorium. Compare the prescribed measures; the wording does not permit adding both amounts together.
STAR	SIDBI Term-Loan Assistance for Rooftop Solar PV Plants: historical INR 10 lakh-INR 2.5 crore; up to five years INCLUDING three-six months' moratorium. INR 2.5 crore equals INR 250 lakh.
SAFE / COVID-period	SIDBI Assistance to Facilitate Emergency Response against Coronavirus: original table up to INR 50 lakh; term loan up to five years. It supported eligible pandemic-related production/services; do not present it as an evergreen open application window.
SAFE PLUS / COVID-period	Historical table up to INR 100 lakh (INR 1 crore); revolving working-capital drawals repayable over a four-month cycle linked to government orders. Four months and four years are different.
TWARIT / original COVID framework	Timely Working Capital Assistance to Revitalise Industries in Times of Corona Crisis: original additional credit 20% of eligible outstanding facilities as at 29 February 2020; original eligible combined-outstanding ceiling INR 25 crore, with other eligibility conditions. Thus 25 crore was an eligibility/base ceiling, NOT automatically the fresh-loan cap. At an eligible 25 crore base,20%=5 crore.

Primary references / see chapter notes

SIDBI: source-era direct schemes / II / continued

Fact anchor	Essential fact / condition
TWARIT tenure	Historical repayment up to four years INCLUDING one-year principal moratorium. Later ECLGS versions changed coverage; a source-era threshold cannot be mixed with another version's limit or represented as a live 2026 scheme.

Historical arithmetic	Correct result
STAR 2.5 crore	250 lakh
SAFE PLUS 100 lakh	1 crore
TWARIT 20% x 25 crore base	5 crore additional credit in the original illustration
10 years including 3 moratorium	10 total, not 13

SIDBI: intermediaries and responsible micro-lending

Fact anchor	Essential fact / condition
Refinance partners	Banks, RBI-registered NBFCs and small finance banks provide MSME credit with institutional resource support. Funding a lender differs from directly financing its individual borrowers.
SFB support / source repair	Refinance strengthens SFB resources for eligible onward credit. A refinance loan is debt funding; it does not itself increase paid-up equity merely because the source calls the purpose strengthening the equity/resource base.
Micro-Lending Development	Build institutional capability to deliver appropriate small financial services to economically weaker households/entrepreneurs.
Responsible Finance Initiatives	Promote cooperation, appropriate conduct and responsible lending. Loan growth without borrower protection and repayment-capacity assessment can undermine inclusion.
Beyond Microfinance	Help viable micro-borrowers graduate to larger-ticket affordable enterprise finance. Graduation should follow cash-flow needs and repayment capacity, not compulsory loan escalation.

Edition and examination cutoff
Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

SIDBI: intermediaries and responsible micro-lending / continued



Graduation is about capacity

Learner: A larger loan must be better? Mentor: Only when the enterprise needs it and can repay. Responsible finance supports growth without pushing households into excessive debt.

EXIM Bank: trade mandate and functions

Fact anchor	Essential fact / condition
Constitution	Export-Import Bank of India Act 1981; operations March 1982. Government-owned principal institution for financing, facilitating, promoting foreign trade and coordinating export/import finance. It inherited relevant functions earlier performed within IDBI.
Network / dated example	Its 2021 institutional disclosure records nine overseas offices: Abidjan, Addis Ababa, Dhaka, Dubai, Johannesburg, London, Singapore, Washington DC and Yangon. This is a dated network snapshot, not an assertion of the current 2026 count.
Trade and equipment finance	Finance eligible imports/exports of goods/services involving India and permitted trade involving other countries; machinery on lease/hire purchase; refinance banks/FIs financing foreign trade. The statutory mandate governs eligibility.
Overseas investment and assistance	Support eligible foreign joint ventures; provide technical/other assistance to importers/exporters; undertake merchant-banking functions for foreign-trade transactions.
Securities and overseas credit	Underwrite shares/debentures of trade-related companies; extend qualifying short-term loans/lines of credit to foreign banks/governments; provide exporter advisory expertise for multilateral-funded overseas projects. These are all ten points in the source image, grouped by purpose.

EXIM: five products and three services

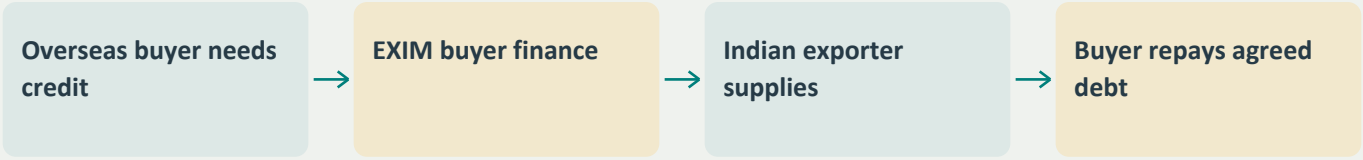
Fact anchor	Essential fact / condition
Buyers' credit	Finance the eligible overseas buyer so it can purchase Indian goods/services on credit terms. Distinguish the borrower from the Indian exporter supplying the goods.
Corporate banking / lines of credit	Corporate finance supports eligible trade-oriented company needs. Lines of credit provide structured credit availability to eligible overseas institutions/governments for specified purchases/projects under the relevant programme.

Primary references / see chapter notes

EXIM: five products and three services / continued

Fact anchor	Essential fact / condition
Overseas investment / project finance	Support eligible Indian businesses' overseas ventures and projects; project finance appraises project cash flows, contracts and risks rather than assuming every overseas project is government-guaranteed.
Three service branches	Marketing advisory identifies markets/partners; research and analysis supplies economic/industry intelligence; export advisory helps structure and execute market entry/trade plans. Advice is distinct from issuing an insurance policy or guaranteeing every export bill.

An export transaction



NABARD: rural credit and supervision

Fact anchor	Essential fact / condition
Broader rural mandate	Agricultural-credit needs expanded into wider rural development. CRAFICARD, chaired by B.Sivaraman, recommended the apex institution. NABARD was established 12 July 1982 under the NABARD Act 1981.
Functions inherited	Took over Agricultural Refinance and Development Corporation functions and relevant RBI agricultural/rural refinance functions, including cooperative banks and RRBs. ARC 1963→ARDC→NABARD is the institutional lineage.
Credit and grants	Refinance support plus grants from relevant funds for promotional/development programmes in agriculture and rural activities. A grant and repayable refinance are not interchangeable.
Institution-building	Policy, financial and technical support to strengthen rural credit cooperatives; support their operational capacity as well as credit resources.
Supervision	Under the applicable statutory framework, inspects State Cooperative Banks, District Central Cooperative Banks and RRBs. This is not a claim that NABARD supervises every urban cooperative bank or all commercial banks.

Primary references / see chapter notes

NABARD: rural credit and supervision / continued

NABARD function	Primary purpose
Refinance	Rural-credit resource support
Grant/development	Promotional and development programmes
Institution-building	Policy, finance and technical capacity
Inspection	Specified rural banks under law

NHB: housing finance and the 2019 change

Fact anchor	Essential fact / condition
Genesis	Seventh Plan 1985-90 housing-finance subgroup identified inadequate long-term household finance. A high-level group under Dr.C.Rangarajan examined the national-institution proposal. Budget announcement 28 February 1987; Bill 91 of 1987 received assent 23 December 1987.
Establishment and ownership	NHB Act 1987; established 9 July 1988. National Housing Policy 1988 envisaged the apex housing institution. RBI initially subscribed its entire paid-up capital; RBI's 2019 divestment made it wholly Government-owned. Management/direction rests with its Board.
Development mandate	Promote local/regional housing-finance institutions; provide financial/other institutional support. Encourage a sound, healthy, viable, cost-effective system and an institutional network serving different regions/income groups.
Resources and housing supply	Mobilise/channel resources for housing, improve credit affordability and encourage buildable-land/building-material supply and housing-stock upgrades. NHB is not an ordinary retail home-loan bank offering direct loans to every household.
Regulation versus supervision	The source's NHB-regulates-HFCs objective needs correction: HFC regulatory authority transferred to RBI in 2019. NHB continues relevant HFC supervision and development/refinance work within the statutory framework. Regulator, supervisor and refinancer are distinct roles.

NaBFID: infrastructure and capital

Fact anchor	Essential fact / condition
Mandate /2021 Act	National Bank for Financing Infrastructure and Development: long-term non-recourse infrastructure finance plus development of bond/derivatives markets supporting it. Non-recourse generally relies on project cash flows/assets within agreed rights; it does not mean the borrower never repays.

Primary references / see chapter notes

NaBFID: infrastructure and capital / continued

Fact anchor	Essential fact / condition
Financial and development objectives	Direct/indirect lending/investment and attracting private/institutional funds for infrastructure in India or partly in India/abroad; coordination with governments, regulators and investors to strengthen markets/institutions.
RBI oversight	RBI regulates/supervises it as an All India Financial Institution under RBI Act 45 L/45 N. It became the fifth AIFI alongside EXIM, NABARD, NHB and SIDBI. The number refers to this AIFI group, not all financial institutions.
Act structure /3-5	Seven chapters,48 sections.3: establishment/incorporation;4: purposes/objectives.5: authorised capital INR 100000 crore, initially divided into 10000 crore fully paid shares of INR 10 each. Arithmetic:10000 crore x 10=100000 crore.
Ownership safeguards	Eligible holders include Central Government, multilateral institutions, sovereign wealth/pension funds, insurers, FIs, banks and other prescribed institutions. Government must hold at least 26% at all times. This is a minimum, not a statement that it holds exactly 26%.
Dated FY 2025-26 report	Authorised INR 100000 crore differs from Government's INR 20000 crore capital infusion; the report records 100% Government ownership. The statutory minimum and actual dated holding can both be correct.



Long life, long finance

Learner: A bridge earns over decades. Mentor: Its funding, construction risks and repayment schedule need that horizon. NaBFID's development role also supports markets that can supply longer-term capital.

NaBFID: board and statutory safeguards

Fact anchor	Essential fact / condition
Section 6 / full board map	One chairperson; one managing director; at most three deputy managing directors; two government-official nominees; at most three shareholder-elected directors; independent directors up to three OR one-third of the Board, whichever is higher. The source's flat maximum-three independent-director statement is incomplete.
Appointment distinctions	Government appoints chairperson in consultation with RBI; Board appointments of MD/DMDs follow the statutory recommendation/clearance process. Shareholders other than Government holding 10% or more can nominate one elected director under the prescribed framework. At least one elected/independent director must be a woman.

Primary references / see chapter notes

NaBFID: board and statutory safeguards / continued

Fact anchor	Essential fact / condition
Sections 7-9	General management, delegation of powers and board-functionary tenure. Delegation assigns authority; it does not remove the institution's statutory duties.
18 / prohibited business	No loans against its OWN bonds/debentures. Restrictions apply to director-connected borrowers/substantial interests, with the specified exception for directors nominated by the institution/Government or elected by virtue of the institution's shareholding.
19 / related parties	Board consent and applicable prescribed conditions govern related-party contracts; specified high-value transactions need shareholder approval, with interested-voter restrictions. Ordinary-course arm's-length transactions have statutory treatment different from conflicted non-arm's-length transactions.
41 /43	Bankers' Books Evidence Act 1891 applies as if NaBFID were a bank. Ordinary company winding-up law does not apply; liquidation requires a Central Government order and procedure. Source's repeated section-summary graphic is rebuilt through this section map.

Section	Retrieve its purpose
3/4/5	Establishment / objectives / capital
6/7/8/9	Board / management / delegation / tenure
18/19	Prohibited business / related parties
41/43	Bankers Books Evidence / liquidation

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which correctly separates an Act year from commencement? A. SIDBI Act 1990; operations 1989; B. SIDBI Act 1989; operations 2 April 1990; C. NABARD Act 1982; operations 1981; D. NHB Act 1988; operations 1987 **Answer B.** SIDBI's Act is 1989; NABARD's Act 1981/establishment 1982; NHB Act 1987/establishment 1988.
Q 02	A DFI lends to a bank against eligible MSME term loans. This is: A. Refinance; B. A household deposit; C. An equity IPO; D. A foreign-exchange sale **Answer A.** Funding goes to the intermediary; it differs from a direct enterprise loan.

Primary references / see chapter notes

Original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 03	NHB's HFC regulatory role after 2019 is best stated as: A. NHB alone regulates all HFCs; B. RBI has HFC regulatory authority; NHB retains relevant supervision/development; C. SEBI regulates every HFC loan; D. NHB became a payments bank **Answer B.** Regulation transferred to RBI; the other institutional roles did not disappear.
Q 04	NaBFID's 26% Government shareholding provision means: A. Government must always hold exactly 26%; B. Government cannot exceed 26%; C. Government must retain at least 26%; D. Every investor must hold 26% **Answer C.** A statutory floor can coexist with 100% Government ownership in a dated report.
Q 05	Original TWARIT illustration: eligible outstanding 25 crore, additional 20%. Additional credit is: A. 25 crore; B. 20 crore; C. 5 crore; D. 50 crore **Answer C.** 0.20 x 25=5 crore. Distinguish eligible outstanding-base ceiling from fresh-loan amount.

Reference desk / read the date

Primary reference	Primary reference
IFCI / institutional journey	ICICI / verified history
ICICI /2002 effective-date accounts	IDBI / DFI-to-bank history
IDBI /2000-01 annual report	SIDBI / original 2020 scheme brochure
SIDBI / FY 2020-21 scheme record	SIDBI / FY 2023-24 scheme rationalisation
Government / historical SIDBI scheme terms	BEE / original TWARITeligibility framework
NABARD / foundation and mandate	NHB / genesis
NHB / current supervision role	NaBFID / official Act and rules
NaBFID / FY 2025-26 report	Parliament / IFCI 1986 capital proposal
India Code / IDBIcapital amendment 1995,operative 1994	IDBI / historical ownership presentation

Primary references / see chapter notes

28 facts / final recall

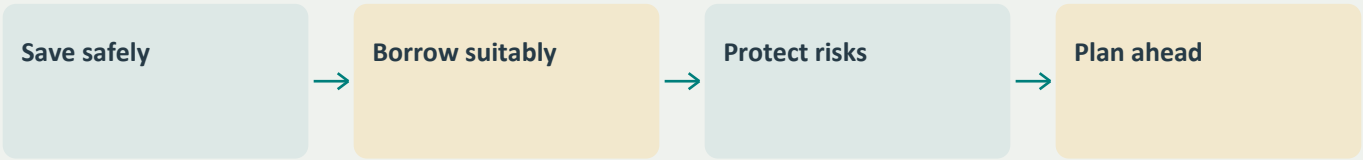
01-14 / retrieve the fact	15-28 / retrieve the fact
01. DFIs address long-term productive-finance gaps.	**15.** IFCI became a company in 1993 and took its current name in 1999.
02. Direct finance reaches the enterprise; refinance funds its lender.	**16.** ICICI Bank was incorporated in 1994.
03. IFCI was established 1 July 1948.	**17.** ICICI's NYSE milestone dates to 1999.
04. SFCs follow the State Financial Corporations Act 1951.	**18.** ICICI's 2002 merger integrated wholesale/retail banking and finance.
05. ICICI was established in 1955.	**19.** A guarantee is a contingent commitment, not an immediate funded loan.
06. IDBI began 1 July 1964 as an RBI subsidiary.	**20.** Machinery-bill rediscounting funds the discounting bank.
07. IDBI ownership moved to Government 16 February 1976.	**21.** SIDBI promotes, finances, develops and coordinates MSME finance.
08. SIDBI Act 1989; operations 2 April 1990.	**22.** Historical SMILE tenure 10 years included its moratorium.
09. NABARD Act 1981; establishment 12 July 1982.	**23.** Historical STAR 2.5 crore equals 250 lakh.
10. NHB Act 1987; establishment 9 July 1988.	**24.** Original TWARIT 20% of 25 crore equals 5 crore.
11. EXIM Act 1981; operations March 1982.	**25.** NABARD inspects specified State/District cooperative banks and RRBs.
12. NaBFID follows the 2021 Act.	**26.** HFC regulation transferred from NHB to RBI in 2019.
13. Development support includes appraisal, feasibility and technical assistance.	**27.** NaBFID authorised capital is INR 100000 crore under section 5.
14. Moratorium is repayment deferment, not an automatic waiver.	**28.** NaBFID Government shareholding statutory floor is 26%.

Primary references / see chapter notes

Microfinance: small services, wider access

Fact anchor	Essential fact / condition
Purpose	Small loans and other financial services for poor/low-income households support inclusion, livelihoods and resilience. Access can help income and living standards; it does not guarantee an escape from poverty. Affordability, suitable terms and repayment capacity matter.
Six service labels	Micro-savings; micro-credit; micro-enterprises; microinsurance; micro-remittances; micro-pensions. The source evolution diagram moves from saving and credit toward enterprise and wider protection/transfer/retirement services. This is a development narrative, not a mandatory sequence for every customer.
Empowerment	Community participation can improve economic, social and cultural agency. Credit is only one instrument; savings, protection, skills and market access also matter. A microfinance loan is defined separately under RBI rules later in this chapter.

The household toolkit



India: early credit and the second phase

Fact anchor	Essential fact / condition
Pre-independence	RBI established an Agricultural Credit Department to support rural credit; policy emphasised cooperative institutions. Cooperative credit predates the later SHG-bank linkage programme.
Late 1960s onward	Fourteen commercial banks nationalised in 1969; Lead Bank Scheme introduced December 1969 for district credit planning and coordination among intermediaries. RRBs began in 1975 to strengthen rural financial access.
1980-1982	IRDP expanded nationally in 1980-81, channelling subsidised bank credit to poor self-employed households. NABARD was established in 1982. Subsidy-supported individual lending differs from a member-managed savings group.
Grassroots response	NGOs responded to limitations in formal poverty-credit delivery. MYRADA: Mysore Resettlement and Development Agency. Its 1984-85 credit-management groups helped develop member-controlled savings/credit methods responsive to local needs. This is not the 1992 formal bank-linkage launch.

Primary references / see chapter notes

India: early credit and the second phase / continued

Date anchors

1969 / Lead Bank → 1975 / RRBs → 1980-81 / IRDP → 1982 / NABARD

Modern phase: linkage, crisis and bank entry

Fact anchor	Essential fact / condition
1992 pilot	NABARD launched the SHG-Bank Linkage pilot targeting 500 groups. RBI Governor historical review records 255 SHGs linked by end-March 1993; the source claim 600 is corrected. RBI mainstreamed linkage in 1996, including priority-sector treatment under applicable categories.
Why it spread	Savings discipline, group decisions and local information offered an alternative to purely individual subsidised credit. Linkage connected informal groups to formal banks without making every group a licensed financial institution.
2010 warning	Andhra Pradesh crisis exposed excessive/multiple borrowing, weak appraisal and coercive collection. High loan growth or recovery alone is insufficient evidence of good customer outcomes.
2014 and 2015	Bandhan received one of two in-principle universal-bank approvals in 2014. In-principle SFB approvals were announced in 2015: eight of ten selected entities had microfinance backgrounds; operations followed from 2016 onward. Approval year and commencement year differ.

Grameen: the working-capital lesson

Fact anchor	Essential fact / condition
1976 /1983 /2006	Muhammad Yunus began the Jobra lending experiment in 1976; Grameen became a bank in 1983. Yunus AND Grameen Bank jointly received the 2006 Nobel Peace Prize. The award was not only to one person.
Bamboo enterprise	Sufia, a bamboo craft worker, illustrated how a tiny input-finance need could leave a producer dependent on a moneylender/buyer and unable to retain fair value. Yunus's Nobel lecture verifies US$27 for 42 people. Exact unreconciled taka/interest particulars are itemised in the audit.
Group method	The model uses small groups, commonly five members, and centres for support and discipline. Under the evolved model, repayment responsibility is individual; do not automatically equate it with an Indian JLG mutual guarantee. Borrower participation/ownership and trust complement collateral-free lending.

Primary references / see chapter notes

Grameen: the working-capital lesson / continued

Fact anchor	Essential fact / condition
Access is not a waiver	No conventional collateral does not mean no records, identity checks or repayment obligation. Bangladesh's model is not an exemption from Indian KYC rules. Financial inclusion involves both access and affordable, appropriate services.
Dated supplement /September 2026	Official report issued 6 October 2026:2,568 branches;81,678 villages;10,647,932 members; recovery 95.76%. Members include specified special-programme recipients: do not call every member an active borrower. These dated figures replace the source's undated 2,600/80,000/9 million/over 99% snapshot.



A stool, a notebook, a financing gap

Learner: Why can a tiny loan matter? Mentor: It may free working capital from an exploitative purchase condition. Check costs, sales and repayment before calling the loan suitable. Educational illustration of Yunus and a craft entrepreneur.

Delivery channels and institution types

Fact anchor	Essential fact / condition
Informal / formal	Informal sources include moneylenders, mahajans, shroffs and landlords. Formal channels include commercial/cooperative banks, RRBs and appropriately constituted MFIs. SHGs can remain informal groups while maintaining formal bank relationships. RRBs have a rural mandate; every institution does not serve every geography identically.
SHG basics	A voluntary, broadly homogeneous group pools regular savings and makes collective internal-credit decisions. Usual size 10-20; specified special/hilly/tribal/disability groups may have at least 5. DAY-NRLM focuses on women's groups; do not impose one programme's eligibility on every SHG.
Historical SGSY composition	The source BPL rule belongs to SGSY: up to 20% above-poverty-line members, exceptionally 30% in specified contiguous areas with BPL consent; APL members did not receive the poverty subsidy. These are historical programme conditions, not a universal current SHG membership test.
MFI services	Thrift, small credit and related financial services serve low-income rural, semi-urban and urban clients. Legal form, licensing, deposit permissions and actual activities determine regulation; MFI is not synonymous with a deposit-taking bank.

Primary references / see chapter notes

Delivery channels and institution types / continued

Fact anchor	Essential fact / condition
Three institutional forms	Non-profit: Societies Registration Act 1860/similar laws, trusts (source cites Indian Trusts Act 1882; relevant public-trust law depends on jurisdiction), former section 25 Companies Act 1956 now section 8 Companies Act 2013. Mutual benefit: State/national cooperatives including APMACS Act 1995, not 1955. For-profit: companies including RBI-registered NBFC-MFIs. MFIN December 2025 snapshot: NBFC-MFIs 42.1% of microfinance portfolio, the largest lender category; portfolio share is not an institution count.

Delivery tree	Relationship
Bank → SHG	Formal lender; group may be informal
Bank → NGO → SHG	Intermediary route, subject to legal conditions
MFI → borrower	Institution-specific licence and lending rules

SHG accounts, loans and safeguards

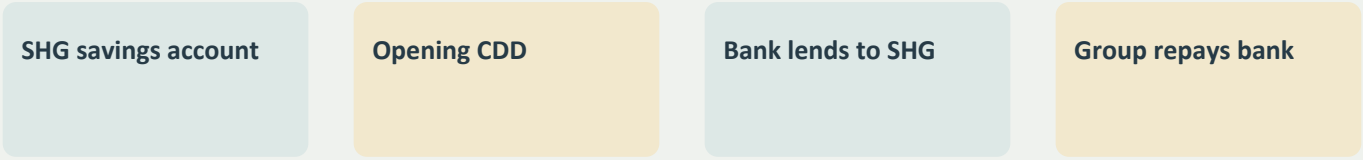
Fact anchor	Essential fact / condition
Savings account / current KYC	An SHG can open a savings account in its own name without first taking credit. RBI KYC directions updated 14 August 2025: all-member CDD is not required at opening; office-bearer CDD suffices. All-member CDD MAY be undertaken at credit linkage. The source's blanket SHALL is incorrect.
Savings-linked loan	Source/RBI linkage range: savings-to-loan ratio 1:1 to 1:4; a mature group can receive more than four times savings at bank discretion. A group saving 25,000 has a 1:4 illustrative loan of 100,000, not an automatic entitlement.
Responsibility and internal use	Bank lends to the SHG; group is responsible for repayment and allocates internal loans. Members may have consumption/social needs such as illness or marriage as well as income-generating needs; utilisation must remain consistent with sanctioned purpose and applicable programme rules.
Existing defaulter	Individual/member-family default need not bar an otherwise non-defaulting SHG from credit. However, bank finance must not be used to fund the defaulting member. Group eligibility and the individual's use restriction are separate checks.
Charges / priority sector	Eligible SHG/JLG priority-sector loans up to 25,000 per member should not bear adhoc service/inspection charges under the referenced linkage circular. Classify eligible credit under the appropriate PSL category; do not label every SHG loan a weaker-section loan without checking criteria.

Primary references / see chapter notes

SHG accounts, loans and safeguards / continued

Fact anchor	Essential fact / condition
Collateral / dated DAY-NRLM rules	2025 circular: loans up to 10 lakh, no collateral or margin; above 10 to 20 lakh, no collateral and margin at most 10% of the portion above 10 lakh. No savings-account lien. These programme terms do not justify unlimited collateral-free lending to every SHG.
NABARD refinance	The historical linkage circular provides 100% refinance for banks' direct SHG lending, subject to eligibility and refinance conditions. It funds the bank; it neither cancels the SHG debt nor makes every application automatically eligible. Distinguish refinance from interest subvention.
Syllabus / bank finance to MFIs	Eligible bank credit to registered NBFC-MFIs and other MFIs such as societies/trusts belonging to an RBI-recognised SRO, for eligible onward lending, may qualify under the respective priority-sector categories. Apply lender/category conditions, use-of-funds evidence and applicable limits; not every loan to an MFI automatically qualifies.

Two separate branches



Three linkage models and JLGs

Fact anchor	Essential fact / condition
Model I	Bank promotes/nurtures the group and lends directly; no NGO intermediary is necessary. Trace both promotion and money flow.
Model II	NGO promotes/facilitates the SHG, but bank lends directly to it. Historically prominent; facilitation does not mean the NGO receives and on-lends the bank loan.
Model III	NGO acts as a financial intermediary: bank lends to NGO, which on-lends to groups. This differs from Model II even if the NGO also trains members.
JLG /4-10	A Joint Liability Group usually has 4-10 homogeneous members, often in the same village, providing mutual guarantees for credit. An SHG's savings-led collective model differs from a credit-focused JLG.
Enterprise expansion	A member needing a larger enterprise loan may form a JLG with suitable members from one or more SHGs when the whole SHG is unwilling to guarantee that amount. Existing SHG membership can continue; the source-era one-group restriction is not a universal current ban.

Primary references / see chapter notes

Three linkage models and JLGs / continued

Who promotes? Who borrows?	Identify the model
Bank promotes; SHG borrows	I
NGO facilitates; SHG borrows	II
NGO borrows and on-lends	III

Crisis response and the 2022 framework

Fact anchor	Essential fact / condition
Earlier regulation	Before the dedicated NBFC-MFI framework, microfinance oversight was fragmented across legal forms; banks/registered NBFCs were not wholly unregulated. The 2011 response strengthened sector-specific prudential and customer-protection standards.
Andhra Pradesh /2010	Rapid multiple lending, inadequate household appraisal and coercive collections caused serious borrower distress and public concern. The source's exact fatality count/window was not independently verified and is omitted; the crisis and customer-protection lessons remain.
Malegam /January 2011	Committee recommendations covered a separate NBFC-MFI category, qualifying assets, capital/provisioning, pricing/margin limits, transparency, multiple lending/over-indebtedness controls, non-coercive recovery and grievance redress. Historical caps should not be presented as today's full framework.
14 March /1 April 2022	RBI issued the microfinance regulatory framework 14 March 2022, effective 1 April 2022. Statutory bases include Banking Regulation Act 21/35 A/56, RBI Act IIIB and NHB Act 30 A/32 as applicable.
Common customer protection	Framework covers relevant commercial/cooperative banks and NBFCs, including NBFC-MFIs and HFCs, subject to its scope. A payments bank cannot use this inclusion to start lending. Common loan rules do not erase institution-specific licensing requirements.

Primary references / see chapter notes

The household test:3 lakh and 50%

Fact anchor	Essential fact / condition
Definition	Microfinance loan: collateral-free loan to a household with annual income up to INR 3 lakh. Household means husband, wife and their unmarried children. Physical/digital channel and consumption/productive end use do not change the definition. No deposit/security lien may secure it.
Board policies	Board-approved income-assessment and repayment policies are required; repayment periodicity must suit borrower needs. An SRO indicative assessment framework may be adopted/modified through the lender's board-approved approach.
CIC reporting	Report assessed household income to Credit Information Companies. If assessment differs from already reported income, ascertain reasons from borrowers before updating. Use timely, accurate credit data, borrower declarations, statements and local enquiries to check debt.
50% monthly ceiling	Total monthly principal AND interest for ALL household loans, including secured/non-microfinance loans and the proposed loan, must not exceed 50% of monthly household income. The ceiling is not 50% of the new loan amount.
Worked headroom	Monthly income 20,000 → maximum total repayments 10,000. Existing repayments 8,000 → proposed loan instalment at most 2,000. Existing excess-debt loans may mature; do not grant a new loan until the household complies with the ceiling.

Appraisal in order

Assess household income → **Find ALL debt service** → **Apply 50% ceiling** → **Check new headroom**

Pricing, disclosure and penalties

Fact anchor	Essential fact / condition
Board pricing model	Document all-inclusive interest, objectively quantified cost of funds, risk premium and margin; component spread ranges for borrower categories; ceilings on interest and other charges. Rates/fees must not be usurious and remain subject to RBI scrutiny.
Disclosure / KFS	Explain pricing in a simple understandable format. Current Key Facts Statement provisions strengthen the original 2022 factsheet: disclose APR and repayment schedule, explain terms and obtain acknowledgement. Unlisted charges cannot be imposed without explicit borrower consent; include KFS summary in the loan agreement.

Primary references / see chapter notes

Pricing, disclosure and penalties / continued

Fact anchor	Essential fact / condition
Low-income secured loans	The source disclosure lesson also extends relevant pricing protection to low-income-household loans outside the collateral-free definition. Do not evade repayment-cap or disclosure safeguards simply by taking security.
Prepayment and delay	No prepayment penalty on microfinance loans. A delay penalty, if applicable, applies only to the overdue amount, never the whole loan. Example: overdue 1,000 in a 20,000 loan → penalty base 1,000, not 20,000.
Publish and notify	Display minimum, maximum and average rates in offices, literature and website as prescribed. Communicate rate/charge changes in advance; apply changes prospectively. A borrower should know the cost before accepting the obligation.



A low instalment can hide the total cost

Learner: Which loan is cheaper? Mentor: Compare APR, total payments, fees and schedule. A smaller instalment over a much longer term may cost more.

MFI assets and fair practices

Fact anchor	Essential fact / condition
Minimum qualifying assets	Source 2022 minimum 75% is historical. From 6 June 2025: qualifying microfinance assets must be at least 60% of NBFC-MFI total assets NET of intangibles, continuously. Failure for four consecutive quarters requires approaching RBI with a remediation plan.
Other NBFCs	For NBFCs other than NBFC-MFIs, microfinance exposure maximum is 25% of total assets, increased from 10%. This maximum is distinct from the NBFC-MFI 60% minimum. The source's garbled 75% maximum statement mixes two different tests.
Fair Practices Code	Board approves FPC; display in all offices and on website in a language understood by borrowers. Objectives: sound practice, transparent/fair dealing, customer satisfaction, ethical/legal standards and useful public information.
Nine operational areas	Applications/processing; appraisal and sanction terms; disbursement and changes; account-transfer requests; non-coercive recovery; grievance redress; understandable communication; non-usurious interest; lawful repossession where a general NBFC secured-vehicle product actually permits it.
Scope warning	A general NBFC vehicle-hypothecation clause does not turn a collateral-free microfinance loan into a secured vehicle loan. Product rules, customer protection and contractual rights must all be checked.

Primary references / see chapter notes

MFI assets and fair practices / continued

Do not swap denominators	Rule
NBFC-MFI qualifying assets	Minimum 60%; net intangible assets
Other NBFC microfinance loans	Maximum 25% of total assets
Household monthly debt service	Maximum 50% of monthly income

Customer communication and source-era rules

Fact anchor	Essential fact / condition
Staff and training	Train staff to ascertain household income and existing debt, explain procedures and behave appropriately. Any borrower training is free. Display effective rates and grievance channels in understandable language at premises/on website. Clear loan cards and fair communication support informed borrowing. Source-era transparency/fair-lending commitments also appeared at premises and in loan cards.
Accountability	Lender remains responsible for staff and outsourced-agent misconduct, with timely redress and an explicit commitment in agreement/FPC. KYC and repayment-capacity checks are separate obligations; outsourcing removes neither.
Disbursement controls	The source describes central-location disbursement with at least two staff members as an older control practice. Keep its supervision/verification lesson; it is not a current ban on permitted digital disbursement. Use simple, scheduled processes and effective oversight.
Agreement	Standard loan agreement in a language understood by borrower; clearly state all terms and preserve privacy/confidentiality. No security deposit/margin/lien for a collateral-free microfinance loan. Any non-credit product requires full consent and clear charges.
Old versus current pricing	Source-era three-component interest/processing/insurance formula and blanket no-late-penalty statement are not the complete current rule. Apply documented all-in pricing/KFS, voluntary non-credit products, no prepayment penalty and any delay penalty only on overdue amounts.
Membership and moratorium	Old code statements about one SHG/JLG membership and a prescribed moratorium must not be taught as universal 2022 conditions. Assess ALL household debt against 50% ceiling and provide suitable repayment periodicity; any specific programme/contract conditions still apply.

Primary references / see chapter notes

Loan card and humane recovery

Fact anchor	Essential fact / condition
Five loan-card essentials	Borrower identification; simplified pricing facts; all loan terms; lender acknowledgements of instalments and final discharge; grievance mechanism including nodal officer name/contact. Entries must be understandable to borrower.
Non-credit products	Obtain full borrower consent and disclose their fee structure in the loan card. Do not force an unrelated product as a hidden condition of credit.
Collection place	Mutually agreed designated/central place. Home/work collection is allowed if borrower misses the designated place on TWO OR MORE successive occasions. This exception does not authorise intimidation.
Staff policy and complaints	Board-approved recruitment, training and monitoring policy; appropriate minimum qualifications and customer conduct. Identify repayment difficulty, engage constructively and provide recovery-grievance contacts at disbursement.
Current recovery safeguards	No threats, abusive language, harassment of relatives/co-workers, public shaming, violence or misleading debt claims. No persistent calls or calls before 9 am/after 6 pm. Recovery agents require due diligence, authorisation and identification; lender remains accountable.

When repayment becomes difficult



Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Annual household income 2.8 lakh; collateral-free consumption loan. Is it excluded solely because it is not productive credit? A. Yes; B. No; C. Only for urban customers; D. Only if digital **Answer B.** The definition depends on household income and collateral, not productive versus consumption use.
Q 02	Monthly household income 24,000; existing total monthly repayments 9,000. Maximum additional repayment under 50% cap? A. 12,000; B. 9,000; C. 3,000; D. 6,000 **Answer C.** Total ceiling 12,000 less existing 9,000 leaves 3,000.
Q 03	NGO promotes a group but the bank lends directly to that SHG. Model? A. I; B. II; C. III; D. No linkage model **Answer B.** Model II separates NGO facilitation from direct bank-to-SHG credit.

Primary references / see chapter notes

Original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 04	NBFC-MFI qualifying-asset minimum after 6 June 2025? A. 75% of all loans; B. 60% of total assets net intangible assets; C. 25% of total assets; D. 50% of household income **Answer B.** 60% is the MFI minimum;25% is the other-NBFC maximum;50% is household repayment ceiling.
Q 05	A microfinance borrower prepays. Which charge treatment is correct? A. Prepayment penalty mandatory; B. Penalty on whole loan for any late instalment; C. No prepayment penalty; any delay penalty only on overdue amount; D. All insurance compulsory **Answer C.** Current protections distinguish prepayment from permitted overdue-only delay penalties.

Reference desk / read the date

Primary reference	Primary reference
RBI / current microfinance directions	RBI /6 June 2025 qualifying-assets change
RBI / current KYC directions	RBI / SHG bank linkage circular
RBI / DAY-NRLM 2025	RBI / historical SGSY rules
RBI Governor / historical SHG totals	MYRADA / group evolution
India Code / APMACS Act 1995	Nobel / Yunus lecture
Grameen / September 2026 monthly report	NABARD / historical SHG circular 2018
MFIN / December 2025 portfolio composition	RBI / PSL on-lending clarification

Edition and examination cutoff
Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Microfinance includes savings, credit, insurance and pensions.	**15.** Model II: NGO facilitates; bank lends directly to SHG.
02. Micro-remittances transfer small sums.	**16.** Model III: NGO borrows and on-lends.
03. Lead Bank Scheme began in December 1969.	**17.** SHG savings-loan ratio commonly 1:1 to 1:4; mature groups may exceed 4 at bank discretion.
04. RRBs began in 1975.	**18.** All-member CDD is not mandatory at SHG account opening.
05. IRDP expanded nationally in 1980-81.	**19.** At credit linkage, all-member CDD may be undertaken.
06. NABARD was established in 1982.	**20.** RBI microfinance framework issued 14 March 2022,effective 1 April 2022.
07. NABARD SHG-linkage pilot began in 1992.	**21.** Microfinance household annual-income ceiling is INR 3 lakh.
08. 255 SHGs were linked by end-March 1993.	**22.** A microfinance loan is collateral-free regardless of channel/end use.
09. Formal SHG linkage mainstreamed in 1996.	**23.** Household includes husband, wife and unmarried children.
10. Jobra experiment dates to 1976; Grameen Bank to 1983.	**24.** All household monthly debt service is capped at 50% of monthly income.
11. Yunus AND Grameen Bank won the 2006 Nobel Peace Prize.	**25.** No prepayment penalty on microfinance loans.
12. Normal SHG size 10-20; specified special groups can have 5.	**26.** Delay penalty, if any, applies only to overdue amount.
13. JLG usual size 4-10.	**27.** NBFC-MFI qualifying-asset minimum became 60% net of intangibles from 6 June 2025.
14. Model I: bank promotes and lends to SHG.	**28.** Home/work recovery exception requires two or more successive missed designated-place appearances.

Primary references / see chapter notes

NBFC: business and licence

Fact anchor	Essential fact / condition
Role and principal business	NBFCs supply business/household finance, including remote and underserved customers, adding depth to BFSI. Relevant activities include loans/advances, securities investment, leasing and hire-purchase. The statutory financial-institution definition also mentions insurance/chit business; the applicable separate regulator/exemption must be checked.
Exclusions	An institution principally undertaking agriculture, industry, trading goods other than securities, non-financial services or purchase/sale/construction of immovable property is not brought into NBFC lending regulation merely because it occasionally gives credit. Financial assets AND income generally must each exceed 50% for the RBI principal-business test.
RBI Act 45 I(f)	Covers a company that is a financial institution; a company principally receiving deposits under schemes/arrangements or lending; and other non-banking institutions/classes specified by RBI with prior Government approval. Residuary deposit schemes are a historical category, not a general permission to collect money.
Bank versus NBFC	No demand deposits; no cheques drawn on itself; no ordinary bank-style direct RBI liquidity entitlement. An NBFC may pay using a cheque drawn on its BANK account. Special notified liquidity arrangements are separate from a standing right. NBFC deposits have no DICGC cover or RBI repayment guarantee.
Co R and NOF	Section 45-IA generally requires RBI Certificate of Registration and prescribed Net Owned Fund, subject to specific exemptions. Source 2 crore is not a universal current entry requirement: new ICC/MFI/Factor entry normally 10 crore; P 2 P/AA/Type I 2 crore; IFC/IDF 300 crore. Other categories have their own directions.
Owned funds /NOF	Owned funds: eligible capital/reserves less losses, intangibles and deferred expenditure; exclude revaluation reserves. NOF further deducts prescribed group/subsidiary/other-NBFC investments and exposures exceeding 10% of adjusted base. Example: base 100,covered exposures 25→deduction 15→NOF 85. Apply category definitions.



A finance company is not a bank

Learner: The company gave me a loan; can it open a current account? Mentor: Lending permission does not confer demand-deposit or cheque-issuing banking powers.

Primary references / see chapter notes

Evolution and inclusion

Fact anchor	Essential fact / condition
Early development	Small-scale NBFC activity expanded during the 1960s, serving savers/investors and industrial leasing needs. Companies Act oversight alone was insufficient for complex financial intermediation. RBI Act IIIB introduced the non-bank framework in the 1960s.
Committees and 1997	James S.Raj study-group work in the 1970s addressed deposit limits linked to own funds and liquid approved securities. A.C.Shah committee appointed 1992 recommended registration/prudential regulation. January 1997 amendments strengthened IIIB, IIIC and V, customer protection and supervision. Exact unreconciled early company counts are omitted in the audit.
FDI /August 2016	Cabinet permitted automatic-route foreign investment in other financial services regulated by financial-sector regulators, beyond the earlier 18 specified NBFC activities. Regulatory permissions, applicable caps and investment conditions still matter.
Inclusive growth	Local reach, customer proximity, needs-based innovation and rural/semi-urban trade/enterprise credit can support livelihoods. Competition can improve customer orientation/efficiency; NBFC-MFIs are an important inclusion channel. These benefits do not guarantee economic equilibrium or eliminate credit risk.

Regulatory direction

Early company oversight → **Deposit safeguards** → **1997 stronger powers** → **Risk-based supervision**

Regulators: current map

Fact anchor	Essential fact / condition
RBI branch	RBI-registered NBFCs: regulation, supervision, surveillance and enforcement under relevant law. HFC regulation transferred from NHB to RBI in 2019; HFCs now require RBI registration under NHB Act 29 A. NHB retains specified supervision/development roles.
SEBI branch	Merchant banking, stock broking, venture-capital/AIF and collective-investment activities fall under their relevant SEBI frameworks. Stock exchanges are securities-market infrastructure; do not put Nidhi/mutual-benefit companies under SEBI. Specific RBI exemptions avoid duplicate registration; an activity label alone is not sufficient.

Primary references / see chapter notes

Regulators: current map / continued

Fact anchor	Essential fact / condition
Other branches	Insurance: IRDAI with valid registration under Insurance Act 3. Nidhi/mutual benefit: MCA; old Companies Act 1956 section 620 A corresponds to current 2013 Act 406 framework. Chit funds: State Governments under Chit Funds Act 1982,section 2(b). Non-financial companies: Companies Act/MCA and relevant State enforcement, not automatically RBI NBFC regulation.

Three classification axes

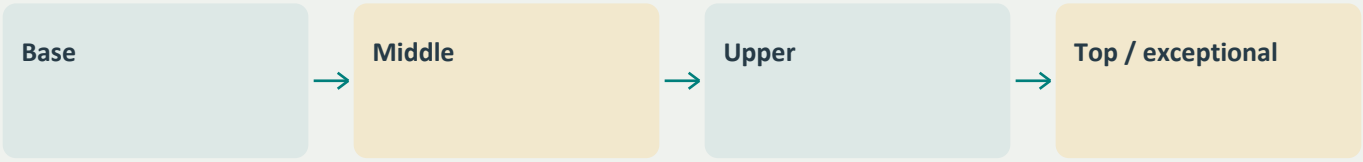
Fact anchor	Essential fact / condition
Liability axis	NBFC-D accepts permitted public deposits; NBFC-ND does not. The source image incorrectly labels both branches deposit-taking. NBFC-D faces capital, liquid-assets, exposure, ALM and reporting requirements, including relevant land/building/unquoted-share restrictions.
Activity labels /1	Historical AFC(asset finance),LC(loans) and IC(investment) merged into NBFC-ICC(Investment and Credit Company) in 2019. IFC finances infrastructure; CIC holds qualifying group investments; IDF-NBFC supports infrastructure debt/refinancing.
Activity labels /2	NBFC-MFI: qualifying microfinance; RNBC: residuary deposit schemes; Factor: receivables finance; NOFHC: non-operative financial holding company; MGC: mortgage guarantees; AA: consent-based financial-information aggregation; P 2 P: platform matching lenders/borrowers; HFC: housing finance. AA does not become a lender merely by sharing data.
Size axis /history	Source 500 crore NBFC-ND-SI threshold describes the earlier framework. SBR effective 1 October 2022 uses four risk layers and a general 1000 crore non-deposit asset boundary, subject to activity/group exceptions. Do not confuse capital NOF with total assets.
Base / Middle	Base: ordinarily non-deposit NBFCs below 1000 crore; P 2 P, AA, NOFHC and Type Iremain Base. Middle: all deposit-takers, non-deposit 1000 crore or more, and specified CIC/HFC/IFC/IDF/SPD categories. HFC/IFC/CIC may move higher; SPD/IDFremain Middle.
Upper / Top	Upper: entities identified annually by RBI for enhanced requirements. Top: ideally empty; exceptional systemic-risk escalation from Upper. Group aggregation can move an otherwise small ICC/MFI/Factor/MGC to Middle. Liability, activity and size are separate classification questions.

Primary reference	Primary reference
SEBI / CD issuer distinction	RBI / statutory NOF explanation

Primary references / see chapter notes

Three classification axes / continued

SBR risk layers



RBI powers and conduct

Fact anchor	Essential fact / condition
Eight statutory levers	Registration/NOF; approved liquid securities for deposit-takers; reserve fund; income-recognition/accounting policies; directions to companies/auditors on accounts/disclosures; special audit; restrictions on asset alienation; winding-up petitions. Reserve fund transfer under 45-IC: at least 20% of annual net profit BEFORE dividend, subject to law/exemption.
Conduct milestones	Fair Practices Code 2006 emphasised transparent pricing and ethical lending;2007 governance framework promoted professionalism. Later measures increasingly addressed non-deposit NBFCs and systemic risk.
Chart / read the period	The rebuilt figures below reproduce the source historical registration/cancellation comparison, not current NBFC population.2019-20 is only April-September, not a full-year comparison; data provisional. Cancellation can include non-compliance/surrender, not simply customer fraud.
NOF transition / existing firms	ICC:5 crore by 31 March 2025→10 crore by 31 March 2027. MFI:7 crore(NE 5)by March 2025→10 crore by March 2027. Factors:7→10 crore. Distinguish these transition floors from new-entry 10 crore and category-specific requirements.
Lending FPC	Board-approved fair practices: clear applications/terms, pricing and change notices; proper sanction/disbursement; grievance redress; non-coercive recovery. Applicable KFS disclosure rules and C 05 microfinance safeguards supplement these duties.

Edition and examination cutoff
Evergreen concepts; dated updates. IIBF cutoffs: preceding31December for March-August;30June for September-February. Check session notices; later changes are supplements. Original practice questions, not predictions or past papers.

Primary references / see chapter notes

RBI powers and conduct / continued

Historical period	Registrations / cancellations
2014-15	28 /215
2015-16	46 /210
2016-17	105 /169
2017-18	125 /224
2018-19	166 /1851
2019-20 to September	20 /195

Deposits and reporting

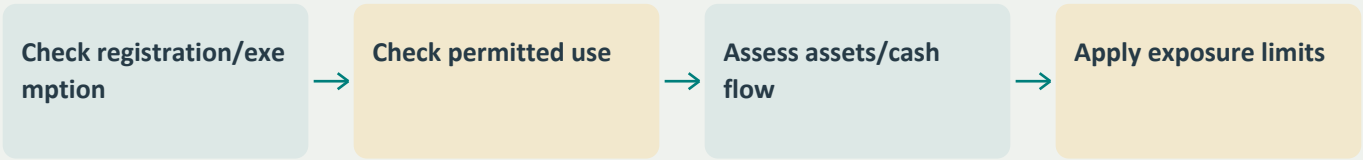
Fact anchor	Essential fact / condition
Deposit conditions /2025 directions	Only specifically authorised eligible NBFCs can collect public deposits. No demand deposits; ordinary term 12-60 months. Minimum investment-grade fixed-deposit rating BBB- from a SEBI-registered CRA; obtain at least annually and report rating changes within 15 working days. Source six-month rating rule is corrected.
Interest and inducements	Public-deposit interest ceiling 12.5% per annum under current directions; not a universal ceiling on every NBFC LOAN rate. Historical RBI depositor guidance prohibits gifts/incentives soliciting deposits; the source comparison with bank freebies is not the legal test.
Liquid assets /15%	Maintain at least 15% of relevant outstanding public deposits in permitted unencumbered liquid assets, including at least 10% approved securities and the permitted balance in specified deposits/bonds. Example 100 crore deposit base→at least 15 crore aggregate, with at least 10 crore approved securities. RBI registration does not insure repayment.
Returns / correct the vintage	Source annual NBS-1 is wrong: legacy NBS-1 deposit return was quarterly; legacy liquid-asset NBS-3 also quarterly. Current supervisory-return directions and applicable category schedules govern reporting. Annual audited accounts remain distinct from quarterly prudential/liquidity returns.
ALM / current reporting	Source 20 crore public-deposit/100 crore asset half-yearly ALM thresholds are historical. Under current applicable ALM directions: DNBS 04 Ashort-term dynamic liquidity quarterly; DNBS 04 Bstructural liquidity/interest-rate sensitivity monthly. Check category/size scope; not every form applies to every NBFC.

Primary references / see chapter notes

Bank finance: appraisal

Fact anchor	Essential fact / condition
Registration first	Banks verify required RBI registration or a valid specific exemption. Insurance, Nidhi, chit and SEBI-registered broker/merchant-bank activities have relevant distinct legal treatment; the source HFC-exempt/NHB-regulator statement is outdated after 2019.
Credit decision	Banks have operational lending discretion but activity-specific restrictions continue. Assess purpose, underlying-asset quality, repayment capacity and proposal risk; registration is neither a credit guarantee nor an instruction to lend.
Funding routes	Direct bank loans and investment in eligible debt instruments can fund NBFCs. Source NCDs are corporate debt; do not assume every NBFC can issue a Certificate of Deposit merely because a bank subscribes. CD issuance is restricted to eligible banks and permitted AIFIs; NBFC commercial paper is a different instrument.

Bank appraisal



Ombudsman:2021 and 2026

Fact anchor	Essential fact / condition
2021 source framework	Integrated banking, NBFC and digital-transaction ombudsman schemes. Covered services under RBI Act, Banking Regulation Act and Payment and Settlement Systems Act, with specified registered-NBFC exclusions. Appellate authority: Executive Director in charge of the administering department, not the earlier Deputy Governor formulation.
Coverage and exclusions	Eligible registered NBFCs: authorised deposit-takers OR customer-interface entities with at least 100 crore audited previous-year assets. Exclusions include HFC, CIC, IDF-NBFC, IFC; current 2026 list also NOFHC, Primary Dealers and MGC. Resolution/winding-up/liquidation and other specified exclusions must be respected. CIC here means Core Investment Company, not Credit Information Company.
Dated change /1 July 2026	RB-IOS 2026 replaced 2021 for new complaints. Complaints received earlier, appeals from 2021 decisions and execution of those awards remain under 2021. It is a cost-free service-deficiency remedy, not a route to force a discretionary loan sanction. Applicable exam cutoff determines the tested version.

Primary references / see chapter notes

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which is a banking power an ordinary NBFC lacks? A. Giving a loan; B. Buying permitted securities; C. Accepting demand deposits; D. Paying by its bank-account cheque **Answer C.** No demand deposits or cheques drawn on itself; its bank account is different.
Q 02	An ordinary stand-alone non-deposit ICC with 800 crore assets is generally in which SBR layer, absent group/special factors? A. Base; B. Middle automatically; C. Top; D. No regulation **Answer A.** General non-deposit boundary is 1000 crore; activity/group exceptions still matter.
Q 03	Current eligible NBFC public-deposit rating review minimum? A. Once every six months universally; B. At least annually; C. Never after registration; D. Only at liquidation **Answer B.** Current deposit directions require minimum investment grade at least annually; rating changes must be reported.
Q 04	15% liquid-asset requirement on 100 crore relevant deposits means? A. 15 crore aggregate permitted liquid assets; B. 15 crore NOF; C. All deposits RBI-insured; D. Only 1.5 crore **Answer A.** Keep the deposit denominator distinct from capital; at least 10 crore is approved securities.
Q 05	An HFC is regulated by which authority after 2019? A. Only NHB; B. RBI, with specified NHB supervisory/development roles; C. Only MCA; D. Only SEBI **Answer B.** Source legacy HFC branch is corrected to the post 2019 framework.

Reference desk / read the date

Primary reference	Primary reference
RBI / current registration and SBR	RBI / current public-deposit directions
RBI / current ALM directions	RBI / supervisory returns
RBI / historical NBFC FAQs	RBI / depositor safeguards
RBI /2026 Ombudsman FAQs	RBI /2021 scheme
Government /August 2016 FDIdecision	CAFRAL / historical registration chart
ICSI / September 2019 historical chart	RBI /2019 ICC category merger

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. NBFC means Non-Banking Financial Company.	**15.** AFC, LC and IC merged into ICC category in 2019.
02. NBFC financial assets AND income generally each exceed 50% for principal-business test.	**16.** HFC regulation moved to RBI in 2019.
03. RBI Act 45 I(f)contains the NBFC definition.	**17.** SBR took effect 1 October 2022.
04. Section 45-IA governs registration and NOF.	**18.** Four SBR layers: Base, Middle, Upper, Top.
05. NBFCs cannot accept demand deposits.	**19.** General non-deposit SBR asset boundary is 1000 crore.
06. NBFCs cannot issue cheques drawn on themselves.	**20.** All deposit-taking NBFCs are at least Middle Layer.
07. An NBFC may pay through its bank account.	**21.** Top Layer is ideally empty.
08. NBFC deposits have no DICGC insurance.	**22.** New ICC/MFI/Factor NOF normally 10 crore.
09. RBI does not guarantee NBFC deposit repayment.	**23.** Existing ICC NOF transition:5 crore March 2025→10 crore March 2027.
10. January 1997 amendments strengthened NBFC oversight.	**24.** Existing MFI transition:7 crore(NE 5)March 2025→10 crore March 2027.
11. A.C.Shah committee was appointed in 1992.	**25.** Ordinary eligible public-deposit tenure is 12-60 months.
12. FDI policy for regulated other financial services expanded in August 2016.	**26.** Current public-deposit interest ceiling is 12.5% per annum.
13. RBI lending FPC milestone:2006.	**27.** Relevant NBFC liquid-asset minimum is 15% of prescribed deposit base.
14. Governance framework milestone:2007.	**28.** RB-IOS 2026 replaced 2021 for new complaints from 1 July 2026.

Primary references / see chapter notes

Insurance: pool risk, understand the promise

Fact anchor	Essential fact / condition
Two parties and a premium	Insurer provides specified cover to insured/policyholder in exchange for premium. The written contract is the insurance policy. The source diagram repeats Insurer on both ends; the receiving party should be Insured.
Indemnity versus benefit	Most general-insurance indemnity covers compensate covered actual loss within terms/limits. Life assurance and specified benefit policies pay agreed benefits on insured events; a human life is not valued by simply reimbursing an invoice. Not every loss is insured or unpredictable in amount.
Pooling and early history	Manu's Manusmriti, Yajnavalkya's Dharmashastra and Kautilya's Arthashastra describe resource pooling for fire, flood, epidemic and famine. These are precursors to risk-sharing, not proof modern insurance contracts already existed. Marine agencies helped develop modern Indian insurance in the eighteenth/nineteenth centuries.

Read the contract

Premium → **Defined insured event** → **Terms and exclusions** → **Claim / agreed benefit**

Dates: life and general nationalisation

Fact anchor	Essential fact / condition
1818 /1870	Oriental Life Insurance Company, Calcutta: early modern life-insurance milestone 1818. Bombay Mutual Life Assurance Society 1870: first Indian life insurer. The word life matters; do not call 1818 the first insurance activity of every kind.
1912 /1938	Indian Life Assurance Companies Act 1912: first statutory life-insurance measure. Insurance Act 1938 consolidated regulation for policyholder protection; commenced 1 July 1939. A life-only 1912 law differs from comprehensive 1938 legislation.
1956 / LIC	Life business nationalised and LIC established 1 September 1956 under LIC Act 1956; initial Government capital 5 crore.170 insurers=154 Indian+16 non-Indian, plus 75 provident societies:245 entities. LIC dominated the nationalised life business until reopening; statutory exceptions should not be erased by an unrestricted monopoly claim.
1972 Act /1973 effect	General Insurance Business(Nationalisation)Act 1972; effective 1 January 1973.107 insurers combined into four companies, correcting source 106. GIC's own history dates incorporation 22 November 1972,commencement 1 January 1973. Act, incorporation and business-start dates differ.

Primary references / see chapter notes

Dates: life and general nationalisation / continued

Nationalisation anchors

1956 / LIC Act → 1 Sep 1956 / LIC → 1972 / GIBNA → 1 Jan 1973 / general

Reopening and foreign investment

Fact anchor	Essential fact / condition
1993 /1994	Government appointed R.N.Malhotra reform committee in 1993; report 1994 recommended competition/private participation and an independent regulator.
Mukherjee / interim IRA	Mukherjee actuarial/solvency committee appointed 7 December 1994; the source's 1995/1997 formation dates confuse stages. Historical account records later report work/submission in 1997 not made public. Interim Insurance Regulatory Authority set up 1996.
1997 autonomy	Greater operational/investment autonomy for LIC, GIC and subsidiaries, including board/service powers and flexibility supporting infrastructure funding. Investment flexibility remained subject to law; it was not unrestricted use of policyholder funds.
1998 /1999 proposals	Historical 40% foreign-participation proposal combined 26% foreign-company and 14% NRI/FIIparticipation; not the enacted 2000 ceiling. Parliamentary scrutiny under Murali Deora settled the 26% framework and IRDA Bill nomenclature. Distinguish proposal, committee recommendation and operative rule.
1999 Act /2000 authority	IRDA Act 1999 received assent 29 December 1999; enforced 19 April 2000. Source assent-in 2000 is incorrect. Private insurers entered under the reopened framework. FDI ceiling:26% initially→49% in 2015→74% in 2021.
Dated 2026 supplement	Sabka Bima Sabki Raksha(Amendment of Insurance Laws)Act 2025 raises the Indian-insurance-company foreign-equity ceiling to 100%; main provisions effective 5 February 2026,except section 25 of that amendment. Apply relevant investment rules/conditions; do not substitute a Budget announcement for commencement. LIC has its separate ownership/investment framework.

Penetration is not density

Fact anchor	Essential fact / condition
Two denominators	Penetration=insurance premium÷GDP×100,a percentage. Density=premium÷population, usually USD per person for international comparison. Neither alone measures claim quality or whether every household is adequately covered.

Primary references / see chapter notes

Penetration is not density / continued

Fact anchor	Essential fact / condition
Worked example	Premium 40 and GDP 1000 in the same currency units→4% penetration. Premium USD 100 million÷population 1 million→USD 100 density. Compare consistent periods, currency and coverage.
Historical penetration	Source series:2.71% in 2001;5.20% in 2009;3.30% in 2014;3.76% in 2019.2019 life 2.82% andnon-life 0.94%. Preserve historical years; these are not current estimates.
Historical density	USD 11.5 in 2001→64.4 in 2010; subsequent decline and recovery, not a continuous increase every year.2019/2019-20 reporting snapshot: total 78,life 58,non-life 19. Published rounded components may not sum to the rounded total; do not force 78 to 77. Current annual-report series shows recovery from 2016-17.
Dated FY 2024-25 report	Penetration 3.7%=life 2.7%+non-life 1.0%. Density USD 97=life 72+non-life 25; FY 2023-24 density 95. A rising dollar-per-person measure can coexist with flat/falling premium-to-GDP ratio.

Measure	Exam trap
Penetration	GDP denominator; percentage
Density	Population denominator; USD/person
More premium	Does not by itself prove higher penetration

Rebuilt insurer counts: date and scope first

Fact anchor	Essential fact / condition
March 2020 / full source table	Public/private/total: life 1/23/24; general 6/21/27; standalone health 0/6/6; reinsurance 1/10/11; all 8/60/68. Reinsurance includes foreign branches and Lloyd's India. The table is historical, not a 2026 roster.
Public-sector eight	LIC 1 life; four general insurers; two specialised insurers ECGC and Agriculture Insurance Company of India(AIC); GIC Re 1 reinsurer. Source's Agriculture Insurance Corporation expansion is incorrect. Historical general 27 includes the two specialised companies.
Registered at 31 March 2025	IRDAI 2024-25 Table I.18: life 26(1 public/25 private); general 25(4/21),plus specialised 2(2/0); health 8(0/8); reinsurers 13(1/12); total 74(8/66). These are REGISTERED counts, not a claim that all sold new business.
Important footnotes	That 74 list includes Reliance Health, restricted from new policies from 2019,and Sahara India Life, whose business transferred to SBI Life in 2023. The narrative identifies seven operating standalone health insurers. A registered count and active-operating count answer different questions.

Primary references / see chapter notes

Rebuilt insurer counts: date and scope first / continued

Type /March 2020	Public /private /total
Life	1 /23 /24
General incl.specialised	6 /21 /27
Standalone health	0 /6 /6
Reinsurers	1 /10 /11
Total	8 /60 /68

The law map and registration

Fact anchor	Essential fact / condition
Three core statutes	Insurance Act 1938: industry regulation; LIC Act 1956: statutory life corporation; GIBNA 1972: general-insurance nationalisation. IRDA Act 1999 created the statutory regulator and amended the earlier framework. Later amendments must be read with original dates.
1912 /1928	1912 life-assurance legislation preceded Indian Insurance Companies Act 1928,enabling statistical collection on life/non-life business.1938 consolidated/amended earlier legislation for effective insurer control and public protection.
Administrative evolution	Insurance administration moved through a wing attached to Commerce and later Finance, with Controller of Insurance handling actuarial/operational matters. Historical amendment milestones 1950,1968,1988,1999 are not an exhaustive current amendment list;2015 and 2025 also matter.
Section 35 / GIBNA	Applies Insurance Act provisions to GIC/acquiring companies subject to Government-notified exceptions, restrictions and limitations. It is not a section 35 of the Insurance Act establishing GIC.
Registration / current distinction	Insurer must obtain IRDAI registration under Insurance Act 3,with prescribed fees/conditions. The source Controller/annual-renewal wording is historical: section 3 Aprovides annual fee, distinct from renewing the licence afresh every year. Registration can be suspended/cancelled under law.

Records, investments and customer protection

Fact anchor	Essential fact / condition
Accounts by class	Maintain separate appropriate accounts/records for fire, marine and miscellaneous business and required audited financial statements. Underwriting information and claim liabilities must be traceable; do not merge unrelated classes into an unexplained total.

Primary references / see chapter notes

Records, investments and customer protection / continued

Fact anchor	Essential fact / condition
All source record types	Cover notes/risk details; policies; premiums; endorsements; bank guarantees; claims records/register; agency force, business and commissions; employees; cash books; reinsurance details. The repeated claims label describes related records, not a licence to drop claim documentation.
Investments and expenses	Approved-investment rules and prudential limits protect policyholder funds. Government/IRDAIlegal provisions govern eligibility. Management expenses include commissions and are limited under applicable class-specific rules, using the prescribed premium/business bases; no single source percentage covers every insurer/product.
Section 41 / rebates	No commission/premium rebate as an inducement to take, renew or continue insurance except permitted published-prospectus/table rebates. Policyholders also cannot accept prohibited rebates. Penalty may extend to 10 lakh, correcting obsolete 500 rupees in source. A permitted contractual discount differs from a secret inducement.
Investigation and related rules	Historical Controller/Government investigation provisions developed into current Authority-led inspection/investigation under section 33. Other provisions address agents, licensed surveyors/loss assessors, advance premium under 64 VB and the historical Tariff Advisory Committee. Do not assume every rate remains centrally tariff-fixed today.



Protection starts before the claim

Learner: What should I read first? Mentor: Cover, exclusions, waiting periods, premium and claim procedure. A discount is not a substitute for understanding the policy.

LIC: trusteeship and statutory guarantees

Fact anchor	Essential fact / condition
Formation and objectives	Management/business of the relevant insurers/provident societies taken over in 1956; LIC established 1 September 1956 with Government 5 crore initial capital under LIC Act. Aim: wide life protection, especially rural, reasonable actuarially justified premiums, economical administration and prudent investment returns consistent with capital safety.

Primary references / see chapter notes

LIC: trusteeship and statutory guarantees / continued

Fact anchor	Essential fact / condition
Section 37	Government guarantees payment in cash of LIC policy sums assured and declared bonuses, including applicable vested liabilities subject tosection 14. This is a specific statutory guarantee, not deposit insurance or a guarantee that every projected investment return will occur.
ULIP correction	The source blanket statement thatsection 37 does not apply to ULIPpolicies is unsupported by the section's all-policies wording. Distinguish contractual sum assured from market-linked unit value: future NAV/investment performance is not guaranteed merely by LIC's statutory status.
Section 38	Ordinary company/corporation winding-up law does not apply to LIC; liquidation requires a Central Government order and prescribed manner. Statutory corporation differs from an ordinary Companies Act insurer.

GIBNA: four companies and public purpose

Fact anchor	Essential fact / condition
Act and Constitution	1972 Act effective 1 January 1973 gave effect to Article 39(c):avoid economic concentration of wealth/means of production to the common detriment. Shares/undertakings vested under the statutory nationalisation framework.
Historical four / headquarters	United India—Chennai(formerly Madras); Oriental—New Delhi; National—Kolkata(formerly Calcutta); New India Assurance—Mumbai(formerly Bombay). GIC originally held the four companies; current direct Government ownership is a later stage.
Objectives / full map	Acquire existing shares/undertakings; develop general insurance for economic needs; establish GIC under Companies Act 1956; aid/advise standards; encourage healthy competition; avoid harmful concentration. Historical authorised capital 75 crore differs from initial subscribed/paid capital 5 crore.
Property insurance /section 25	The source foreign-insurer restriction is subject to statutory exceptions and permissions. Insuring Indian property with an insurer whose principal place is outside India requires the applicable permitted framework; it is not a prohibition on buying Indian cover from every foreign-invested Indian insurer.

Edition and examination cutoff
Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

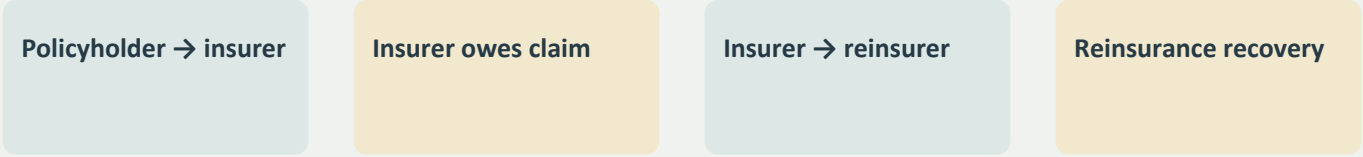
GIBNA: four companies and public purpose / continued

Historical institution	Present city name
United India	Chennai
Oriental	New Delhi
National	Kolkata
New India Assurance	Mumbai

Reinsurance: move risk, retain responsibility

Fact anchor	Essential fact / condition
Ceding and capacity	A direct insurer transfers an agreed portion of risk to a reinsurer; it is the ceding company. Reinsurance adds capacity, technical support and can reduce volatility. The direct insurer remains liable to its policyholder even if the reinsurer fails.
1956 /1961	Early cover relied on British/continental markets. Indian Reinsurance Corporation formed 1956; member insurers contributed voluntary cessions.1961 introduced compulsory category-wise cessions to approved Indian reinsurers to retain premium domestically.
Historical cession ladder	20% through 2006-07;15% in 2007-08;10% from 2008-09 through 2012-13; then 5% source-era rate. The source's at-present 5% must not be carried forward as current.
Dated FY 2026-27 notification	IRDAI 9 April 2026 notification:4% of sum insured on each applicable general policy for insurance attaching 1 April 2026-31 March 2027; terrorism premium/nuclear-pool cessions NIL. Entire obligatory cession placed with GIC Re. This compulsory slice is distinct from an insurer's entire reinsurance programme.
Worked risk distinction	Insurer covers 100 and reinsures 40 under a contract. Policyholder still claims against the insurer; the insurer recovers according to its reinsurance contract. Reinsurance is not a transfer of the policyholder's claim rights to an unknown third party by default.

Two contracts



Primary references / see chapter notes

GIC restructuring and a wider market

Fact anchor	Essential fact / condition
Reopening	IRDA Act 1999 amendments removed exclusive privileges and shifted oversight to the insurance regulator. GIC became the national reinsurer; the four companies' supervisory/ownership relationship changed.
2002 amendment /2003 effect	GIBNAamendment 2002 delinked GIC from the four former subsidiaries with effect 21 March 2003; Government held them directly. Insurers arrange reinsurance subject to regulatory requirements rather than treating GIC as a group holding-company supervisor.
Current scope / dated roster	GIC Re writes Indian and overseas risks. Source 11 reinsurers(1 national+10 others/foreign branches/Lloyd's) is an older snapshot;31 March 2025 registered table reports 13(1 public/12 private). Foreign branches and cross-border reinsurers broaden capacity/competition; registered onshore presence differs from cross-border placement.
Treaty versus facultative	Treaty covers an agreed portfolio/class under contract; facultative cover is negotiated for an individual risk. GIC's important market role does not mean it automatically leads every current treaty/facultative placement.

Syllabus bridge: electronic insurance repositories

Fact anchor	Essential fact / condition
Function / additional syllabus point	An IRDAI-approved repository stores/maintains electronic insurance policies in an e-Insurance Account(e IA),supporting consolidated access and servicing. The insurer remains the risk carrier; the repository is not the insurance regulator or a reinsurer.
Dated approved list	IRDAI 2024-25 report lists four approved repositories at 31 March 2025: NSDL National Insurance Repository; CDSL Insurance Repository; CAMS Repository Services; Karvy Insurance Repository. Names are the report's dated names; corporate renaming does not change the underlying function.
Syllabus / intermediaries	Agents/corporate agents distribute insurance; brokers arrange/advice under their authorised scope; web aggregators provide regulated online comparison/distribution; insurance marketing firms serve permitted channels. Surveyors/loss assessors assess losses; TPAs provide authorised health-policy servicing. The insurer carries risk; intermediaries do not independently guarantee claims.
Syllabus / global comparison	IRDAI 2024-25 report citing Swiss Re 2024: world penetration 7.3%(life 3.0%,non-life 4.3%); density USD 943(life 388,non-life 555). India comparison 3.7%/USD 97 uses the stated report periods. Compare like measures; premium volume/rank differs from penetration or density.

Primary references / see chapter notes

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Insurance penetration has which denominator? A. Population; B. GDP; C. Number of claims; D. Share capital **Answer B.** Premium divided by GDP times 100; density uses population.
Q 02	Insurer reinsures part of a policy; reinsurer defaults. Who owes the insured claim under the original policy? A. Only reinsurer; B. Insurer remains liable; C. Repository; D. No one **Answer B.** Reinsurance is a separate risk-sharing contract; it does not remove the direct insurer's liability.
Q 03	Correct nationalisation chronology? A. LIC 1956; general Act 1972 effective 1973; B. LIC 1972; general 1956; C. Both first nationalised 2000; D. General Act 1973 effective 1972 **Answer A.** Separate the statute year from commencement.
Q 04	74 in IRDAI March 2025 registered table means? A. 74 all actively issuing new policies; B. Registered insurers/reinsurers including specified restricted/transferred entities; C. 74 life insurers; D. 74 public insurers **Answer B.** Read registration scope and footnotes; it is not an active-new-business count.
Q 05	Section 41 prohibited rebate penalty in the updated Act may extend to? A. 500 rupees; B. 10 lakhrupees; C. Only cancellation of the customer's policy; D. No consequence **Answer B.** Source 500 rupees is obsolete; published permitted rebates remain a distinct exception.

Reference desk / read the date

Primary reference	Primary reference
IRDAI / insurance evolution	LIC / official history
India Code / Insurance Act	India Code / LIC Act
India Code / GIBNA	IRDA Act / High Court official law record
IRDAI /2024-25 annual report	Actuaries Institute / Mukherjee committee history
ICAI / reform-proposal history	Government /2025 insurance amendment
Parliament / commencement notification record	IRDAI / FY 2026-27 Gazette notification mirror
GIC / verified incorporation and mandate	GIC / reinsurance development prospectus
Government / historical 2019 density	IRDAI / annual fee law version 2021

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Insurance policy records the insurance contract.	**15.** IRDAActassent 29 December 1999; enforcement 19 April 2000.
02. Premium is consideration for the insurance promise.	**16.** Historical FDI ceilings:26%,49%(2015),74%(2021).
03. Life assurance benefits differ from general indemnity.	**17.** 2025 amendment raises Indian-insurance-company foreign-equity ceiling to 100%.
04. Oriental Life milestone:1818,Calcutta.	**18.** Main 2025 amendment provisions effective 5 February 2026,except itssection 25.
05. Bombay Mutual Life:1870.	**19.** Penetration=premium/GDP×100.
06. Indian Life Assurance Companies Act:1912.	**20.** Density=premium/population, usually USDper person.
07. Indian Insurance Companies Act 1928 enabled statistics collection.	**21.** FY 2024-25 penetration 3.7%; density USD 97.
08. Insurance Act 1938 commenced 1 July 1939.	**22.** March 2020 source roster 68 is a historical snapshot.
09. LIC established 1 September 1956.	**23.** March 2025 registered roster 74 requires footnotes.
10. Initial LIC Government capital was 5 crore.	**24.** Section 41 penalty may extend to 10 lakh.
11. 1956 takeover involved 170 insurers plus 75 provident societies.	**25.** LIC Act 37 guarantees sums assured and declared bonuses as specified.
12. GIBNA 1972 took effect 1 January 1973.	**26.** LIC Act 38 requires Government-order liquidation.
13. 107 general insurers were grouped into four, not 106.	**27.** Reinsurance does not release the direct insurer from policyholder liability.
14. Malhotra committee 1993; report 1994.	**28.** FY 2026-27 obligatory general-policy cession 4%,with notified exceptions.

Primary references / see chapter notes

Four regulators and the RBI timeline

Fact anchor	Essential fact / condition
Which regulator?	RBI: money, banks, relevant NBFCs, payments and foreign exchange. SEBI: securities markets. IRDAI: insurance. PFRDA: pension funds/NPS within its mandate. A financial group can have entities subject to different regulators; one brand does not imply one licence.
1926-1935	Hilton-Young Royal Commission on Indian Currency and Finance 1926 recommended a central bank. Early Bill introduced January 1927; RBI Actenacted March 1934; RBI began 1 April 1935. Before this, Government and, to a smaller extent, Imperial Bank performed central-banking functions.
Ambedkar contribution	Dr.B.R.Ambedkar's 1923 The Problem of the Rupee: Its Origin and Its Solution, and his evidence on currency, contributed to the policy debate. This intellectual contribution should not be reduced to a claim that one book alone legally established RBI.
Burma and headquarters	Served undivided India/Burma; Burma service continued until April 1947 except the 1942-45 occupation interruption. Central Office moved from Calcutta to Bombay in 1937; modern names Kolkata/Mumbai.
Public ownership / directions	RBI began as a privately owned statutory institution; nationalised 1 January 1949 under Transfer to Public Ownership Act 1948. Government's public-interest direction power after consultation with Governor arises under RBI Actsection 7,not simply from the 1948 nationalisation statute.

Market / customer need	Regulatory anchor
Banking and monetary stability	RBI
Securities investor protection	SEBI
Insurance policyholder protection	IRDAI
Pension subscriber protection	PFRDA

Edition and examination cutoff

Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

RBI governance and its objectives

Fact anchor	Essential fact / condition
Central Board	Governor and up to four Deputy Governors; ten Government-nominated non-official directors; two Government officials; four directors, one from each Local Board. Maximum 21 with all positions filled. Government appoints Governor/Deputy Governors under law; actual vacancies differ from statutory composition.
Management	Mumbai headquarters; functional departments coordinate policy, regulation, supervision, currency, markets and support work. The source hierarchy is an organisational learning diagram, not an exhaustive statement that every current department follows one identical chain.
Upper source ladder	Central Board→Governor→Deputy Governors→Executive Directors→Principal Chief General Managers→Chief General Managers→General Managers. Board oversight differs from each officer's operational responsibilities.
Lower source ladder	Deputy General Managers→Assistant General Managers→Managers→Assistant Managers→Support Staff. Titles alone do not confer identical delegated powers; read the function and authority.
Objectives / all six	Monetary stability; financial stability/sound institutions; safe and efficient payment systems; credit allocation reflecting economic priorities/social concerns; appropriate money/credit conditions supporting price stability; development of financial markets and systems. Preamble links note issue, reserves and operation of currency/credit to the country's advantage.

RBI roles and the monetary-policy committee

Fact anchor	Essential fact / condition
Nine roles	Monetary authority; currency issuer; Government banker/debt manager; banker to banks; banking regulator; forex manager; financial stability; payment-system regulator/supervisor; developmental role. Do not confuse Government debt management with lending directly to every citizen.
Monetary policy	Instruments influence availability, cost and use of money/credit. Primary modern statutory objective: price stability while keeping growth in mind; productive-credit flows and financial stability complement this mandate.
Indicators	Interest rates, inflation, money supply, credit, exchange rate, trade, capital flows, fiscal position and output inform assessment. Multiple-indicator analysis is compatible with the modern flexible-inflation-targeting framework; it is not a substitute legal target.

Primary references / see chapter notes

RBI roles and the monetary-policy committee / continued

Fact anchor	Essential fact / condition
MPC /2016 /45 ZB	Six members: Governor(chair), monetary-policy Deputy Governor, one RBI officer nominated by Central Board, and three Government-appointed external members. Policy repo decisions are collective; MPD supplies analysis/support.
Meetings and vote	Statutory minimum FOUR meetings annually under 45 ZI, not source at-least-six. Six scheduled bimonthly reviews are usual practice, with additional meetings possible. Quorum four; each member one vote; Governor has casting vote on equality.
Dated target 2026-2031	Inflation target 4% with tolerance 2%-6% continues 1 April 2026-31 March 2031. Target and tolerance differ from an instruction that every monthly observation must equal 4%.



Who decides the policy rate?

Learner: Only the Governor? Mentor: The six-member MPC votes. Governor chairs and has a casting vote in a tie. Distinguish this from the RBI Central Board.

Policy instruments: follow the mechanism

Fact anchor	Essential fact / condition
Reserve requirements	Source direct-tools branch: CRR, cashreservewith RBI; SLR, prescribed liquid assets maintained bybanks. They use different eligible-assets/reserve bases; holding government securities for SLR is not the same as placing CRRcashwith RBI.
Liquidity and rates	LAF: Liquidity Adjustment Facility. Repo supplies collateralised liquidity; MSF: Marginal Standing Facility, overnightstandingcredit. SDF: Standing Deposit Facility absorbs liquidity without collateral. Do not merge MSFand SDF into one same-direction tool.
Market instruments	OMO: outright purchase/sale of government securities, adding/absorbing liquidity. MSS: Market Stabilisation Scheme uses specified securities to absorb enduring surplus liquidity, with separate cash-account treatment. Indirect tools operate through markets/rates rather than identical reserve mandates.
Dated 23 October 2026 snapshot	RBI published table: repo 5.50%,SDF 5.25%,MSF/Bank Rate 5.75%,CRR 3%,SLR 18%. These are dated supplementary figures, not timeless facts or automatically the applicable examination cutoff.

Primary references / see chapter notes

Policy instruments: follow the mechanism / continued

Liquidity direction

Repo /MSF supply	Banks receive funds	SDF absorbs	Banks place funds

Currency history: repair the source dates

Fact anchor	Essential fact / condition
Before RBI notes	Paper-money experiments began in the 18 thcentury; Presidency Banks including Bengal, Bombay and Madras issued notes. Paper Currency Act 1861 gave Government the note-issue monopoly. RBI took legal responsibility in 1935 but continued Government notes until its own issues were ready.
1938 issues	First RBI banknote: INR 5 in January 1938; INR 10 in February, INR 100 in March, INR 1000 and INR 10000 in June 1938. Printing presses, legal issuer and circulating note designs are different concepts.
1946 /1954 /1978	High denominations 1000/10000 withdrawn 1946;1000/10000 returned 1954 alongside 5000.1000/5000/10000 withdrawn 1978. These episodes differ from the 2016 withdrawal.
2016 correction	Specified old 500/1000 notes ceased legal tender from midnight 8 November 2016. Source 6 November is wrong. This differs from withdrawal of 2000 notes from circulation in 2023, which retained legal-tender status.
Denominations and demand	RBI Act 24 permits prescribed banknote denominations up to 10000; higherdenomination needs statutory change. Statutory permission is not proof every denomination is currently printed. Currency planning considers inflation, GDPgrowth, replacement ofsoilednotes andreserve stock.
Coins and one-rupee note	Government mints coins; RBI distributes them. Government's 1 rupee note bears Finance Secretary signature, not Governor, and is treated as rupee coin under the 1940 framework.1940 wartime reintroduction and 1994 printing discontinuation are historical; printing resumed 2015.

Regulation and supervision: who does what?

Fact anchor	Essential fact / condition
Banks	Commercial banks include SFBs, Payments Banks and LABs; RRBs and urban co-operative banks have relevant RBI banking oversight. Distinct licences mean distinct activities: Payments Banks cannot undertake own lending.

Primary references / see chapter notes

Regulation and supervision: who does what? / continued

Fact anchor	Essential fact / condition
AIFIs	EXIM, NABARD, NHB, SIDBI and now NaBFID are the five AIFIs. Source four is an older roster. Development finance and banking deposits are different mandates.
Rural co-operatives	NABARD inspects/supervises relevant State/District Central Co-operative Banks and RRBs under statutory arrangements; this does not extinguish RBI powers under Banking Regulation Act. Regulation and specified supervision can involve different institutions.
NBFC activity labels	RBI regulates relevant ICC(former AFC/LC/IC), IFC, CIC, IDF, MFI, Factors, MGC, NOFHC and other prescribed categories. HFC regulation moved to RBI in 2019; AA and P 2 P have specific frameworks. Insurance/securities activities retain their separate regulatory mandates.

Foreign exchange and payment-system oversight

Fact anchor	Essential fact / condition
FEMA 1999	RBI administers relevant FEMA provisions and authorises banks/other eligible institutions as dealers. Three forex roles: regulate external transactions/develop the market; maintain orderly domestic conditions; manage foreign currency and gold reserves.
Three departments	FED: Foreign Exchange Department, regulatory/development framework. FMD: Financial Markets Department, market operations including currency purchases/sales to address volatility. DEIO: Department of External Investments and Operations, reserve investment/operations. Intervention does not promise a fixed exchange-rate level.
Reserves	Investment priorities: safety, liquidity, return. Weekly Statistical Supplement discloses reserves; preserve observation date. Foreign currency assets and gold are different reserve components.
Payments law and board	PSS Act 2007 gives RBI payment-system regulation/supervision. Erstwhile BPSS was a Central Board committee; Payments Regulatory Board replaced it from 9 May 2025: Governor chair, Deputy Governor and ED in charge of payments, plus 3 Government nominees. This six-member board is distinct from the MPC.
Safety and infrastructure	Safe, secure, efficient payment/settlement reduces systemic risk. INFINET secure financial network and digital signatures are important infrastructure/security concepts; do not assume every modern retail payment uses one single technical route.

Primary references / see chapter notes

Foreign exchange and payment-system oversight / continued

Reserve-investment priority



SEBI: history, law and board

Fact anchor	Essential fact / condition
1988 /1992	Non-statutory SEBI constituted 12 April 1988; SEBI Act 1992 provisions effective 30 January 1992 established the statutory regulator.1991 reforms and market expansion strengthened the need for oversight; they were not the original 1988 creation date.
Three-part mandate	Protect securities investors; develop the market; regulate securities markets. Statutory autonomy/accountability under the Ministry of Finance framework does not mean unlimited jurisdiction over every financial product.
Earlier control	Controller of Capital Issues and Company Law Board performed relevant functions before the modern SEBI framework. Issue-price/permission controls, company law and market conduct are separate legal functions.
Section 4 / statutory composition	Chairperson;2 Central Government officials;1 RBI official;5 other Government-appointed members, of whom at least 3 whole-time. Total 9 with all posts filled. Source chair+3 full+4 part is not the complete statutory formula.
Organisation image rebuilt	Chairperson and whole-/part-time members provide governance; Executive Directors and specialised executives/officers support administration and market functions. The chart does not set each member's voting or appointment rights.

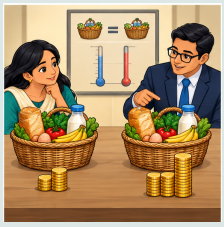
SEBI: intermediaries and enforcement

Fact anchor	Essential fact / condition
Primary-market network	Registers/regulates relevant merchant bankers, underwriters, bankers to issue, registrars/share-transfer agents and debenture trustees. Primary market creates/issues securities; the same intermediary may perform other permitted roles.
Secondary and investment network	Stockbrokers, exchanges, custodians, depositories, mutual funds and venture-capital/AIF frameworks; foreign investors now typically use the FPI framework rather than legacy FII terminology. Sub-broker was a source-era category; authorised-person arrangements follow the current broker framework.

Primary references / see chapter notes

SEBI: intermediaries and enforcement / continued

Fact anchor	Essential fact / condition
Enforcement powers	Inspection, enquiry, audit, information/record production and statutory penalties/adjudication. Applicable powers include relevant listed-company books/registers/documents and civil-court-type powers under Code of Civil Procedure 1908, such as summoning and production.
Protective orders	Reasoned written orders can protect investors/markets pending, during or after enquiry/investigation under law. Procedural powers do not make SEBI an ordinary civil court or grant unlimited criminal sentencing powers. SAT/judicial recourse differs from investor complaint servicing.



A rising price is not regulatory approval

Learner: A listed share must be safe? Mentor: Regulation sets disclosure and conduct rules. It does not guarantee an investment return or eliminate issuer risk.

IRDAI: purpose and institutional evolution

Fact anchor	Essential fact / condition
History repaired	Insurance evolved from early 1800 sactivities; Government/Controller oversight preceded IRDA. Malhotra committee 1993, report 1994, not 1999. IRDA Act 1999; statutory Authority 2000; registration applications invited August 2000 and historical foreign participation 26%. Current 100% ceiling update is in C 07.
Policyholder-first mandate	Protect interests and fair treatment, financial soundness and orderly growth; promote integrity, competence, fair dealing, transparency and dependable management; act against malpractice, fraud and below-standard conduct.
Growth and long-term funds	Sound insurance mobilises long-term funds for productive investment, subject to prudential limits. IRDAI regulates/enables this process; it is not itself an ordinary infrastructure lender.
Claims and self-regulation	Promote fair, timely settlement of genuine claims, grievance redress and responsible self-regulation. Policy wording, exclusions and evidence still matter; an insurer can reject a claim on valid lawful grounds, not arbitrary discretion.
Regulations and guidance	Insurance Act 114 A provides regulation-making power as applicable, alongside IRDA Act powers. Advisories/circulars communicate rules and changes; fairness does not mean all insurers must offer identical products or prices.

Primary references / see chapter notes

IRDAI: turn powers into customer checks

Fact anchor	Essential fact / condition
Registration and policy rights	Grant, modify, suspend, cancel or withdraw registration under law; annual fee differs from renewal as explained in C 07. Protect policy issuance, assignment, nomination, insurable interest, surrender value, claims and other terms.
People and oversight	Specify agent/intermediary qualifications, training and conduct; surveyor/loss-assessor conduct; fees/charges. Call information; inspect, investigate and audit insurers, intermediaries and associated entities.
Rates and obligations	Regulate terms, conditions, rates and advantages where legally empowered; this is not blanket approval of every premium increase. Set applicable rural/social-sector and other business obligations, not an unexplained minimum percentage of insurance companies.
Grievance route corrected	Start with the insurer grievance officer; IRDAI's Bima Bharosa monitors/facilitates complaints. Insurance Ombudsman operates under Insurance Ombudsman Rules and the Council for Insurance Ombudsmen. It is distinct from an IRDAI department. Other applicable legal remedies remain available.
Expected benefit	Consistent registration, conduct, solvency, disclosure and customer-protection oversight help sustained industry development. This cannot promise that no claim will be disputed or no firm will fail.

Insurance products: recognise the category

Fact anchor	Essential fact / condition
Life products	Term: specified death cover during term; endowment: protection plus contractual maturity benefit; ULIP: life protection with market-linked funds; retirement/pension products: retirement income purpose; money-back: specified survival payments and life protection.
General / non-life	Health; vehicle/motor including car and bike; property; travel; gadget cover. Each has defined risks, exclusions, limits and claim conditions. Health cover can be indemnity or fixed benefit; product features determine payment.
Regulator versus seller	IRDAI regulates the insurance framework; the insurer sells cover and owes valid claims. A bank distributing insurance acts as an intermediary under applicable permissions; it is not automatically the insurance-risk carrier.

Primary references / see chapter notes

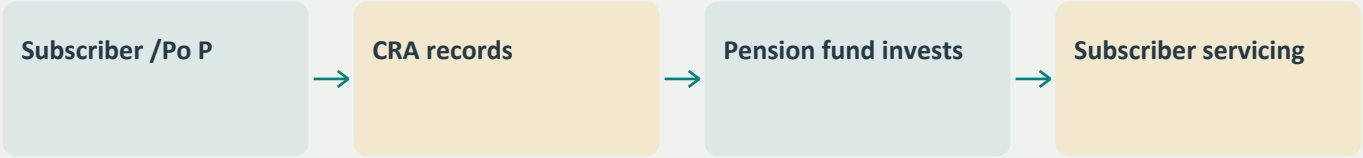
Insurance products: recognise the category / continued

Learner need	Possible policy type
Income protection on death	Term life
Treatment expenses	Relevant health cover
Vehicle loss/liability	Motor cover
Trip-specific risks	Travel cover

PFRDA: pension dates and service chain

Fact anchor	Essential fact / condition
2003 /2013 /2014	Interim PFRDA set up 2003. PFRDA Act enacted 19 September 2013; statutory framework effective 1 February 2014. Mandate: old-age income security, pension-fund development/regulation and subscriber protection under the Ministry of Finance framework.
NPS launch repaired	National Pension SYSTEM. Government notification December 2003; new Central Government recruits except armed forces covered from 1 January 2004. All-citizens voluntary extension 1 May 2009. Source 2003 operational-launch claim confuses notification and start.
Accounts and intermediaries	NPS Tier Iand Tier II within the applicable framework. Pension Fund Managers invest; CRAs maintain records; Points of Presence facilitate access/servicing; other authorised agencies have distinct roles. Registration and oversight do not guarantee market returns.
Education and redress	Educate public/stakeholders, train intermediaries, promote mandatory/voluntary pension coverage, handle relevant grievances and resolve intermediary/subscriber disputes through prescribed mechanisms. PFRDA does not regulate every retirement arrangement merely because it uses pension terminology.

NPS service chain



Primary references / see chapter notes

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	What is the statutory minimum number of MPC meetings annually? A. Six; B. Four; C. Twelve; D. Two **Answer B.** Six scheduled reviews are usual practice; the law requires at least four.
Q 02	SEBI Act 4 provides how many other members beyond chair,2 Government and 1 RBIofficial? A. Three, all part-time; B. Five, at least three whole-time; C. Four, all whole-time; D. Ten **Answer B.** The statutory full composition totals nine.
Q 03	Which insurance complaint statement is accurate? A. Insurance Ombudsman is an IRDAI department; B. Insurer grievance and prescribed Ombudsman routes differ from IRDAI regulation; C. RBI settles every insurance claim; D. PFRDA approves motor claims **Answer B.** Council for Insurance Ombudsmen operates under its prescribed rules.
Q 04	NPS for new Central Government recruits except armed forces began when? A. 1 January 2004; B. 1 January 2003; C. 1 May 2000; D. 1 February 2014 **Answer A.** December 2003 notification preceded January 2004 coverage; all-citizen extension was May 2009.
Q 05	Which facility absorbs liquidity without collateral? A. MSF; B. SDF; C. Repo borrowing; D. A new bank loan **Answer B.** SDF is the standing deposit facility; MSF provides standing credit.

Reference desk / read the date

Primary reference	Primary reference
RBI / institutional history	RBI / current governance
RBI / monetary policy framework	RBI / currency museum
RBI / currency FAQs	RBI /23 October 2026 rate table
RBI Deputy Governor /2026-31 inflation target	RBI / Payments Regulatory Board 2025
SEBI / statutory establishment	SEBI / section 4 statutory composition
IRDAI /2024-25 statutory functions	CIO / Insurance Ombudsman Rules
PFRDA / official history and mandate	Parliament / verified NPS commencement
President of India / Ambedkar monetary contribution	Parliament / earlier 1927 RBIbill

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. RBI Act 1934; operations 1 April 1935.	**15.** OMO outright purchases add liquidity; sales absorb.
02. Hilton-Young Commission report:1926.	**16.** First RBI own banknote 5 rupees: January 1938.
03. RBI Central Office moved to Mumbai in 1937.	**17.** Old 500/1000 legal-tender cessation: midnight 8 November 2016.
04. RBI public ownership began 1 January 1949.	**18.** Government 1 rupee note bears Finance Secretary signature.
05. RBI public-interest direction power is section 7.	**19.** RBI forex reserve priorities: safety, liquidity, return.
06. Full RBI Central Board composition can total 21.	**20.** PSS Act 2007 underpins payment-system oversight.
07. MPC was constituted under 45 ZB in 2016.	**21.** Payments Regulatory Board replaced BPSS from 9 May 2025.
08. MPC has six members.	**22.** SEBI non-statutory creation 12 April 1988.
09. MPC statutory meeting minimum is four annually.	**23.** SEBI statutory provisions effective 30 January 1992.
10. MPC quorum is four.	**24.** SEBI Act 4 board: chair,2 Government,1 RBI,5 others at least 3 whole-time.
11. Governor has casting vote on an MPC tie.	**25.** IRDAI protects policyholders and regulates/develops insurance.
12. MPD assists monetary-policy analysis.	**26.** Insurance Ombudsman framework is distinct from IRDAI.
13. SDF absorbs liquidity without collateral.	**27.** Interim PFRDA 2003; Act 2013; effective 1 February 2014.
14. MSF provides standing overnight credit.	**28.** NPS Government start 1 January 2004; all-citizens 1 May 2009.

Primary references / see chapter notes

Infrastructure: long lives and wider benefits

Fact anchor	Essential fact / condition
Three distinguishing features	Large upfront/overhead capital; long gestation before output/cash flows; economies of scale and externalities. A rural road can improve farm selling prices and reduce delivered fertiliser, pesticide and other input costs. Benefits extend beyond the project's own toll revenue.
Inclusive growth	Good infrastructure supports faster and more widely shared growth, access and productivity; it can reduce poverty/inequality when benefits reach underserved people. This is an objective and mechanism, not an automatic result from every construction project.
All source components /1	Construction; electricity generation/transmission/distribution; piped gas; water works/supply; non-conventional energy; railway tracks, signals and stations; roads/bridges, runways and airport facilities.
All source components /2	Telecommunications; pipelines for water, crude oil, slurry; waterways; ports; irrigation canals; sanitation/sewerage. The source functional list is not a substitute for the current notified infrastructure-sector eligibility list.



The road pays twice

Learner: Only toll income counts? Mentor: Farmers may reach better markets and buy inputs more cheaply. Appraisal separates project cash flows from wider social benefits.

Funding routes and risk appraisal

Fact anchor	Essential fact / condition
Seven source channels	Government; DFIs; commercial banks; NBFCs; insurance companies/pension funds; External Commercial Borrowings; foreign direct investment. Debt requires service; equity bears ownership risk; foreign funds bring currency/regulatory considerations.
Maturity and scale	Source illustrative maturities 5-40 years reflect long construction/asset life, not a universal statutory term. A hydro project may take five years to construct and operate for 100 years or more depending on engineering/maintenance. Loan maturity need not equal physical asset life.

Primary references / see chapter notes

Funding routes and risk appraisal / continued

Fact anchor	Essential fact / condition
Source arithmetic illustration	Assume USD 1 million per selected unit and INR 79.75/USD solely for an example, not a current cost/FX quote. USD 200 million=INR 1595 crore; USD 250 million=INR 1993.75 crore, correcting source 1995. Actual project costs vary greatly; no universal road-km/MW tariff is implied.
Four risk families	Demand/revenue uncertainty; environmental/construction surprises; technological obsolescence, for example telecom; political/policy uncertainty. High initial investment and a long horizon amplify exposure.
Return distinction	Public-policy/tariff considerations can constrain user charges and financial returns despite large social benefits. Source fixed, always-positive near-zero real returns is not a universal law: commercial returns can vary or be negative. Real return adjusts for inflation; social return is a different measure.

Project appraisal



Why development finance? Historical institutions

Fact anchor	Essential fact / condition
Funding gap	DFIs supply long-term resources and development support where banks/markets undersupply viable capital-intensive projects. Urban infrastructure, heavy industry, mining and irrigation illustrate long horizons. Public importance does not eliminate appraisal, credit losses or repayment obligations.
Institution dates	IFCI 1948; IDBI 1964; NABARD/EXIM 1982; SIDBIoperations 1990. Source IIBI 1972 is incorrect: IRCI predecessor 1971→IRBI 1985→IIBI 1997. These are different legal stages, not interchangeable names/dates.
Funding-model change	ICICI/IDBI/IDFC histories include banking transitions and group restructuring to broaden funding, including access to lower-cost deposits. The exact route differs: forming a bank/subsidiary and later merger is not always simple same-entity conversion. Banking also brings reserve/capital obligations.
Sector examples	REC: power-sector finance; NABARD: agriculture/rural development; IRFC: rail finance. DFI is a functional description; it does not make every historical DFI an ordinary commercial bank.

Primary references / see chapter notes

NaBFID: a statutory infrastructure institution

Fact anchor	Essential fact / condition
Correct name /2021 Act	National Bank for Financing Infrastructure and Development. Authorised share capital 100000 crore(1 lakhcrore),distinct from paid-up capital and the separate 5000 crore grant. It now exists; source future-tense will-be is historical.
Eligible owners	Central Government, multilateral institutions, sovereign wealth funds, pension funds, insurers, FIs, banks and other prescribed institutions. Government initially owned 100%; it must retain AT LEAST 26% at all times, not reduce below 26% or necessarily hold exactly 26%.
Two objectives	Financial: direct/indirect loans, investment and attracting funds for infrastructure entirely/partly in India. Developmental: strengthen markets for infrastructure bonds, loans and derivatives. Government-notified sectors determine the covered domain.
All source functions	Extend project loans/advances; take over/refinance existing loans; attract private/institutional investors; facilitate foreign participation; support negotiations with authorities for dispute resolution and provide infrastructure-finance consultancy. Advice does not guarantee an approval or settle every dispute automatically.

Two complementary jobs

Finance projects

Mobilise investors

Develop markets

Build financing capacity

NaBFID: resources, board and Government support

Fact anchor	Essential fact / condition
Funding sources	Loans/other resources in rupees or foreign currency; bonds/debentures and permitted instruments. May borrow under statutory conditions from Government, RBI, scheduled commercial banks, mutual funds and multilateral institutions such as World Bank/ADB. RBI borrowing power here is specific, not a right of every NBFC.
Board / complete source map	Government-appointed chair in consultation with RBI; MD; up to 3 DMDs;2 Government nominees; up to 3 shareholder-elected directors; independents up to 3 ORone-third of Board, whichever higher. Source a-few is made precise from the Act.

Primary references / see chapter notes

NaBFID: resources, board and Government support / continued

Fact anchor	Essential fact / condition
Section 21 / first-year grant	Government to grant/contribute 5000 crore by end of first financial year after establishment, in cash or marketable Government securities. This is neither the 100000 crore authorised capital nor a fresh yearly 5000 crore entitlement.
Section 22 / guarantee fee	Government may extend prescribed guarantees for eligible foreign/multilateral/sovereign-fund borrowing at concessional fee NOT EXCEEDING 0.1%. That is the guarantee fee, not a 0.1% loan interest rate.
Section 23 / hedge support	Government may reimburse all/part of eligible foreign-currency hedging costs. It may provide requested eligible bond/debenture/loan guarantees under the framework; neither support is an unconditional promise for every debt. Hedging reduces currency exposure, not project demand risk.

Bad bank: separate ownership from resolution

Fact anchor	Essential fact / condition
Problem and projections	Pandemic-era stressed loans prompted IBA/Government deliberations for an ARC-plus-resolution-company model. Source March 2021 GNPA stock and March 2022 forecast particulars not independently reconciled are itemised in audit. Historical stress forecasts are not actual outcomes.
Correct stress-test reading	RBI January 2021 FSR projected September 2021 SCB GNPA 13.5% under baseline,14.8% severe stress; source 13.59% is a transcription error. These conditional projections do not establish realised GNPA.
NARCL /7 July 2021	National Asset Reconstruction COMPANY Limited, not Bank. Incorporated 7 July 2021; RBI ARC registration 4 October 2021. Acquires/aggregates stressed assets under the ARC/SARFAESI framework; does not take ordinary public bank deposits.
IDRCL	India Debt Resolution Company Limited: service/operational entity using turnaround and market expertise for asset management/value addition. NARCL owns/acquires the exposure; IDRCL provides resolution services under the arrangement.
Ownership and benefit	Original structure: NARCL minimum 51% PSB ownership; IDRCL maximum 49% PSB/public-FI stake, remaining private-sector lenders. Removing/transferring stressed exposures can free resources and management attention, but bank losses/valuation effects do not disappear.

Primary references / see chapter notes

NARCL: the 15/85 structure and source table

Fact anchor	Essential fact / condition
Original 2021 plan	About 200000 crore stressed assets in phases; Phase Iabout 90000 crore fully provisioned, remaining 110000 crore with lower provisioning. Fully provided is an accounting allowance; it is not identical to a legal debt waiver or every loan being written off. Intended large-loan scope ABOVE 500 crore each per original Government FAQ, not an unchanging universal ARC threshold.
15% cash /85% SRs	Consideration may combine 15% cash and 85% Security Receipts. If agreed acquisition value 100 crore:15 cash+85 SRs. Apply the split to AGREED VALUE, not automatically the original outstanding face debt. An SR is a recovery-linked instrument, not immediate cash payment.
30600 crore guarantee	Original Government backstop up to 30600 crore for SR shortfall against realised recovery after resolution/liquidation, subject to scheme conditions. Valid five years from SR issuance or final settlement, whichever earlier. Guarantee ceiling differs from total assets and acquisition price.
Correct source 15% label	Source table guarantee 15% ofloans is not the guarantee coverage rule.30600/200000=15.3% as a rough comparison of two different programme amounts;15% cash is a different fact. Do not replace the conditional SR-shortfall guarantee with a blanket 15% loan-loss guarantee.
Transfer workflow	NARCL offers to lead bank; accepted transaction proceeds under applicable process; IDRCL engaged for management/value addition. A limited guarantee horizon and escalating applicable fees encourage timely resolution, not indefinite warehousing.
Historical percentage cells	Source table quotes 1.8%,0.3%,0.8%,1.0% of banking loans, without a reconciled dated denominator. These four percentages are omitted/itemised; amounts 200000,30600,90000,110000 andownership 51/49 are retained with their proper scopes.
Dated March 2026 progress	Government 30 April 2026 release:33 borrower entities acquired, aggregate debt exposure 165862 crore. FY 2025-26 recoveries 4364 crore; cumulative 6345 crore. Debt exposure, acquisition consideration and cash recovery are three different measures.

Primary references / see chapter notes

NARCL: the 15/85 structure and source table / continued

Rebuilt historical plan	Amount / condition
Total /Phase I /Phase II	200000 /90000 /110000 crore
Cash /Security Receipts	15% /85% of agreed acquisition value
Government SR backstop	Up to 30600 crore; conditional shortfall
NARCL /IDRCL public ownership	Minimum 51% /maximum 49%

Syllabus bridge: EASE reforms in PSBs

Fact anchor	Essential fact / condition
Meaning and launch	EASE=Enhanced Access and Service Excellence. Government announced the PSBreform agenda January 2018,with annual independently assessed reform priorities. It is a bank-improvement agenda, not a new RBI licence or deposit-insurance scheme.
Original six themes	Customer responsiveness; responsible banking; credit offtake; PSBs as Udyami Mitra; financial inclusion/digitalisation; personnel/brand PSB. Customer service, credit discipline and capability-building belong together.
Dated FY 2025-26 /EASE 8	EASERise four themes: Risk and Resilience, Innovation, Socio-economic Impact, Excellence. Examples: accessible/multilingual service; digital lending/account-aggregator data; early warnings/fraud and mule-account detection; cyber resilience and staff capabilities.
Governance and exam distinction	EASE Steering Committee of PSBs under IBA guides and reviews measurable progress quarterly. This reform assessment is distinct from RBI prudential supervision/PCA. Latest version taught here is the verified FY 2025-26 agenda, not an invented future version.

Original checks / answers with reasons

Fact anchor	Essential fact / condition
Q 01	Which best captures an infrastructure externality? A. Only toll revenue; B. Farmers reaching better markets because of a road; C. The loan interest rate alone; D. Bank paid-up capital **Answer B.** Benefits can extend beyond cash received by the project operator.

Primary references / see chapter notes

Original checks / answers with reasons / continued

Fact anchor	Essential fact / condition
Q 02	NaBFID Government guarantee fee ceiling 0.1% means? A. Every project loan interest 0.1%; B. Prescribed concessional guarantee fee ceiling for eligible borrowing; C. Abolition of FX risk; D. Minimum equity return **Answer B.** Guarantee fee, loan rate and hedging costs are separate concepts.
Q 03	Agreed NARCL acquisition value 100 crore under 15/85 structure gives what? A. 85 cash+15 SR; B. 15 cash+85 SR; C. 100 cash plus 85 SR; D. 15% of original debt regardless of agreed value **Answer B.** The split applies to agreed consideration; SRs are distinct from cash.
Q 04	IDRCL primarily does what? A. Accepts household savings deposits; B. Provides resolution/asset-management expertise; C. Issues rupee currency; D. Regulates PSB licences **Answer B.** NARCL acquisition and IDRCL resolution services have distinct functions.
Q 05	EASE stands for? A. Enhanced Access and Service Excellence; B. Equity Asset Safety Exemption; C. Electronic Account Security Exchange; D. External Asset Settlement Entity **Answer A.** EASE is the structured PSB reform agenda launched in 2018.

Reference desk / read the date

Primary reference	Primary reference
NaBFID / official Act	NaBFID / FY 2025-26 report
Government / original NARCL FAQ 2021	DFS /2021-22 incorporation and registration record
Government / NARCL March 2026 progress	RBI / January 2021 FSR release mirror
Government / EASE 2018 original agenda	Government / EASE 8 verified 2026 review
Government / historical IIBI lineage	Checked 25 October 2026

Edition and examination cutoff

Evergreen guide with dated updates. IIBF ordinarily uses preceding31December for March-August exams and30June for September-February. Check session notices. Later developments are supplements. Questions are original learning checks, not predicted or claimed past questions.

Primary references / see chapter notes

28 facts / final recall

01-14 / retrieve the fact	15-28 / retrieve the fact
01. Infrastructure often requires large initial investment.	**15.** NaBFID Government ownership floor is 26%.
02. Infrastructure projects commonly have long gestation periods.	**16.** NaBFID has financial AND developmental objectives.
03. Economies of scale and externalities are key infrastructure features.	**17.** NaBFID first-year statutory grant 5000 crore.
04. Project cash flow differs from wider social benefit.	**18.** Eligible Government guarantee fee ceiling 0.1% is not a loan-interest cap.
05. Long physical asset life need not equal loan tenor.	**19.** Government may reimburse eligible NaBFID hedging costs.
06. Infrastructure demand, construction, technology and policy risks matter.	**20.** NARCL is an asset reconstruction company, not a deposit-taking bank.
07. ECBis borrowing; FDIis equity participation under applicable rules.	**21.** NARCL incorporated 7 July 2021.
08. IFCI dates to 1948; IDBI 1964.	**22.** NARCL ARC registration 4 October 2021.
09. NABARD and EXIM operations date to 1982.	**23.** Original NARCL public-bank ownership minimum 51%.
10. SIDBI operations began 1990.	**24.** Original IDRCL PSB/public-FI ownership maximum 49%.
11. IRCI 1971→IRBI 1985→IIBI 1997.	**25.** Original acquisition consideration 15% cash and 85% Security Receipts.
12. NaBFID expands to National Bank for Financing Infrastructure and Development.	**26.** Original SR backstop ceiling 30600 crore.
13. NaBFID follows the 2021 Act.	**27.** EASE means Enhanced Access and Service Excellence.
14. NaBFID authorised capital 100000 crore.	**28.** FY 2025-26 EASE 8/EASERise has four themes.

Primary references / see chapter notes

Financial markets overview

D 01 / Financial markets overview

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / banking,money and foreign-exchange markets
SEBI oversees securities and mutual funds;IRDAI oversees insurance. Identify the product and activity before choosing its regulator.

Chapter route	What to study
Identify the market	All eight source segments, including their overlapping roles.
Understand the functions	Price discovery, mobilisation, liquidity, risk sharing, access, cost/information and capital formation.
Read the model	Demand/supply curves, shifts, risk appetite, volatility and news.
Preserve the source	Every original educational line plus all three source diagrams is retained below.



One product can have two market labels
Learner: Is a ten-year company bond debt or capital? Mentor: Both. Debt describes the claim;capital describes its long funding horizon.

Primary reference desk / 26 October 2026

- RBI / FX-market evolution
- SEBI / investor education
- SEBI / Mutual Funds Regulations 2026
- SEBI / securities-market reform history
- SEBI / Mutual Funds Regulations 2026, amended 10 October 2026
- RBI / financial-market development
- AMFI / role and in corporation
- IRDAI / insurance history
- NSE / historical milestones
- IIBF / official 2026 JAIIB syllabus and exam rules

Follow the funding

Saver / surplus → **Market or institution** → **Issuer / investment**

Financial markets overview

Learn and verify / the examinable distinctions

Markets: turn savings into productive funding

Anchor	Explanation
Meaning	Financial markets bring buyers and sellers together to issue or trade financial claims and discover prices. The source begins with commodity demand/supply: many individual buying and selling decisions jointly influence the market price. A market need not be one physical building.
Financial system map	Institutions, products/instruments and markets connect savers with investors and borrowers. Savings can finance productive investment; securities give investors claims. The source wealth/saver/investor arrows describe relationships, not guaranteed wealth creation.
All eight source segments	Credit; money; debt; foreign exchange; derivatives; capital; insurance; mutual funds. These overlap: a long-term corporate bond belongs to debt AND capital markets; a bond fund is a pooled investment in debt. Insurance transfers risk rather than being simply another trading venue.

Credit, money and debt: match the horizon

Anchor	Explanation
Credit providers	Institutional: commercial, cooperative and differentiated banks; NBFCs and other eligible financial institutions. Noninstitutional: moneylenders, indigenous bankers and supplier trade credit. Legal status, product and applicable regulation matter.
Term structure	Short-, medium- and long-term credit classify maturity. Banks/NBFCs provide working capital as well as eligible longer-term finance; DFIs traditionally focus on medium/long-term development finance. Source predominant roles are not exclusive legal restrictions.
Money market purpose	Balances short-term funding demand/supply and supports monetary-policy transmission. Interbank borrowing and central-bank repo/discounting supply banking liquidity; corporate CP finances eligible corporate short-term needs.

Three market lenses

Credit:loan claims

Money:short term

Capital:long term

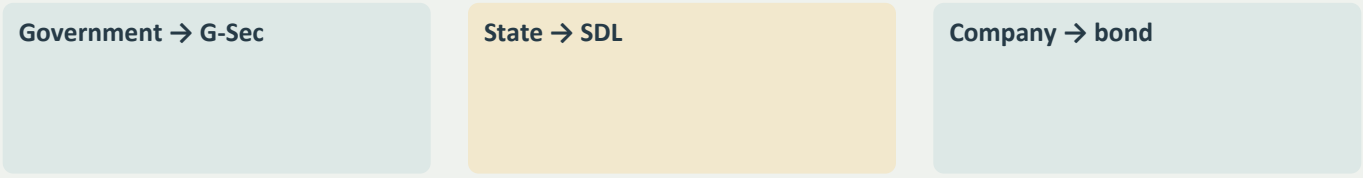
Financial markets overview

Anchor	Explanation
All seven source instruments	Call money; Certificates of Deposit; Treasury bills; short-term Government-security transactions such as repo; bankers acceptances/commercial bills; Commercial Paper; inter-corporate funds. Maturity and eligibility determine the correct category.
Debt market	Government securities and corporate bonds/debentures represent debt. A G-Sec records Central/State Government borrowing; long-term State securities are State Development Loans. Corporate examples include 5/10-year bonds and infrastructure debentures, not mandatory universal tenors.

Forex, derivatives and capital: identify the role

Anchor	Explanation
Forex participants	Authorised Dealer banks, customers and RBI participate in currency markets. Customers hedge/pay/receive foreign currency; eligible dealers quote prices and manage positions; RBI regulates and may intervene.
1978 historical milestone	Before liberalised intraday trading, merchant transactions and their cover dominated; dealers maintained square/near-square positions through the day. In 1978 RBI permitted intraday FX trading with square/near-square required at CLOSE of business. The source additional throughout-the-day phrase contradicts that change and is corrected.
Derivative: three tests	Value responds to an underlying: interest rate, security/commodity price, FX rate, index, credit rating/index or similar variable. Little/no initial net investment relative to a comparable exposure; settlement at a future date. A margin payment is not the full underlying asset purchase price.
Capital market	Long-term equity and debt finance are issued and traded, including private placements and organised stock exchanges. Government raises debt; companies may raise debt or equity. Secondary trading transfers existing claims and supports liquidity; it does not give the issuer fresh proceeds each time.

Debt claims



Financial markets overview

Insurance and mutual funds: different promises

Anchor	Explanation
Insurance	Life and non-life insurance pool specified risks. Historically LIC dominated life; GIC and its four subsidiaries handled the nationalised general-insurance structure. These are historical roles, not the current sole providers.
Reform dates	R.N.Malhotra committee recommended private participation and a separate regulator in 1994. IRDA Act 1999 provided the statutory foundation; the statutory authority was constituted in 2000. Current name is IRDAI.
Mutual fund	A trust-based pooled investment issues units under schemes and invests according to disclosed objectives, including securities/money-market instruments. Unit-holders bear portfolio risk; units are not bank deposits or an automatic assured return.
Who regulates?	SEBI regulates Indian mutual funds. AMFI is the industry association with industry/distributor responsibilities; it does not replace SEBI as statutory regulator. Dated supplement: SEBI Mutual Funds Regulations 2026 operate from 1 April 2026; check applicable exam cutoff.

Seven functions: learn the mechanism

Anchor	Explanation
1 / Price determination	Buyers and sellers discover prices for newly issued AND existing assets through demand and supply. A quoted market price is not a promise of intrinsic value or a risk-free return.
2 / Funds mobilisation	Investor required returns influence issuers cost of funding and which projects attract savings. Markets allocate available lender/investor resources to entities seeking finance. Higher demanded yield can raise funding cost.
3 / Liquidity	A functioning secondary market permits sale during market hours at an executable prevailing price. Thin liquidity can force a wait, price concession or holding until contractual maturity. The source fair-value/any-time claim is conditional, not guaranteed execution.
4 / Risk sharing	Financing separates the saver from the enterprise using funds; investors accept risks attached to their claims. Debt, equity and hedging allocate risks differently. Financing does not transfer EVERY business risk away from the enterprise.

Three promises

Deposit:repayment

Insurance:defined cover

Fund:portfolio units

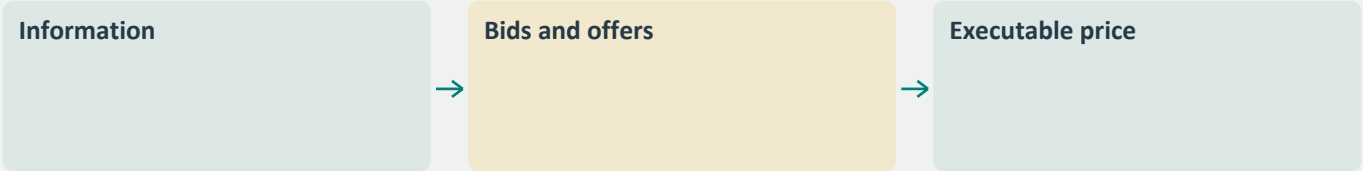
Financial markets overview

Anchor	Explanation
5 / Accessibility	Potential investors and issuers/buyers and sellers can find one another through market infrastructure, intermediaries and disclosures, saving search time and effort. Access remains subject to eligibility and transaction rules.
6 / Costs and information	Common disclosures, prices and trading/settlement systems reduce search, information and transaction costs. The source says ALL information is free: correctly, some data/services/trades still carry costs and information asymmetry can remain.
7 / Capital formation	Savings channelled into new productive investment support capital formation. Buying an already-issued share changes its owner; secondary liquidity can indirectly make future primary funding more attractive.

Price discovery: curves, information and risk

Anchor	Explanation
Equilibrium	Price discovery reconciles buyers willingness to pay with sellers willingness to accept. Demand and supply meet at a market-clearing price in the simple model. Liquidity facilitates discovery; the crossing does not itself guarantee maximum liquidity or a fair fundamental valuation.
Five influences	Supply/demand; risk attitudes; volatility; available information; market mechanisms. Trading rules, order matching and transparency influence which bids/offers meet and how quickly news enters prices.
Risk appetite versus volatility	A buyer may pay more for upside despite downside risk. Volatility means variability, not the whole of risk; it can attract traders seeking gains while increasing possible losses. Credit and liquidity risk can exist even with low observed volatility.
News	Buyers may await an RBI policy announcement. New information changes valuations and can shift demand OR supply in either direction; price does not necessarily rise after every meeting.
Read the source chart correctly	Price is vertical; quantity horizontal. A downward demand curve and upward supply curve meet at E. Source price ticks 0, 4, 8, 12, 14, 16, 18, 20 are illustrative levels, not a data series. Moving along fixed curves differs from a shift.

Price discovery



Financial markets overview

Anchor	Explanation
Correction / direction	The source calls decreasing demand and increasing supply while simply drawing ordinary curves. A LEFT demand shift or RIGHT supply shift tends to lower equilibrium price, other influences held constant. The initial crossing alone cannot establish a fall over time. New shifts require price discovery again.

Syllabus bridge: evolution of Indian markets

Anchor	Explanation
From institutions to market infrastructure	Post-independence development finance and bank expansion widened formal funding. From the 1990s, market reforms strengthened auction-based Government borrowing, private participation and statutory securities oversight. Electronic trading, depositories, central clearing and derivatives later improved access and risk management, while creating operational and contagion risks.
Three market milestones	NSE introduced screen-based equity/wholesale-debt trading in 1994. Depositories Act 1996 supported dematerialised ownership. Exchange-traded derivatives began inJune 2000. The market evolved from physical claims and trading floors towards electronic ownership, trading and settlement.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Financial markets and the system / source 248

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Read the definition precisely

The source starts with a general commodity-market definition. Financial markets specifically issue/trade financial claims and contracts. Institutions, instruments and markets jointly connect savers, investors and borrowers; the arrows do not guarantee wealth creation.

JAIIB Paper 1 IE & IFS Module D Unit 1-Financial Markets

What is a Financial Market? Any financial system Financial market refers in an abstract way to the purchase and sale transactions of a commodity and the formation of its price. Used in this way, the term refers to the

Three different risks

Price variability

Credit default

Liquidity shortage

countless decisions made by producers of a commodity (the supply side of the market) and consumers of a commodity (the demand side of the market), which taken together, determine the price of the commodity.

Segments Of Financial Markets

The financial market has a number of different segments. While commonly, these markets are stated to consist of money market, foreign exchange market, capital market and insurance market, when studied more granularly, as stated earlier, there are additional segments like credit market and derivatives market. Hence, the financial markets can be understood of consisting of the following segments:

Redrawn / Financial system

Relationship	Source meaning
1	Financial institutions → financial products → financial market
2	Financial institutions/instruments, wealth, savers and investors are connected in the source diagram.

Credit and short-term funding / source 249

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Maturity roles are not exclusive restrictions

Banks and NBFCs also provide eligible medium/long-term credit; DFIs traditionally address development-finance gaps. Money-market instrument eligibility depends on the applicable rules, not merely the name of the lender.

Credit Market

The major institutional purveyors of credit in India are banks (commercial, cooperative and differentiated banks) and non-banking financial institutions, i.e., non-banking financial companies (NBFCs). The noninstitutional or unorganised sources of credit include moneylenders, indigenous bankers and sellers for trade credit.

An important aspect of the credit market is its term structure, viz.,

- Short-term credit,
- Medium-term credit, and
- Long-term credit.

Do not confuse roles

SEBI:securities

IRDAI:insurance

RBI:banking / FX

Financial markets overview

While banks and NBFCs predominantly cater to short-term needs, Financial Institutions provide mostly medium and long-term funds.

Money Market

Money markets perform the crucial role of providing a conduit for equilibrating short- term demand for and supply of funds, thereby facilitating the conduct of monetary policy. The money market instruments mainly comprise:

• Call money,

• Certificates of deposit,

• Treasury bills,

• Other short-term government securities transactions, such as, repos,

• Bankers' acceptances/commercial bills,

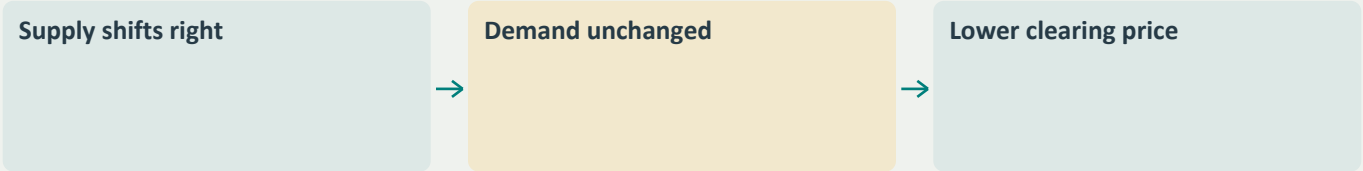
• Commercial paper, and

• Inter-corporate funds. While inter-bank money markets and central bank lending via repo operations or discounting provide liquidity for banks, private

Redrawn / Financial market segments

Relationship	Source meaning
1	Credit market
2	Money market
3	Debt market
4	Foreign exchange market
5	Derivatives market
6	Capital market
7	Insurance market
8	Mutual fund market

Ordinary shift result



Financial markets overview

Debt, forex, derivatives and capital / source 250

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

1978 chronology / correct the contradiction

RBI permitted intraday FX trading in 1978; the square/near-square requirement applied at close of business in that historical arrangement. The source adds throughout-the-day as well, which contradicts that relaxation. Do not learn that addition as the rule.

Identify the claim and underlying

Government ordinarily raises capital-market debt; companies may raise debt or equity. Derivatives respond to a specified underlying, require little initial net investment relative to comparable exposure and settle later; this does not mean every derivative requires no margin/premium.

non-bank money market instruments, such as commercial paper provide liquidity to the corporate sector.

Debt Market

• The debt market consists, largely, of government securities and to a smaller extent, corporate bonds.

• A Government Security (G-Sec) is a tradeable instrument issued by the Central Government or a State Government. It is a document of the Government's debt obligation. Long term securities are also issued by State Governments and these are called State Development Loans (SDLs).

• Companies raise funds for longer period say 5 years or 10 years, through issue of a typical long-term debt instruments, known as Corporate Bonds. A company which is engaged in infrastructure projects may issue debentures as a source of long-term funds.

Foreign Exchange Market

• The foreign exchange market consists of banks (Authorised Dealers), customers and Reserve Bank of India. The forex market in India developed, practically, only after 1978. Prior to 1978, banks were permitted to conduct only merchant transactions and their cover operations.

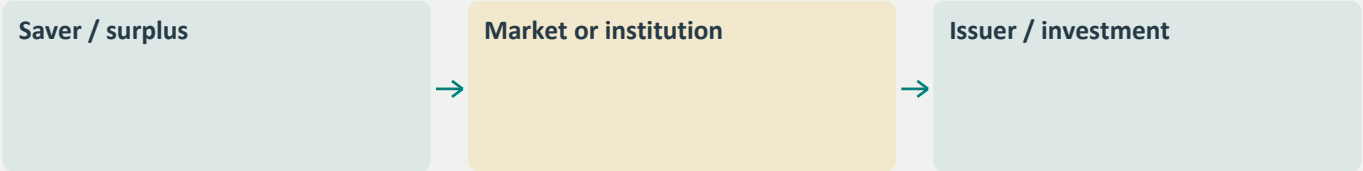
• They were also required to keep their positions 'square' or 'near-square; at all times during the day. It was in the year 1978 that banks were permitted by RBI to take trading positions and they were also required to maintain a 'square' or 'near-square' position only at the end of the day, and throughout the day.

Derivatives Market

A derivative is a financial instrument:

• Whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes

Follow the funding



called the ‘underlying’);

• That requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and

• That is settled at a future date.

Capital Market

• Capital market is a market for long-term equity and debt. In this market, capital funds comprising of both equity and debt are issued and traded.

• This also includes private placement sources of debt and equity as well as organised markets, like stock exchanges.

• In common parlance, capital market may be understood as the market for long-term funds. The capital market provides long-term debt and equity finance for the government and the corporate sector.

Insurance, funds and market functions / source 251

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Regulator versus industry association

SEBI is the statutory mutual-fund regulator. AMFI is the industry association and has specified industry/distributor responsibilities; it does not replace SEBI. SEBI Mutual Funds Regulations 2026 came into force on 1 April 2026; the source wording is retained below as an earlier account.

Historical insurance structure

LIC/GIC/subsidiary descriptions are historical, not the current sole providers. Malhotra report 1994; IRDA Act 1999; statutory authority 2000. Current authority name: IRDAI.

Insurance Market

• In an increasingly competitive economy, the need for insuring against risks is well recognised. In India, the insurance industry is broadly classified into life insurance and non-life insurance business.

• In the early days, life insurance business had been undertaken by the Life Insurance Corporation of India (LIC) and the non-life insurance by the General Insurance Corporation (GIC) and its four subsidiaries. In the wake of financial liberalisation during the early ’nineties, the Committee on Reform of the Insurance Sector (Chairman: Shri R. N. Malhotra) recommended in 1994, the opening up of the insurance sector to private participation and the institution of a separate regulatory and development authority.

Three market lenses

Credit:loan claims

Money:short term

Capital:long term

• Accordingly, the Insurance Regulatory and Development Authority (IRDA) Act was enacted in the year 1999, and a separate Insurance Regulatory and Development Authority was set up.

Mutual Fund

• Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

• A fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments.

• SEBI regulates Mutual Funds, though mutual funds also have formed a self- regulatory body in the form of Association of Mutual Funds of India (AMFI), which is an industry body of mutual funds.

Functions Of Financial Markets

The following are the functions of financial markets:

• Price Determination

• Funds Mobilisation

• Liquidity

• Risk sharing

• Easy Access

• Reduction in transaction costs and provision of the Information

• Capital Formation

Price Determination

• Financial markets perform the function of price discovery for the different financial instruments which are traded between the buyers and the sellers on the market.

• The prices at which the financial instruments are traded in the financial market are determined by the market forces, i.e., demand and supply in the market.

Accordingly, financial markets provide the vehicle by which, the prices are set for

Mobilisation, liquidity, risk and access / source 252

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Debt claims

Government → G-Sec	State → SDL	Company → bond

Financial markets overview

Liquidity is an opportunity, not a guarantee

A liquid market helps investors find executable prices. Sale at a fair value at any instant is not assured: market depth, spread, price moves and settlement restrictions matter. Financing shares or reallocates specified risks; the enterprise does not automatically shed all business risk.

both financial assets which are issued newly and for the existing stock of the financial assets.

Funds Mobilisation

• Along with the determination of the prices at which the financial instruments are traded in the financial markets, the required return out of the funds invested by the investor is also determined by participants, in the market.

• The motivation for persons seeking the funds is dependent on the required rate of return, which is demanded by the investors.

• It is this function of the financial market, that determines how the funds which are available from the lenders or the investors will get allocated among the entities that are in need of the funds or raise the funds by means of issuing financial instruments in the financial market. Hence, in this manner, financial markets contribute to the mobilisation of the savings of the investors.

Liquidity

• The liquidity function of financial markets provides an opportunity to the investors to sell their financial instruments at their fair value prevailing in the market at any time, during the working hours of the market.

• In case there is no liquidity in the financial market, then the investor will have to forcibly hold the financial securities or the financial instrument, until the conditions arise in the market for selling those assets or the issuer of the security is obligated contractually to pay for the same, i.e., at the time of maturity in debt instrument.

Risk sharing

• Financial markets perform the function of the risk-sharing, as the entities which are undertaking the investments are different from the persons who have invested their savings in that entity.

• With the help of financial markets, the risk is transferred from the entity which undertakes the investments to those investors, who have provided funds for making those investments.

Accessibility

• Industries require investors for raising funds and the investors require the industries for investing their savings and earning the returns from them. Hence, financial markets bring together potential buyers and sellers, which helps them in saving their time and money, in finding the suitable investment avenues.

Reduction in Transaction Costs and Provision of the Information

Three promises

Deposit:repayment

Insurance:defined cover

Fund:portfolio units

Financial markets overview

• Investors requires various types of information while buying and selling securities, and for obtaining the same, time and money is required.

Capital formation and price discovery / source 253

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Information and equilibrium caveats

Market disclosure and infrastructure can reduce costs; not ALL information or services are free. In the simple model, demand/supply intersect at a clearing price. That crossing is not a mathematical guarantee of maximum liquidity or fundamental fair value. Volatility measures variability; credit and liquidity risks are distinct.

• However, financial markets help in providing all types of information, without the requirement of spending any money by individual investors. In this way, the financial markets reduce the cost of the transactions.

Capital Formation

• Financial markets provide the channel through which, the new savings flow into the economy and this aids in capital formation.

Price Discovery

• Price discovery, also referred to as the price discovery mechanism or price discovery process, is a very important aspect of all financial markets. It is a method for determining the price of an asset through interactions between buyers and sellers.

• Price discovery enables buyers and sellers to set the market prices of tradable assets. This is because the mechanisms of price discovery set out what sellers are willing to accept, and what buyers are willing to pay. As a result, price discovery is concerned with finding the equilibrium price that facilitates the greatest liquidity for that asset.

There are a number of factors which determine the levels of price discovery. These include:

• Supply and demand

• Attitudes to risk

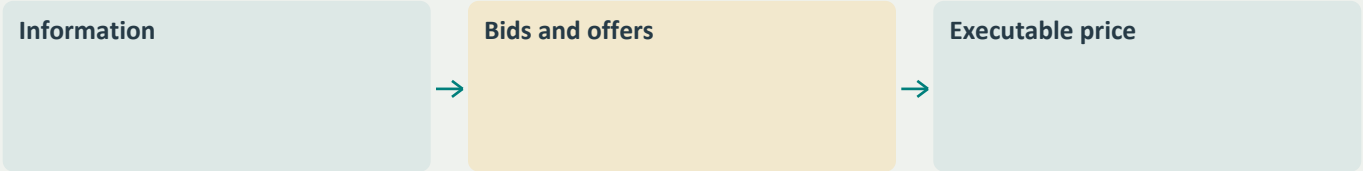
• Volatility

• Available information

• Market mechanisms

Supply and Demand

Price discovery



Financial markets overview

• Supply and demand are the two greatest factors, which determine an asset's price and which in turn, dictate how crucial price discovery mechanisms are for traders.

Attitudes to Risk

• A buyer or seller's attitude to risk can greatly affect the level, at which, a price is agreed between two market participants.

• For instance, if the buyer is willing to take on the risk of a fall in price, for the potential reward of a large rise in price, they might be willing to pay a little more, in order to secure their exposure to a market.

Volatility

• Volatility is linked to risk, but they are not the same. Volatility is one of the main factors which determines whether a buyer chooses to enter or not in any particular market.

Information and equilibrium / source 254

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Graph: movement versus shift

Price is vertical and quantity horizontal. Downward demand and upward supply slopes show movements along fixed curves. A leftward demand shift or rightward supply shift tends to lower equilibrium price, other things equal; the original crossing alone does not establish a fall over time. Source tick marks are illustrative, not observed data.

• Some traders actively seek out volatile markets as they offer the potential for larger profits. However, they could also incur larger losses.

Available Information

• The amount of information available to both buyers and sellers can determine the levels at which, they are willing to buy or sell. For example, buyers may wish to wait for key market announcements – such as the outcome of RBI meetings – to be made public, before determining whether they wish to buy or not.

• In turn, these meetings and their outcome could increase demand or reduce supply, which means that asset prices might change in line with any changes that are highlighted in these market announcements.

Price Discovery Example

• In the Chart below, demand is decreasing as supply is increasing. Typically, this means an asset's price will fall. As the graph shows, the two lines representing demand and supply eventually cross, representing a level at which both buyers and sellers agree is the fair market price for an asset.

Three different risks

Price variability

Credit default

Liquidity shortage

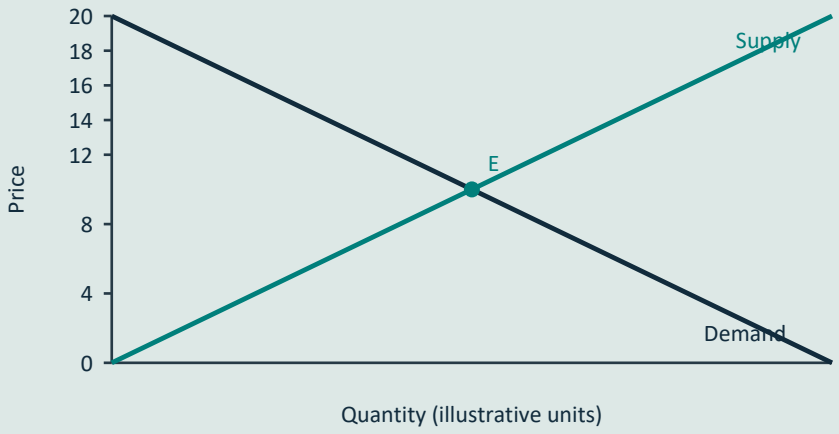
Financial markets overview

• As a result, the asset will begin to trade at this level until there is a shift in the levels of supply and demand, which will require another period of price discovery.

Redrawn / Price discovery graph

Relationship	Source meaning
1	Price vertical; quantity horizontal.
2	Price ticks:0,4,8,12,14,16,18,20.
3	Demand downward; supply upward; inter section is equilibrium.

Price discovery / redrawn illustrative model



E: quantity demanded equals quantity supplied.

A crossing of fixed curves is not evidence of a price fall over time.

A shift creates a new equilibrium.

Do not confuse roles

SEBI:securities

IRDAI:insurance

RBI:banking / FX

Financial markets overview

Original practice / answers with reasons

Q 01. A ten-year company bond belongs to which overlapping markets?

A. Only foreign exchange | B. Debt and capital | C. Only insurance | D. Only overnight money

Answer B. Debt describes the claim; capital describes long-term funding.

Q 02. A 1978 Indian FX-market change allowed what?

A. Intraday trading with close-of-day square/near-square requirement | B. Compulsory zero position every instant even after reform | C. Only commodity barter | D. Abolition of RBI oversight

Answer A. The relaxation allowed intraday positions; the source throughout-the-day addition is in consistent.

Q 03. Who is the statutory mutual-fund regulator?

A. AMFI alone | B. SEBI | C. Every unit-holder | D. GIC

Answer B. AMFI is the industry association, not a replacement for SEBI.

Q 04. A liquid market guarantees which of these?

A. Profit on every sale | B. No credit risk | C. Neither of those guarantees | D. Sale exactly at purchase cost

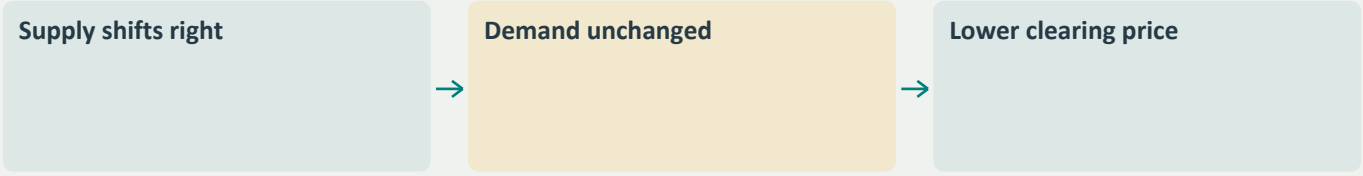
Answer C. Liquidity helps execution; it does not remove price or credit risk.

Q 05. Other things equal, a rightward supply shift with unchanged demand tends to do what?

A. Lower equilibrium price | B. Raise both curves automatically | C. Abolish trading | D. Guarantee investor wealth

Answer A. In the ordinary model more supply lowers clearing price; this differs from merely moving along a fixed curve.

Ordinary shift result

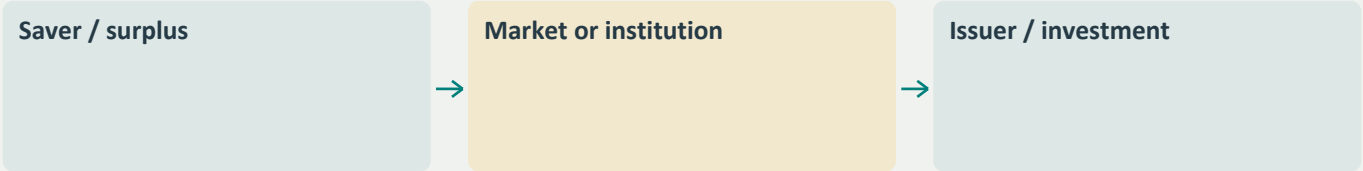


Financial markets overview

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. A financial market connects buyers and sellers of claims.	15. SDL means State Development Loan.
02. Price discovery reflects bids, offers and available information.	16. Corporate bonds represent corporate debt.
03. Institutions, instruments and markets are complementary.	17. Forex markets include AD banks, customers and RBI.
04. Source identifies eight overlapping market segments.	18. Intraday FX trading was permitted in 1978.
05. Institutional credit includes banks and eligible NBFCs.	19. A derivative responds to an underlying variable.
06. Trade credit is supplier-provided finance.	20. A derivative settles at a future date.
07. Credit has short-, medium- and long-term maturities.	21. Capital markets cover long-term equity and debt.
08. Money markets balance short-term funds.	22. Private placements are part of capital funding.
09. Call money is a money-market instrument.	23. Malhotra committee report dates to 1994.
10. CD means Certificate of Deposit.	24. IRDA Act dates to 1999; authority constituted 2000.
11. CP means Commercial Paper.	25. Mutual funds pool investments by issuing units.
12. Treasury bills finance Central Government short-term borrowing.	26. SEBI regulates mutual funds; AMFI is an industry body.
13. Repo is collateralised borrowing with repurchase.	27. Liquidity supports sale; it never guarantees a profit.
14. A G-Sec records Government debt.	28. Volatility and risk are related but different.

Follow the funding



Money markets and instruments

D 02 / Money markets and instruments

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / money-market rules
Distinguish unsecured borrowing from collateralised repo. The original wording remains visible; dated rule corrections are additional.

Chapter route	What to study
Unsecured funds	Call, notice and term; eligible borrowers, lenders and category limits.
Issued instruments	T-bills, CDs and CP: issuer, tenor, denomination, rating and buyback.
Secured liquidity	Repo, reverse repo, tri-party agent, BRDS and collateral.
Historical operations	LTRO and targeted LTRO in the 2020 pandemic response.



Same transaction, two perspectives
Learner: I sold securities and received cash. Mentor: You are the repo borrower. Your counterparty bought the securities and lent cash: its perspective is reverse repo.

Primary reference desk / 26 October 2026

- RBI / Call, Notice and Term Money Directions 2021, updated 2023
- RBI / CD Directions 2021
- RBI / CP and short-term NCD Directions 2024
- RBI / market repo Directions 2025
- RBI / tri-party repo framework 2017
- RBI / Annual Report 2019-20, monetary operations

Unsecured maturity ladder

Call: overnight

Notice: 2-14 days

Term: >14 days to 1 year

Money markets and instruments

Learn and verify / the examinable distinctions

Maturity and collateral / start with two questions

Anchor	Explanation
Call	Unsecured overnight funds.
Notice	Unsecured funds for 2-14 days.
Term	Unsecured funds beyond 14 days, up to one year under the cited Directions.
Repo	Collateralised cash borrowing/lending with an agreed reversal.
T-bills	Government of India discount instruments; standard tenors 91, 182 and 364 days.

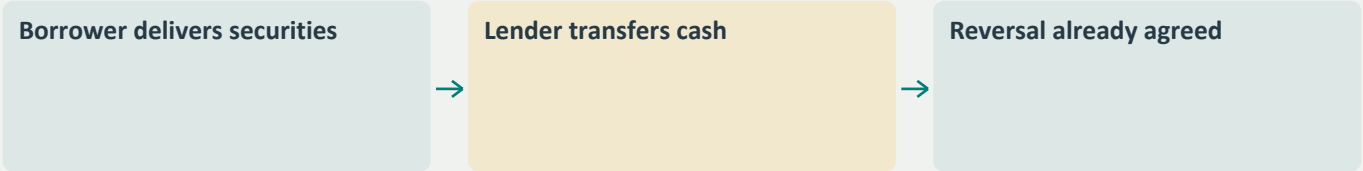
Keep the instruments separate

Anchor	Explanation
CD	Bank-issued negotiable instrument; 7 days to one year, demat, Rs.5 lakh minimum and multiples. Discount, fixed or floating-rate structures are permitted.
CP	Unsecured issuer paper; 7 days to one year, demat, minimum A 3 rating and Rs.5 lakh denomination/multiples under the 2024 Directions.
BRDS	Rediscounting against genuine eligible trade bills through a derivative usance promissory note; distinguish it from speculative derivatives.
Tri-party repo	The agent administers collateral and settlement; it is not automatically the ultimate cash lender.

Work the amount / distinguish yield from discount

Anchor	Explanation
T-bill illustration	Face Rs.100, price Rs.98, 91 days. Annualised investment yield = (2/98) x (365/91) x 100 = 8.1857%. Discount rate using face value is 8.0220%.
Repo illustration	Rs.10 crore for 7 days at 6% p.a., Actual/365: interest Rs.115,068.49; second-leg cash Rs.100,115,068.49. An illustration, not a current policy rate.

Repo / first leg



Money markets and instruments

Anchor	Explanation
Cooperative bank cap	At a 2% limit, previous-FY deposits of Rs.1,000 crore imply Rs.20 crore. Use the specified denominator and measurement date.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 254

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

JAIIB Paper 1 IE & IFS Module D Unit 2: Money Markets

Complete source section / source 255

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Eligibility / historical list is wider than current permission

The cited 2021 unsecured-market Directions, updated June 2023, specify eligible banks and primary dealers; old references to insurers, mutual funds and development institutions as general call-market participants are not current blanket permissions. Never infer eligibility from the source historical list.

Introduction It is a market for short-term funds, with maturity ranging from overnight to one year and includes financial instruments that are deemed to be close substitutes to money.

The money market performs three broad functions.

• It provides an equilibrating mechanism for demand and supply of short-term funds.

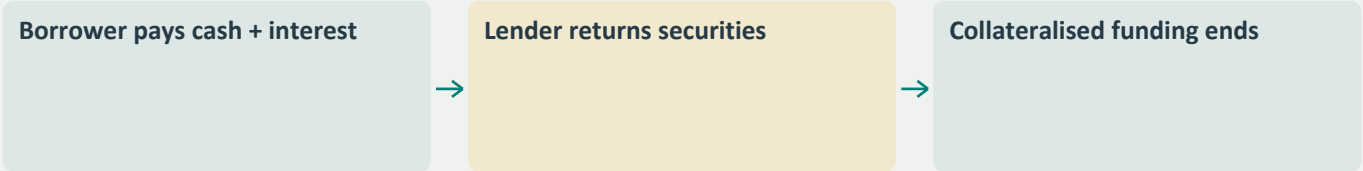
• It enables borrowers and lenders of short-term funds to fulfill their borrowing and investment requirements, at an efficient market clearing price, and

• It provides an avenue for central bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy.

Call Money, Notice Money and Term Money

▪ The call/notice/term money market is a market for trading very short-term liquid financial assets that are readily convertible into cash at low cost.

Repo / second leg



Money markets and instruments

▪ The money market primarily facilitates lending and borrowing of funds between banks and entities like Primary Dealers.

▪ The interest rate on such funds depends on the surplus funds available with lenders and the demand for the same, which remains volatile.

Participants in the Market

▪ Supervision: By the Reserve Bank of India, which issues guidelines for the various participants in the call/notice money market.

▪ Participants: Banks, Primary Dealers, development finance institutions, insurance companies and select mutual funds.

▪ Operate both as borrowers and lenders in the market: Banks and PDs

▪ operate as lenders Only: Non-bank institutions, which have been given specific permission to operate in call/notice money markets

Redrawn / Unsecured maturity ladder

Relationship	Source meaning
1	Call money:1 day
2	Notice money:2-14 days
3	Term money:15 days-1 year

Complete source section / source 256

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

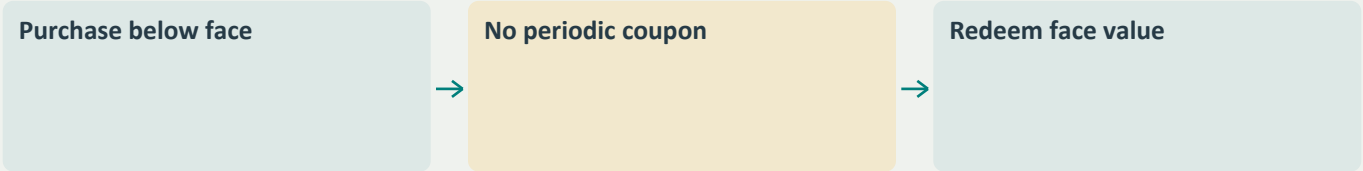
Borrowing caps / do not merge bank categories

SCBs other than SFBs use Board-approved limits within applicable inter-bank liability norms. SFB call/notice limits are 100% capital funds on fortnightly average and 125% on a day; term limits are Board-set. Payments banks/RRBs have 100%/125% for both categories. Cooperative banks: 2% of previous-FY deposits. PDs: 225% of previous-FY NOF, fortnightly average for call/notice; 225% for term. Read the full Direction for scope and calculation.

Prudential Lending Limits

▪ Prudential limits in respect of outstanding lending transactions in the Call, Notice and Term Money Markets shall be decided by the participants with the approval of their Board within the regulatory framework of the

T-bill return



exposure norms prescribed by the Department of Regulation of the Reserve Bank for the eligible participant concerned.

Prudential Borrowing Limits

Treasury Bills

▪ Treasury bills (T Bills) are money market instruments, offered for the purpose of financing short-term debt obligation of the Government of India.

▪ Three types of T bills are issued, through a competitive or non-competitive bidding process of auction.

▪ The investment in the Bills may be made by any person resident in India,

including Non-Resident Indians, Overseas Citizens of India and Foreign

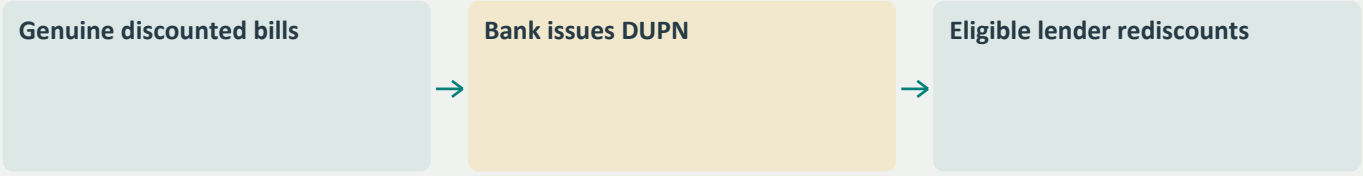
Portfolio Investors are eligible to invest, subject to the approval of the Government and provisions of Foreign Exchange Management Act, 1999

Non-Competitive Bidding

Redrawn / Source borrowing limits

Participant	Call/notice	Term
SCBs including SFBs	100% capital daily average in reporting fortnight;125% on any day	Internal Board-approved limit within prudential interbank-liability limits
Payments banks and RRBs	100% capital daily average in reporting fortnight;125% any day	Same 100%/125% limits
Cooperative banks	2% aggregate deposits at end of previous FY	Same 2%
Primary dealers	225% previous FY-end NOF daily average in reporting fortnight	225% previous FY-end NOF

Trade-bill liquidity



Money markets and instruments

Redrawn / Treasury bills

Relationship	Source meaning
1	91 day
2	182 day
3	364 day

Complete source section / source 257

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

CD structures and investors

The 2021 CD Directions allow resident investors, not a blanket NRI subscription entitlement. Bank CDs may be discounted or fixed/floating-rate; the source discount-only statement is incomplete. Select AIFIs follow their separate resource-raising framework. The foreign official-institution names in the source T-bill list are a historical scheme list, not a current global central-bank classification.

• State Governments, Union Territories with legislature, eligible Provident Funds

in India, designated Foreign Central Banks (Nepal Rashtra Bank, Royal

Monetary Authority of Bhutan, Vnesheconom Bank (only in 91 Day T Bills), can participate on non-competitive basis, the allocation for which may be within or outside the notified amount, in consultation with the central Government.

Certificates Of Deposit

▪ A negotiable money market instrument issued in dematerialised form,

▪ CDs are discounted instruments and are issued at a discounted price and redeemed at par value.

Tenor: from 7 days to 1 year,

Most CDs are issued by banks for 3, 6 and 12-months' tenors

NRI are also permitted to subscribe to CDs. However, they are mainly subscribed to by banks, mutual funds, provident and pension funds and insurance companies.

The minimum amount: Rs. 5 lakh and are accepted in multiples of Rs. 5 lakh thereafter.

Banks are not allowed to grant loans against CDs, unless specifically permitted by the Reserve Bank.

Buyback of CDs at prevailing market price can be made only 7 days after the date of issue of the CD.

Pandemic measures

LTRO: durable liquidity

TLTRO: targeted deployment

Separate CRR credit measure

Money markets and instruments

Issued By :

▪ Scheduled commercial banks (including Regional Rural Banks (RRBs)

▪ Small Finance Banks (SFBs)); select all-India Financial Institutions Issued To: Individuals (other than minors),

▪ Corporations,

▪ Companies,

▪ Trusts,

▪ Funds,

▪ Associations, etc.

Commercial Paper

• 1990: RBI introduced Commercial Papers (to enabling highly rated corporate borrowers).

Complete source section / source 258

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

CP rules / effective 1 April 2024

The Rs.100 crore net-worth condition applies to the other-body-corporate category, including eligible cooperatives/LLPs, rather than every eligible company. Standard classification of availed fund-based facilities remains relevant. The cited 2024 Directions do not reproduce the source Rs.1,000 crore/two-rating rule. Related-party investment is prohibited. The truncated source maximum maturity means one year; the incomplete original line is still retained.

• An unsecured money market instrument issued in the form of a promissory note.

Subject to the condition that:

(a)Any fund-based facility availed of from bank(s) and/or financial institutions is classified as a standard asset by all financing banks/institutions at the time of issue.

(b) Net worth of Rupees 100 crore or higher.

(c) Any other entity specifically permitted by the Reserve Bank of India (RBI).

▪ However, no person can invest in CPs issued by related parties either in the primary or secondary market.

▪ Eligible participants/issuers shall obtain credit rating for issuance of CP from any one of the SEBI registered Credit Rating Agencies (CRAs).

▪ Minimum credit rating: ‘A 3’ as per rating symbol and definition prescribed by SEBI.

Unsecured maturity ladder

Call: overnight	Notice: 2-14 days	Term: >14 days to 1 year

▪ Total CP issuance during a calendar year is Rupees 1000 crore or more, shall obtain credit rating from at least two CRAs registered with SEBI and should adopt the lower of the two ratings.

▪ Where both ratings are the same, the issuance shall be for the lower of the two amounts for which ratings are obtained.

▪ Maturities: Minimum of 7 days and maximum up to 1

▪ CPs can be issued on a “stand alone” basis.

▪ An FI can issue CPs, within the overall umbrella limit fixed by the RBI, i.e., the quantum for which the CPs can be issued together with other instruments, viz., term money borrowings, term deposits, certificates of deposit and inter- corporate deposits should not exceed 100% of the Company’s net owned funds, as per the latest audited balance sheet.

▪ CPs may be issued to and held by individuals, banking companies, other corporate bodies registered or incorporated in India and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs).

▪ However, investment by FIIs should be within the limits set for their investments by SEBI.

▪ Mutual Funds, Banks, Insurance companies, etc., are the dominant investors in the CP market.

▪ Secondary market trading takes place through the inter-bank broking market between institutional participants.

▪ CPs are issued at a discount to their face value, as may be determined mutually by the issuer and the investor.

Complete source section / source 259

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Buyback and repo / correct the era

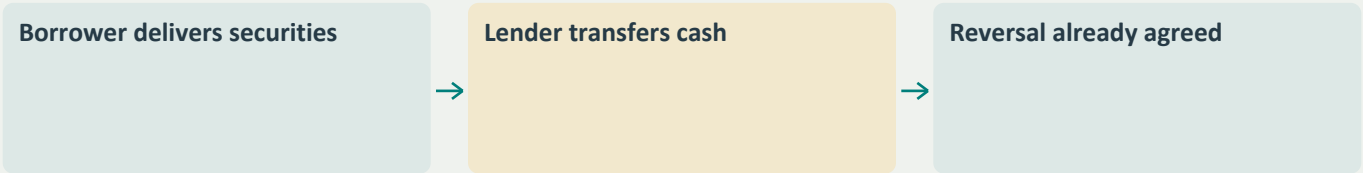
The 2024 CP Directions permit buyback after seven days from issue; the source thirty-day minimum is historical. The 2025 market-repo Directions update collateral and participants. Own/related-entity corporate securities cannot be used as collateral by the borrower. A market repo rate is the agreed transaction rate; it need not equal the RBI policy repo rate.

▪ The buyback offer can be made at the prevailing market price only not before 30 days from the date of issue.

Repo

▪ Repo is a repurchase agreement, entered into between eligible counterparties for borrowing and lending of funds, on a collateralised basis.

Repo / first leg



▪ A repo involves selling of a security, with an agreement to repurchase the same, at a future date, at a predetermined price.

▪ The seller of the security receives funds, while the buyer of the security receives collateral for the funds that has been lent.

▪ The rate at which the security will be repurchased in the 2nd leg of the repo, is derived from the rate of interest payable on the funds lent and is known as repo rate.

▪ Repo transactions are permitted between counterparties and in instruments permitted by the Reserve Bank of India.

▪ The rate at which the security will be repurchased in the 2nd leg of the repo, is derived from the rate of interest payable on the funds lent and is known as repo rate.

▪ Repo transactions are permitted between counterparties and in instruments permitted by the Reserve Bank of India.

Eligible securities:

• Government securities issued by the Central Government or a State Government,

• listed corporate bonds and debentures (subject to the condition that no participant shall borrow against the collateral of its own securities, or securities issued by a related entity),

• Commercial Papers (CPs),

• Certificate of Deposits (CDs),

• Units of Debt Exchange Traded Funds (ETFs).

Eligible participants :

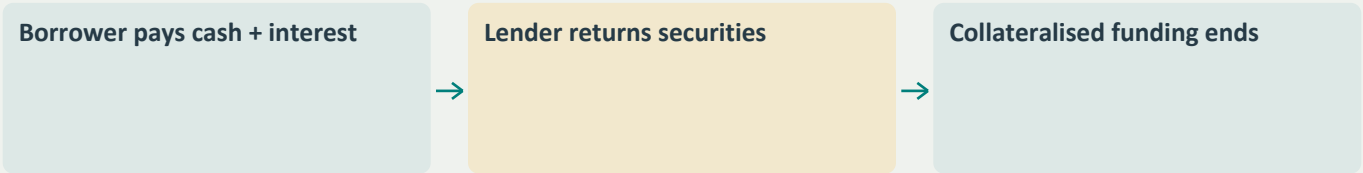
• Any regulated entity,

• Any listed corporate,

Redrawn / Repo legs

Relationship	Source meaning
1	Dealer sells G-Secs, T-bills or Government bonds against collateralised loan.
2	Investor lends funds; repurchase agreement reverses securities/cash flows at buyback.

Repo / second leg



Money markets and instruments

Complete source section / source 260

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Reserve treatment and institutions

Market repo and RBI liquidity windows are different arrangements. G-sec repo borrowing and corporate-debt repo borrowing do not share identical CRR/SLR treatment; check the applicable 2025 computation rules. The AIFI list now includes NaBFID. A tri-party agent provides administration, not permission to trade every instrument.

• Any unlisted company, which has been issued special securities by the Government of India (using only such special securities as collateral), and

• Any All-India Financial Institution (FIs), viz., Exim Bank, NABARD, NHB and

Small Industries Development Bank of India (SIDBI). Besides,

• Any other entity approved by the Reserve Bank from time to time for this purpose, can participate in repo transaction.

1st leg : The buying of securities and lending of short-term surplus in 2nd leg : selling the security at a predetermined rate

▪ Automatically, therefore, a repo transaction for one counterparty becomes a reverse repo transaction for the other counterparty.

▪ Repo transactions facilitate banks to invest their surplus cash for adjusting CRR positions and also for adjusting SLR positions.

▪ To facilitate equitable access to all market participants for trading, tri-party agents are authorised by RBI/ SEBI to provide trading platform.

▪ A repo contract - where a third entity (apart from the borrower and lender), known as a Tri-Party Agent, acts as an intermediary between the two parties to the repo, to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction - is called Tri-party Repo.

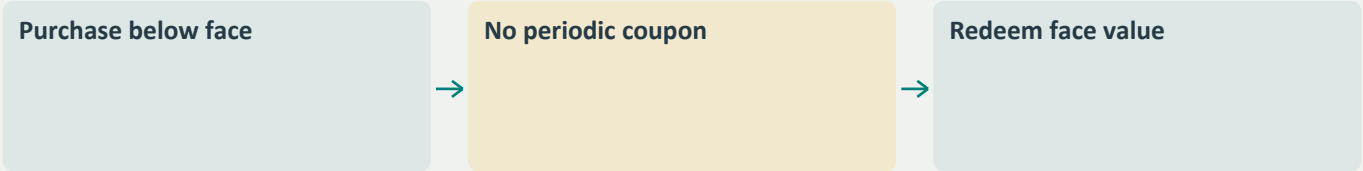
Tri-Party Repo

▪ A Tri-party repo is a type of repo contract, where a third entity (apart from the borrower and lender) called a Tri-Party Agent, acts as an intermediary between the two parties to the repo to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction.

▪ Introduced by RBI in August 2017.

▪ The job of the triparty agent is to administer the transaction between the lender and the borrower.

T-bill return



▪ Here, the agent does post-trade processing, such as collateral selection, payment and settlement, custody and management of the collaterals during the life of the transaction, etc.

▪ Once a lender or borrower notifies about transactions, the agent matches the transaction and, if successful, processes it.

Complete source section / source 261

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Tri-party agent capital / scope matters

The original Rs.25 crore/five-year criteria belong to the other regulated-entity eligibility route in the 2017 tri-party framework, rather than an unconditional requirement for every eligible bank/exchange/clearing corporation. Prior authorisation and adequate systems remain essential. BRDS tenor in the 2026 FIMMDA handbook is 15-90 days.

Eligibility criteria of tri-party agents

▪ Prior authorisation from the Reserve Bank, to act in that capacity.

▪ Eligible under the Payment and Settlement Systems Act: Scheduled commercial banks, recognised stock exchanges and clearing corporations of stock exchanges or clearing corporations

▪ Minimum paid-up equity share capital: Rs. 25 crores.

▪ Past experience : at least 5 years in the financial sector, in India or abroad, preferably in custody, clearing or settlement services.

▪ Tri-party agents should put in place, adequate system infrastructure to carry out their functions.

Advantages of tri-party repo

▪ Introduced in order to provide depth and liquidity in the corporate bond market.

▪ To alleviate the burden of collateral management on one or both of the parties, by delegating the collateral management to the tri-party agent.

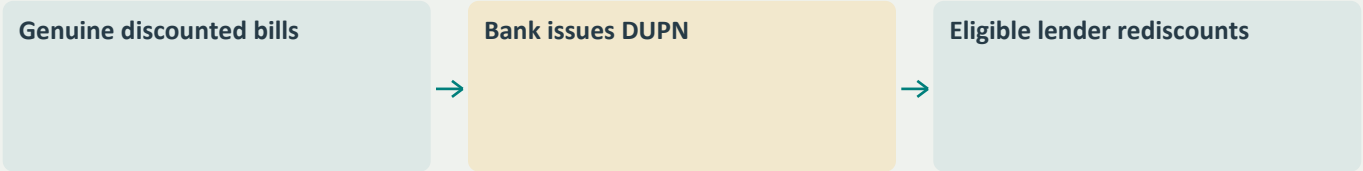
Bill Rediscounting Scheme (BRDS)

▪ BRDS is the rediscounting of trade bills, which have already been purchased by/discounted with the bank by the customers.

▪ Banks, in their normal course of business discount genuine bills of exchange.

This forms part of the loans and advances or credit portfolio of the bank.

Trade-bill liquidity



Money markets and instruments

▪ To provide liquidity and to promote the bills culture in the economy, the RBI formulated a scheme, whereby, a bank may raise funds by issue of Derivative Usance Promissory Notes (DUPN) in convenient lots and maturities on the strength of genuine trade bills discounted by it.

▪ This scheme is known as the Bills Rediscounting Scheme.

▪ Banks and permitted financial entities may invest by way of rediscounting trade bills of other eligible banks against a Derivative Usance Promissory Note issued by such bank.

▪ Tenor: Minimum 15 days and the maximum tenor is 90 days.

Redrawn / Triparty repo

Relationship	Source meaning
1	Borrower: securities
2	Lender: surplus money
3	Agent: transaction/settlement and collateral administration

Complete source section / source 262

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

LTRO / announced envelope versus eventual operations

The Rs.1 lakh crore was the initial February 2020 announcement. RBI Annual Report 2019-20 records five LTRO operations between 17 February and 18 March 2020 totalling Rs.1.25 lakh crore. Ordinary LTRO supplies durable liquidity; prescribed investment targeting belongs to TLTRO. Both source descriptions are retained to expose the distinction.

▪ The bank borrowing under the BRDS scheme issues a Derivative Usance Promissory Note to the lender as well as a certificate that the bank holds eligible bills, equal to the amount of the transaction on its books.

▪ The discounting bank will hold and continue to hold such unencumbered usance bills till the date of maturity of the Derivative Usance Promissory Note.

▪ In case any of the bills mature during the currency of the derivative UPN, such bills should be replaced by fresh eligible bills discounted by the bank issuing such derivative UPN.

Long Term Repo Operations (LTRO)

Introduced by RBI in February 2020, with the following dual objectives:

Pandemic measures

LTRO: durable liquidity

TLTRO: targeted deployment

Separate CRR credit measure

Money markets and instruments

• To encourage banks to undertake maturity transformation smoothly and seamlessly, so as to augment credit flows to productive sectors, and,

• To assure banks about the availability of durable liquidity, at reasonable cost, relative to prevailing market conditions.

Accordingly, it has been decided that, from the fortnight beginning on February 15, 2020, the RBI would conduct term repos of 1-year and 3-year tenors of appropriate sizes for up to a total amount of Rs 1,00,000 crores at the policy repo rate.

▪ The first two LTROs were conducted on February 17th and 24th, 2020 for Rs 25,000 crores each, for tenors of 3 years and 1 year, respectively. –

▪ The total amount of liquidity injected through these operations would be up to Rs 1,00,000 crores.

▪ LTROs are conducted on e-Kuber platform and the operations are conducted at a fixed rate.

▪ Banks are required to place their requests for the amount sought under LTRO during the window timing, at the prevailing policy repo rate.

▪ In case of over-subscription of the notified amount, the allotment is done, on pro- rata basis.

▪ The bid amount should be for a minimum of Rs 1 crore and multiples thereof.

▪ Targeted Long-Term Repo Operations are Long-term repo operations (LTROs) conducted by the RBI, to ensure adequate liquidity at the longer period for specific sectors.

▪ Under LTROs, the RBI auction funds to banks for making investments in prescribed corporate and other instruments.

▪ In the initial phase, the RBI instructed banks to invest funds availed from TLTRO to invest in investment-grade corporate debt.

Complete source section / source 263

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Do not attach an unrelated exemption

The 2020 CRR deduction for eligible incremental retail/MSME credit was a separate measure. It is not a blanket CRR exemption for every TLTRO-funded loan. The first TLTRO was launched on 27 March 2020; TLTRO 2.0 targeted funding support to NBFCs through banks. These are dated pandemic operations, not standing entitlements.

▪ Purpose: To ensure that there is enough liquidity in markets like corporate bond market and their yield do not go up in the context of the COVID setback.

Unsecured maturity ladder

Call: overnight	Notice: 2-14 days	Term: >14 days to 1 year

▪ Exempted: From regulatory requirement of the CRR for the equivalent of incremental credit disbursed by banks as loans.

▪ Interest rate: Floating rates linked to the policy repo rate.

Why TLTRO?

▪ Corporate were finding it difficult to mobilise funds as there were large sell offs in the corporate bonds, in the context of the COVID-19 pandemic and the accompanying economic risks.

▪ Therefore, providing liquidity to the corporate bond market was the prime objective of the TLTROs.

▪ On March 27, 2020, the RBI launched the first TLTRO to provide liquidity in the corporate bond market through banks.

▪ Four tranches were completed on April 17, 2020.

▪ In a similar step, the RBI also conducted a TLTRO 2.0 for supporting fund injections to NBFCs through banks.

Original practice / answers with reasons

Q 01. Which unsecured tenor is notice money?

A. Overnight | B. 2-14 days | C. 91 days only | D. Beyond one year

Answer B. Call is overnight; notice covers 2-14 days.

Q 02. A cooperative bank has previous-FY deposits of Rs.1,000 crore. What is 2%?

A. Rs.2 crore | B. Rs.10 crore | C. Rs.20 crore | D. Rs.200 crore

Answer C. 1,000 x 0.02 = 20 crore.

Q 03. Who receives cash in the first leg of its repo borrowing?

A. Securities seller | B. Securities buyer | C. Only the agent | D. No party

Answer A. The borrower sells securities and agrees to repurchase.

Q 04. What principally distinguishes investment yield from a discount rate?

A. Calendar year | B. Price denominator versus face denominator | C. Issuer name | D. Demat account

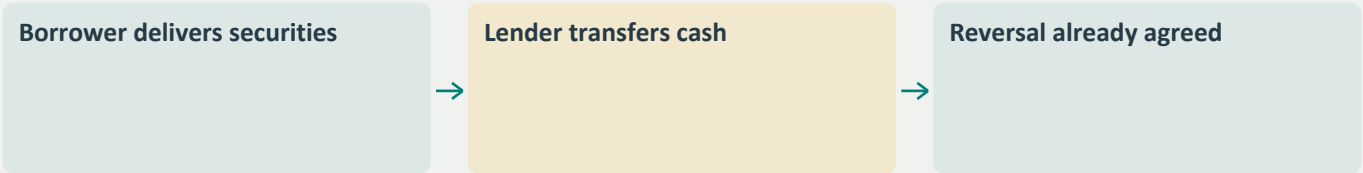
Answer B. The same discount amount produces different rates when the denominator changes.

Q 05. Which is the accurate historical distinction?

A. All LTRO is targeted | B. TLTRO imposed deployment targeting | C. BRDS is equity | D. CD has no maturity

Answer B. Targeted operations stipulated qualifying investment/deployment; ordinary LTRO did not have that same objective.

Repo / first leg

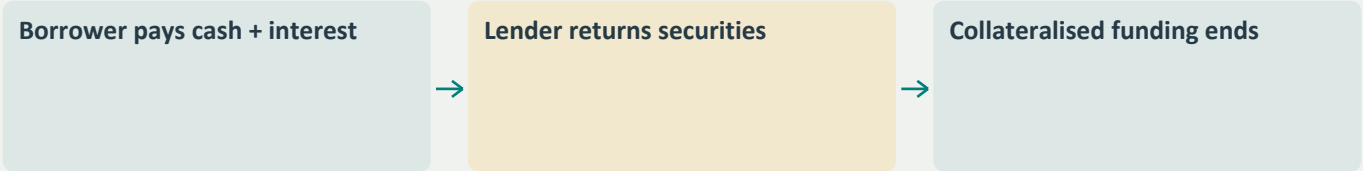


Money markets and instruments

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Money markets serve short-term financing and liquidity.	15. CD means certificate of deposit.
02. Call money is unsecured overnight funding.	16. Bank CD tenor is 7 days to one year.
03. Notice money covers 2-14 days.	17. CD minimum denomination/multiples: Rs.5 lakh.
04. Term money is beyond 14 days to one year in the cited framework.	18. CD structures may be discount or fixed/floating-rate.
05. Repo involves collateral and an agreed reversal.	19. CP is an unsecured money-market instrument.
06. The cash borrower sells securities in leg one.	20. CP tenor: 7 days to one year.
07. The cash lender buys securities in leg one.	21. CP minimum rating under the cited Direction: A 3.
08. Leg two reverses cash and securities.	22. CP denomination/multiples: Rs.5 lakh.
09. A tri-party agent administers collateral and settlement.	23. CP buyback: after seven days under the 2024 rules.
10. A repo agent is not necessarily the cash lender.	24. BRDS relies on genuine discounted trade bills.
11. T-bills are Government of India discount securities.	25. BRDS uses derivative usance promissory notes.
12. Standard T-bill tenors: 91, 182 and 364 days.	26. BRDS tenor in the cited handbook: 15-90 days.
13. T-bills do not pay periodic coupons.	27. LTRO began in February 2020.
14. Discounted securities redeem at face value.	28. TLTRO added prescribed deployment targeting.

Repo / second leg



Fixed-income and bond markets

D 03 / Fixed-income and bond markets

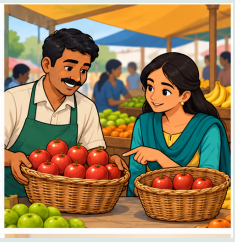
Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / government securities and primary dealers
Government credit quality does not remove price, reinvestment or liquidity risk. SEBI regulates the relevant corporate securities framework.

Chapter route	What to study
Government securities	Sovereign borrowing, cash management, eligible investors and auctions.
Bond valuation	Face value, coupon, maturity, yield and four conditional price theorems.
Market infrastructure	Primary dealers, FIMMDA and RBI Retail Direct.
Corporate debt	Development objectives and inter-corporate deposits.



The coupon stayed the same. Why did the price fall?
Mentor: The market now demands a higher yield. Your old fixed coupon has not increased, so its present value falls. Learner: A safe issuer does not mean a stable sale price!

Primary reference desk / 26 October 2026

- RBI / Government Securities Market: A Primer
- RBI / Retail Direct FAQ
- RBI / Retail Direct launch
- RBI / Standalone PD Directions 2025, updated March 2026

Price a fixed cash-flow bond

Promised cash flows → **Discount at required yield** → **Present value = price**

Fixed-income and bond markets

Learn and verify / the examinable distinctions

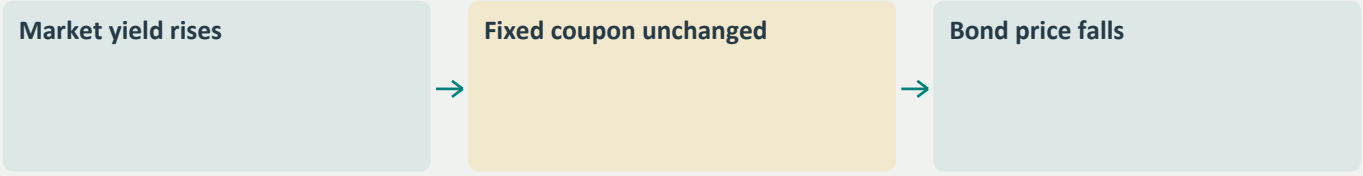
Four theorems / state the assumptions

Anchor	Explanation
Inverse relation	For fixed promised cash flows, a rise in required yield lowers present value; a fall raises it.
Convexity	A conventional option-free bond with positive convexity gains more for a yield fall than it loses for an equal yield rise. Embedded options can change this.
Maturity	Other things equal, longer maturity generally increases interest-rate sensitivity. Compare coupon, yield and structure as well.
Coupon	At comparable maturity/yield, the lower-coupon conventional bond generally has greater sensitivity.

Work a five-year bond

Anchor	Explanation
Inputs	Face Rs.100; annual coupon Rs.6; five years; redemption Rs.100. Simplified annual periods and no accrued interest.
Formula	Price = sum of 6/(1+y)^t for t=1 to 5, plus 100/(1+y)^5.
At 5% yield	Rs.104.3295, rounded to Rs.104.33.
At 6% yield	Rs.100.00: coupon rate equals yield at par.
At 7% yield	Rs.95.8998, rounded to Rs.95.90.
Compare changes	A one-percentage-point yield fall gains Rs.4.33; an equal rise loses Rs.4.10. This illustrates positive convexity.

Inverse relationship

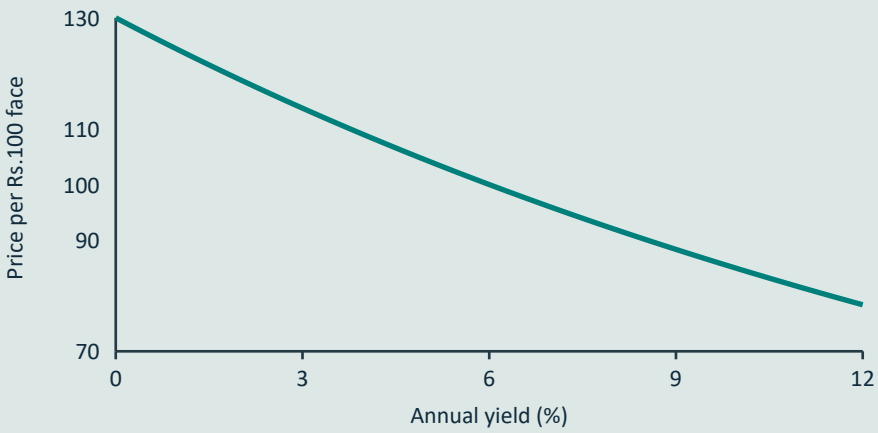


Fixed-income and bond markets

Auction and access / separate the roles

Anchor	Explanation
Multiple price	Successful bidders pay their respective accepted bid prices.
Uniform price	Successful bidders pay the common accepted auction price under the announced method.
Primary dealer	Supports auctions through bidding/underwriting obligations and secondary-market liquidity.
Retail Direct	An eligible individual uses an RBI RDG account for primary non-competitive access and secondary-market transactions.
FIMMDA	Market association and voluntary self-regulatory institution; it does not replace RBI or SEBI.

Bond price versus yield / calculated illustration



5-year bond
6% annual coupon
Rs.100 redemption

At 6% yield: price100.
At 5%:104.33.
At 7%:95.90.

Positive convexity: equal yield changes give unequal price changes.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Auction pipeline

Government borrowing → **RBI auction / PD support** → **Investor holding**

Fixed-income and bond markets

Government securities and bond valuation / source 277

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Fixed cash flows / coupon exception

The source statement that a bond coupon never changes applies to fixed-rate bonds. Floating-rate coupons reset according to contract; other bonds can have step-up or contingent terms. Sovereign domestic-currency credit risk is distinct from market-price risk. G-secs also include non-coupon forms, so do not define all of them as fixed-coupon bonds.

JAIIB Paper 1 IE & IFS Module D Unit 4 Fixed Income

Markets Debt and Bond Markets

Introduction

• A country’s financial development hinges around the existence of deep and liquid government securities market.

• Besides providing flexibility to the public debt manager to manage borrowing obligations and the maturity profile of public debt, while minimising rollover risks, this market also determines risk-free interest rates, leading to price discovery in other segments of the market spectrum, such as markets for money market instruments and corporate bonds.

Government Securities

• The Government securities market consists of securities issued by the State and the Central governments. Government securities include Central Government securities, Treasury bills and State Development Loans.

• They are issued in order to finance the fiscal deficit and managing the temporary cash mismatches of the Government. All entities registered in India like banks, financial institutions, Primary Dealers, firms, companies, corporate bodies, partnership firms, institutions, mutual funds, Foreign Institutional Investors, State Governments, Provident Funds, trusts, research organisations.

Bond Valuation And Theorems

Three important parameters for any bond are its face value, maturity and coupon

(interest) rate.

• The price of a bond also depends up on the prevailing market interest rate

(yield). To determine the fair price of a bond, we have to understand that the market interest rate for the term to maturity (or the residual term to maturity) of a bond keeps changing in the real world.

• Although the coupon of a bond (interest payable by the bond issuer to the bond holder) is never changed, as the market interest rate changes, adjustments will have to be made in the price of bonds, in order to reflect

Three different rates

Coupon: contractual	Current yield: coupon/price	YTM: all cash flows

the ongoing market interest rate.

There are four important bond theorems, based on the interplay of its price and the market interest rate. Without going deep into the details of the theorems, which may be outside the scope of this courseware, the theorems can be stated as follows:

• Theorem 1: The price of a bond is inversely related to the change in interest rate.

Bond theorems, auctions and primary dealers / source 278

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Theorems and investor eligibility

The four price theorems require conventional comparable bonds and appropriate assumptions. Foreign-investor eligibility is governed by the relevant FEMA/RBI route and limits; it is not universal permission for every overseas person. Auction notifications specify the method and minimum lot. The Rs.10,000 source amount should be read with the particular security/scheme, not imposed on SGB units.

• Theorem 2: The increase in the price of a bond when the interest rate goes down by a certain percentage, is greater than the decrease in its price when the interest rate goes up by the same percentage.

• Theorem 3: Longer the term to maturity of a bond, higher will be its price sensitivity.

• Theorem 4: Between two bonds of same maturity but different coupons, the bond with the lower coupon will experience more price sensitivity than the one with higher coupon.

Auction Of Government Securities

• As stated earlier, Government securities are issued through auctions (Multiple Price Auctions or Uniform Price Auctions), which are conducted by the RBI.

• Investment in the Government Securities may be made by any person resident in India, including firms, companies, corporate bodies, institutions, State

Governments, Provident Funds and Trusts, Non-Resident Indians, Overseas

Citizens of India Foreign Portfolio Investors (FPIs) registered with the Securities and Exchange Board of India (SEBI)and approved by Reserve Bank of India (RBI) and other person not resident in India, as specified by the RBI with the prior approval of the Government of India, in this regard.

• Foreign Central Banks (FCBs) will also be eligible to invest in the Government securities subject to the terms and conditions stipulated by the RBI, in consultation with the Government of India, in the Scheme for Rupee Investments by FCBs. Investment by a person resident outside India or a Company which is incorporated outside India or any branch of such Company shall be subject to the provisions of the Foreign Exchange Management Act, 1999 (FEMA) and Regulations framed there under, in addition to the other provisions of law

Corporate debt purpose

Alternative funding

Long-term investor products

Diversified credit exposure

applicable to Government Securities.

Note: Government Securities will be issued for a minimum amount of Rs. 10,000 (Face Value) and in multiples of Rs.10,000 thereafter.

Primary Dealers

• One of the very important players in the Government securities market are the Primary Dealers (PDs). Primary dealers are entities, registered with RBI, who have the license to purchase and sell government securities.

• They are entities who buy government securities directly from RBI, aiming to resell them to other buyers. In this way, the Primary Dealers create a market for government securities. The Primary Dealers system in the government securities market was introduced by the RBI in 1995.

• The PDs, thus serve to promote transactions in government securities market. A facilitating arrangement is essential for selling of government securities as government is the single largest borrower in the market, which borrows through the issue of its securities, i.e., treasury bills and bonds.

Primary-dealer roles and FIMMDA / source 279

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Authority and historical statute names

The PD system dates to 1995. A PD authorisation has operational/underwriting and prudential obligations; it is not the only route by which any investor can buy a G-sec. References to Companies Act 1956 are historical; Companies Act 2013 and the applicable current RBI framework govern current corporate/PD requirements. FIMMDA is an association, not the statutory sovereign-securities regulator.

• RBI guidelines stipulate that PDs should have a minimum turnover ratio, bidding ratio, underwriting ratio, secondary market participation, etc., in order to ensure that they are active in supporting the trade in government securities.

Eligibility Conditions for Primary Dealers

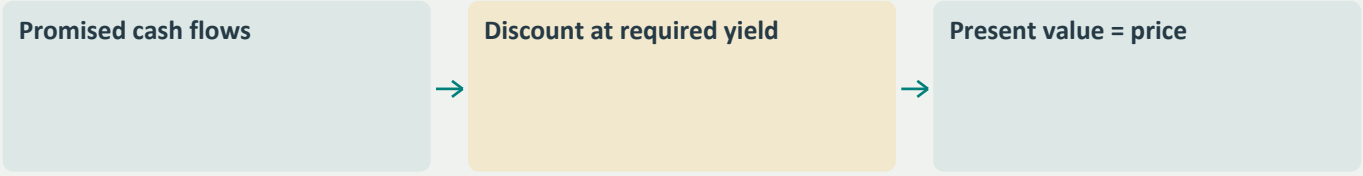
• Subsidiary of scheduled commercial bank/s and All India Financial Institutions

• Subsidiaries/ joint ventures set up in India by entities incorporated abroad.

• Company incorporated under the Companies Act, 1956 and does not fall under

(a) or (b). The applicant for PD should register as an NBFC for at least one year prior to the submission of its application for PD. The decision to authorise PDs is taken by RBI, based on its perception of market needs, suitability of the applicant and the likely value addition to the system.

Price a fixed cash-flow bond



Fixed-income and bond markets

Role and Functions of Primary Dealers

The role of Primary Dealers is to:

• Commit participation as principals in Government of India issues through bidding in auctions,

• Provide underwriting services,

• Offer firm buy – sell/bid-ask quotes for T-Bills & dated securities, and

• Development of Secondary Debt Market

Fixed Income Money Market and Derivatives Association Of India

(FIMMDA)

FIMMDA is the Self-Regulatory Organisation (SRO), associated with the fixed income and derivative markets in India. It is an association of Commercial Banks, Financial Institutions and Primary Dealers and is a voluntary self-regulating institution for the bond, money and derivatives markets.

The role of FIMMDA is as follows:

• To function as the principal interface with the regulators on various issues that impact the functioning of these markets.

• To undertake developmental activities, such as, introduction of benchmark rates and new derivatives instruments, etc.

• To provide training and development support to dealers and support personnel at member institutions.

• To adopt and develop international standard practices and a code of conduct in the above fields of activity.

• To devise standardised best market practices.

• To function as an arbitrator for disputes, if any, between member institutions.

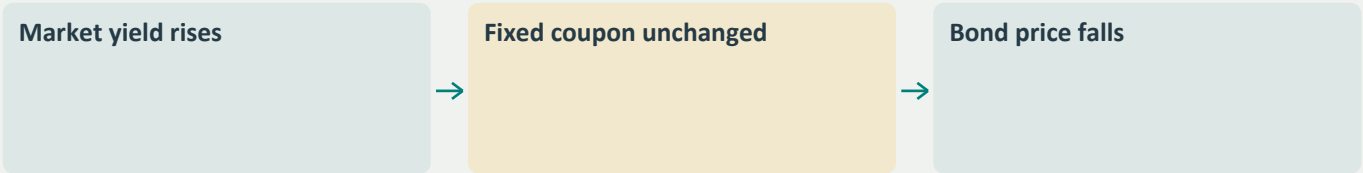
• To develop standardised sets of documentation.

• To assume any other relevant role facilitating smooth and orderly functioning of the said markets.

Retail Direct and corporate debt / source 280

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Inverse relationship



Fixed-income and bond markets

Retail Direct / scope, not return guarantee

RBI launched Retail Direct on 12 November 2021. The historical scheme lists T-bills, dated Central securities, SDLs and SGBs; access depends on issue availability and FEMA eligibility where relevant. The inclusion of SGB does not imply a fresh subscription window always exists. Corporate-bond market size and issuer dominance are source-era observations, not undated current statistics.

RBI Retail Direct Scheme (RDS)

In order to deepen the government securities market and enable retail individual investors to participate in the process of nation building by giving them access to the G- Sec market, RBI launched its Retail Direct Scheme (RDS) on 12th November, 2021. The salient features of RDS are as under:

Securities Eligible

RDS would enable retail investors to buy and sell the following types of Government securities:

• Government of India Treasury Bills;

• Government of India dated securities;

• Sovereign Gold Bonds (SGB);

• State Development Loans (SDLs).

Scope of the Scheme 'RBI Retail Direct' is a comprehensive scheme, which provides the following facilities to retail investors in government securities market through an online portal:

• Open and maintain a 'Retail Direct Gilt Account' (RDG Account)

• Access to primary issuance of Government securities

• Access to NDS-OM

Eligibility of Investors

Retail investors, as defined under the scheme, can register under the Scheme and maintain a RDG Account, if they have the following:

• Rupee savings bank account maintained in India;

• Permanent Account Number (PAN) issued by the Income Tax Department;

• Any OVD for KYC purpose;

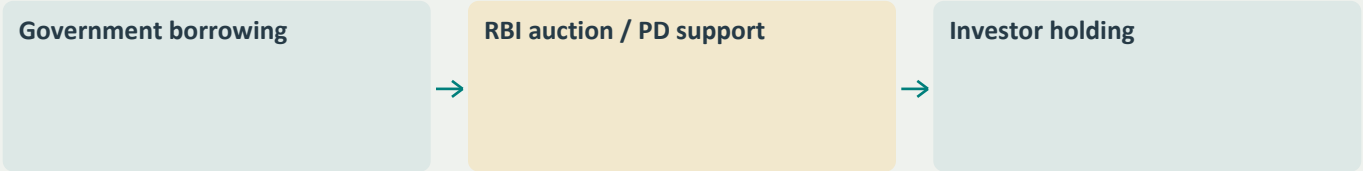
• Valid email ID; and

• Registered mobile number.

Non-Resident retail investors eligible to invest in Government Securities under Foreign Exchange Management Act, 1999, are eligible under the scheme.

The RDG account can be opened singly or jointly with another retail investor who meets the eligibility criteria.

Auction pipeline



Fixed-income and bond markets

Corporate Bond Market

• The Corporate Debt Market in India is at a relatively early stage, in terms of an efficient price discovery mechanism as well as market participation.

• Primary corporate debt market is dominated by finance companies and relatively a small amount of funds is raised by manufacturing and other service industries through this market. Indian firms are still seeking bank finance as the path to fulfill the funding requirements.

Corporate bond development and ICDs / source 281

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Corporate debt / qualify costs and ICD generalisations

A deeper bond market can diversify funding; it does not eliminate all agency or intermediation cost. ICD pricing depends on credit, tenor, security/structure and liquidity; a higher rate than every comparable bank CD is not a universal theorem. The current RBI Standalone PD Directions 2025, updated 10 March 2026, paragraphs 108-109 confirm: ICD borrowing ceiling 150% ofprevious-March-endNOF; minimum period one week; related-party terms at arm-length with disclosure; ALMdiscipline. SPDs cannot place funds in the ICDmarket. This is their permitted side of participation, not a ban on every other company borrowing.

• An efficient bond market would help corporates reduce their financing costs and allow them to structure their asset-liability profiles better. A well-developed corporate bond market is also necessary for long-term financing of corporates.

Objectives of development of a robust corporate bond market are as follows:

• To diffuse stress on banks, by diversifying credit risk across the various investors.

• To supply long-term investment products, for long-term investors.

• To reduce funding cost for corporate and others, by eliminating agency and disintermediation cost.

• To ensure that capital is allocated more efficiently among various enterprises.

Inter-Corporate Deposits

• An Inter-Corporate Deposit (ICD), is an unsecured borrowing by corporates and FIs from other corporate entities, registered under the Companies Act, 1956 or the Companies Act, 2013.

• The corporate having surplus funds would lend to another corporate, in need of funds. This lending would be on uncollateralised basis and hence, a higher rate of interest would be demanded by the lender.

• The short-term credit rating of the corporate would determine the rate at which, the corporate would be able to borrow funds. Further, the credit spreads demanded even for the top-rated corporates would be

Three different rates

Coupon: contractual	Current yield: coupon/price	YTM: all cash flows

higher than similar rated banks and the rates on ICDs would be higher than those in the Certificate of Deposit (CD) market.

• The tenor of ICD may range from one day to one year, but the most common tenor of borrowing is for 90 days. Primary Dealers are only permitted to borrow in the ICD market. The borrowing under ICD is restricted to 150% of the Net Owned Funds and the minimum tenor of borrowing is for 7 days.

Original practice / answers with reasons

Q 01. For fixed cash flows, a higher required yield usually causes what?

A. Higher price | B. Lower price | C. Same price always | D. Higher coupon automatically

Answer B. Discounting fixed payments at a higher rate reduces present value.

Q 02. At coupon rate equal to yield, with matching conventional periods, price is?

A. Above par always | B. Below par always | C. Par | D. Zero

Answer C. The coupon stream and redemption discount to face value.

Q 03. Which body introduced the Indian primary-dealer system in 1995?

A. IRDAI | B. RBI | C. PFRDA | D. An insurer

Answer B. RBI developed the PD arrangement for government securities.

Q 04. Which feature identifies a multiple-price auction?

A. All pay one price | B. Accepted bidders pay their accepted prices | C. No bids | D. Only retail buyers

Answer B. Uniform-price auctions instead use the common accepted price.

Q 05. A sovereign bond is sold before maturity. Which risk remains?

A. No risk at all | B. Market-price risk | C. Guaranteed profit | D. Equity voting risk

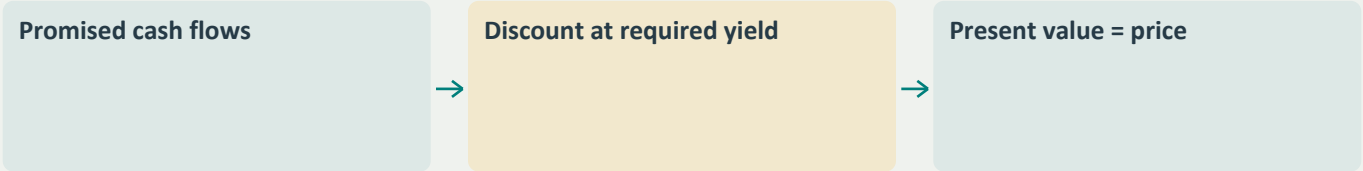
Answer B. Yield changes can change the sale price even with strong issuer credit.

Fixed-income and bond markets

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. G-secs finance government borrowing and cash needs.	15. Option-free bonds generally have positive convexity.
02. Central securities and SDLs have different issuers.	16. Longer maturity generally raises sensitivity, other things equal.
03. Treasury bills are short-term government securities.	17. Lower coupon generally raises sensitivity, other things equal.
04. Face value is distinct from market price.	18. Embedded options can alter ordinary convexity.
05. Coupon is the contractual interest provision.	19. Multiple-price winners pay their accepted bid prices.
06. Fixed-rate coupon does not reset with market yield.	20. Uniform-price winners use a common accepted price.
07. Floating-rate coupons can reset.	21. RBI introduced the PD system in 1995.
08. Bond price is discounted cash-flow value.	22. PDs support government-security auctions.
09. Required yield and fixed-cash-flow price move inversely.	23. PDs also support secondary-market liquidity.
10. At matching coupon rate and yield, a conventional bond is at par.	24. FIMMDA is a market association.
11. A lower yield generally gives a premium price.	25. Retail Direct launched on 12 November 2021.
12. A higher yield generally gives a discount price.	26. RDG means Retail Direct Gilt account.
13. Current yield is annual coupon divided by price.	27. Corporate bonds diversify funding beyond bank loans.
14. YTM reflects all contractual payments at the quoted price.	28. Credit quality does not eliminate interest-rate risk.

Price a fixed cash-flow bond



Capital markets and stock exchanges

D 04 / Capital markets and stock exchanges

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI / securities issuance and investor protection
Exchange, clearing corporation, depository, broker, merchant banker and bank have different roles. A regulator does not guarantee an investment return.

Chapter route	What to study
Markets and products	Primary/secondary markets, exchanges, ownership/debt instruments and demutualisation.
Issue documents	Offer document, DRHP/RHP, risk factors, pricing and book building.
Application to settlement	Investor categories, ASBA, allotment, QIP and settlement infrastructure.



Blocked does not mean spent
Learner: My IPO application blocked Rs.15,000. Mentor: That money stays in your account until the allotment debit. If there is no allotment, the block is released.

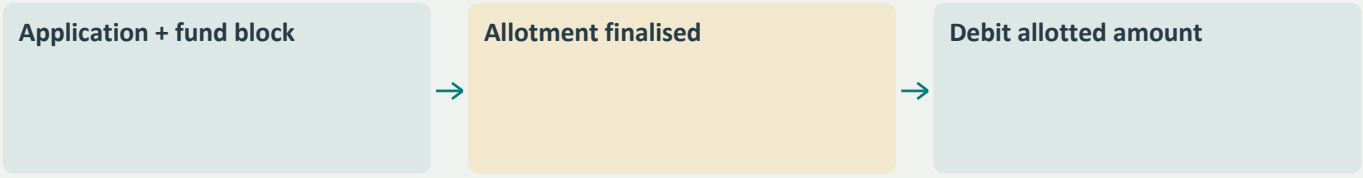
Primary reference desk / 26 October 2026

SEBI / ICDR Regulations, amended March 2026

SEBI / faster rights issue circular, March 2025

NSE / settlement cycle

IPO application



Capital markets and stock exchanges

Learn and verify / the examinable distinctions

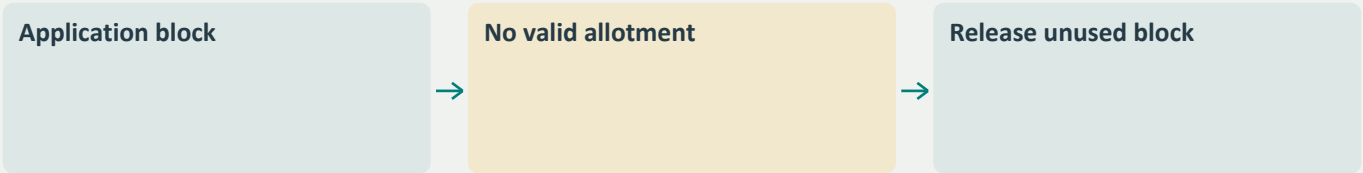
Trace the money and the securities

Anchor	Explanation
Fresh issue	New securities raise funds for the issuer. An offer for sale pays the selling shareholder instead. Both can form part of a public offer.
Secondary market	Existing investors trade; the issuer does not ordinarily receive the trade consideration.
Dematerialisation	A depository holds securities electronically; a DP provides the investor-facing account service. A trading account places orders; the bank account carries cash.
Demutualisation	Separate ownership, management and trading rights; corporate form alone does not guarantee conflict-free governance.

Documents and application

Anchor	Explanation
DRHP	Draft disclosures for regulatory scrutiny/public comment before the final issue documents.
RHP	A prospectus that omits complete price/quantum particulars permitted by law; final terms follow price discovery.
Book building	Bids across the permitted band help determine demand and final price. Disclosure is not SEBI price approval.
ASBA	Application funds are blocked; the allotment amount is debited and unused funds unblocked.
QIP	A listed issuer places eligible securities with qualifying institutional buyers under the applicable ICDR route.

No allotment / failed issue



Capital markets and stock exchanges

Corporate actions / count the shares

Anchor	Explanation
Rights example	One-for-four rights: a holder of 400 shares receives an entitlement to apply for 100 additional shares, subject to issue terms. Subscription requires payment.
Bonus example	One-for-two bonus: 400 existing shares receive 200 additional shares through capitalisation. Economic wealth does not mechanically double.
Split example	A 1:2 split doubles share count and halves face value per share; it does not itself raise new company capital.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Capital markets / source 263

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

JAIIB Paper 1 IE & IFS Unit 3: Capital Markets and Stock

Exchanges

Capital Market

Also includes private placement sources of debt and equity as well as organised forums like stock exchanges.

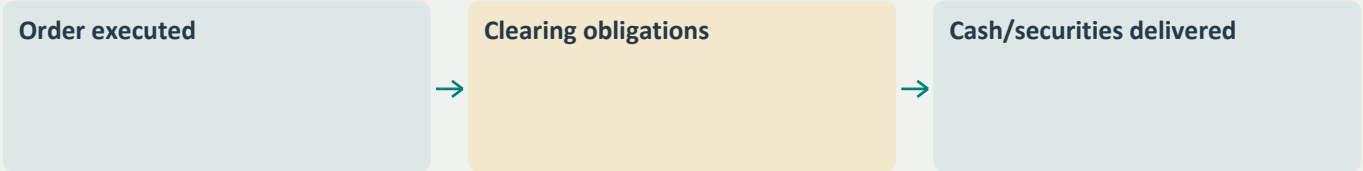
Redrawn / Capital-market tree

Relationship	Source meaning
1	Capital market → long-term debt and equity

Primary and secondary markets / source 264

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Trading and settlement



Capital markets and stock exchanges

Primary market / include private routes and OFS

Primary capital formation includes eligible private placements, not only public subscription. Fresh-issue proceeds go to the issuer; OFS proceeds go to the selling holder. A bank needs the relevant registration/permission for each intermediary activity.

Primary Market

▪ In the primary market, securities (shares/bonds/debentures) are offered to the public for subscription, for the purpose of raising capital or fund.

Intermediaries

Merchant banker,

Issue manager,

Lead arranger, etc.

Banks participate in the capital market as bankers to the issue, arrangers, underwriters, etc.

Secondary Market

Secondary market refers to a market, where securities are traded, after being initially offered to the public in the primary market and/or listed on the Stock Exchange

Redrawn / Primary/secondary and issue branches

Relationship	Source meaning
1	Capital market → primary market and secondary market
2	Primary market → public issue and private placement

Secondary-market roles / source 265

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

• Secondary market is the trading avenue, in which, already existing/pre-issued securities are traded, amongst investors. Secondary market could be either an auction or a dealer market. While stock exchange is a part of an auction market, Over the Counter (OTC) market, is a part of the dealer market.

• For the general investors, the secondary market provides an efficient platform for trading of securities, & for price discovery.

• For managers of the company, secondary (equity) markets serve as a monitoring and control conduit – by facilitating value enhancing control activities, enabling implementation of incentive-based management

Three accounts

Bank: cash

Trading: orders

Demat: securities

contracts and aggregating information (via price discovery) that guides management decisions.

• Banks facilitate secondary market transactions by opening direct trading and demat accounts to individuals and companies. Banks also extend credit against securities. They can also function as clearing house banks.

Stock Exchanges In India

Redrawn / Full market classification

Relationship	Source meaning
1	Secondary market → debt and equity
2	Capital market → primary(public issue, private placement) and secondary(auction/stock exchange, dealer/OTC)

Exchanges and demutualisation / source 266

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Historical exchange list / not a current recognition register

The source list includes historical names/statuses. OTCEI is not a current recognised national trading venue; historical recognition and current trading permission are different. NSE IFSC is now NSE International Exchange (NSE IX). IFSC securities activities fall under IFSCA. Do not learn every item in this source-era list as an operational domestic exchange today.

At present following are the stock exchanges in India:

BSE Ltd. (Erstwhile Bombay Stock Exchange) (BSE) –

▪ It is the oldest stock exchange of India

▪ set up in 1875

▪ First stock exchange to be granted permanent recognition from SEBI.

▪ It is one of the two major stock exchanges in the country today.

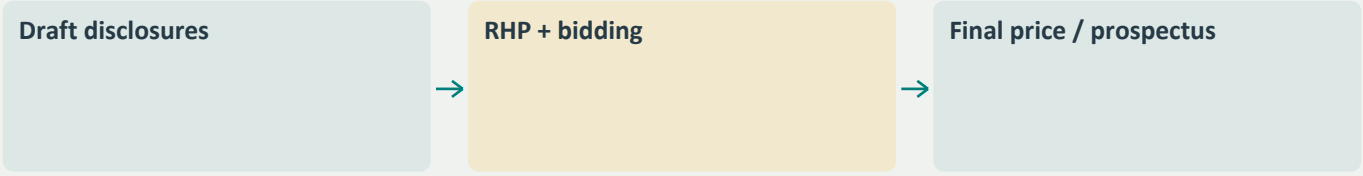
National Stock Exchange of India Ltd. (NSE) –

• Established: 1992 and is the other major stock exchange in the country today.

• Permanent recognition from SEBI.

The Calcutta Stock Exchange Ltd. (CSE) –

Issue documents



Capital markets and stock exchanges

▪ One of the oldest stock exchanges of India.

▪ Set up as an Association in 1908.

▪ It has permanent recognition as stock exchange.

Metropolitan Stock Exchange of India Ltd. –

▪ Formed in December 2012, and commenced trading in February 2013.

India International Exchange (India INX) –

▪ A subsidiary of BSE and

▪ Set up in the International Financial Services Centre (IFSC), Gandhinagar.

NSE IFSC Ltd. –

▪ This stock exchange is a subsidiary of NSE and has been set up in the International Financial Services Centre (IFSC), Gift City, Gandhinagar.

Over the Counter Exchange of India Ltd. (OTCEI) –

▪ Set up in 1990 to aid enterprising promoters in raising finance for their projects in cost effective manner.

Demutualisation of Stock Exchanges

▪ Demutualisation refers to the transition process of an exchange from a 'mutually owned' association to a 'shareholders-owned' company.

Financial Products/Instruments Dealt With In The Secondary Market

The following are the main financial products/instruments dealt with in the secondary market:

• Equity: Equity is the ownership interest in a company of holders of its common and preferred stocks. The different types of equity shares are as follows:

Equity and debt instruments / source 267

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Preference voting and debt / avoid absolute definitions

Preference shareholders have statutory voting rights on matters affecting their rights and in specified dividend-default circumstances. Debentures and bonds can be secured or unsecured, fixed or floating; the source secured-debenture/unsecured-bond contrast is not a universal legal rule. Government securities include T-bills and floating-rate forms, not only fixed half-yearly coupons.

• Equity Shares: An equity share is commonly referred to as an ordinary share. It represents the form of fractional ownership, in which, a shareholder, as a fractional owner, undertakes the entrepreneurial risk,

Rights versus bonus

Rights: pay to subscribe

Bonus: capitalise reserves

Split: change unit size

associated with a business venture. The holders of equity shares are members of the company and have voting rights. A company may issue such shares with differential rights for voting, payment of dividend, etc.

• Rights Issue/Rights Shares: This refers to the issue of new securities to the existing shareholders, at a ratio to those shares already held.

• Bonus Shares: These shares are issued by the companies to their shareholders free of cost by capitalisation of accumulated reserves from the profits earned in the earlier years or out of the share premium account.

• Preferred Stock/Preference Shares: These shares do not offer voting rights.

Owners of these shares are entitled to a fixed dividend or a dividend calculated at a fixed rate to be paid regularly before any dividend can be paid in respect of equity share. These shareholders also enjoy priority over the equity shareholders in the payment of surplus, during the process of liquidation of the company.

• Cumulative Preference Shares: This is a type of preference share on which dividend accumulates, if it remains unpaid. All arrears of preference dividend have to be paid out, before paying dividend on equity shares.

• Cumulative Convertible Preference Shares: This is a type of preference share where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

• Participating Preference Share: This refers to the right of certain preference shareholders to participate in profits, after a specified fixed dividend, contracted for, is paid. Participation right is linked with the quantum of dividend paid on the equity shares, over and above a particular specified level. Other instruments that form part of the capital market are given below:

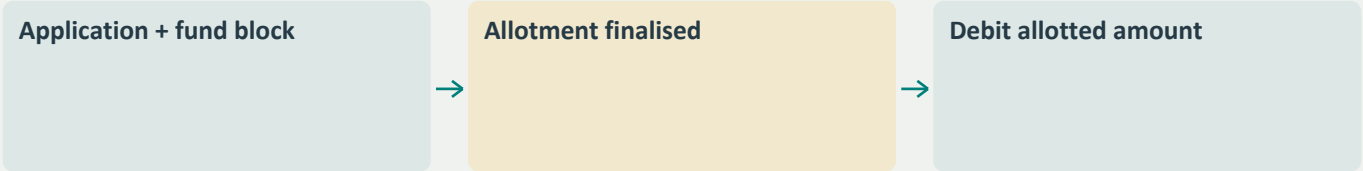
• Security Receipts: Security receipts mean receipts or other securities, issued by a securitisation company or a reconstruction company, to any qualified institutional buyer, pursuant to a scheme, evidencing the purchase or acquisition by the holder thereof, of an undivided right, title or interest in the financial assets involved in securitisation.

• Government Securities (G-Secs): These are sovereign (credit risk free) coupon- bearing instruments, which are issued by the Reserve Bank of India, on behalf of the Government of India, in lieu of the Central Government's market borrowing programme. These securities have a fixed coupon that is paid on specific dates, on a half-yearly basis.

• Debentures: Debentures are bonds issued by a company bearing a fixed rate of interest usually payable half-yearly, on specific dates and the principal amount repayable on a particular date, on redemption of the debentures. Debentures are normally secured/charged against the asset of the company in favour of the debenture holder.

• Bond: A bond is a negotiable certificate evidencing indebtedness. It is normally unsecured. A Bond (debt security) security is generally issued by a company,

IPO application



Capital markets and stock exchanges

Bonds, taxes and settlement / source 268

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Settlement and transaction tax / update the scope

The source T+2 description is historical. NSE states T+1 and optional T+0 rolling settlement; applicable holidays/segment matter. STT applies to specified taxable securities transactions, not literally every stock-exchange transaction. The source 2013 tax-rate reference is dated; verify the applicable instrument, transaction side and current Finance Act before using a rate.

municipality or a government agency. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date.

• Coupon Bonds: These are normal bonds, on which, the issuer pays the investor/holder, interest at the pre-determined rate (known as coupon), at agreed intervals, normally, twice a year. The maturity of the bond is known by the period for which, it is issued.

• Zero-Coupon Bond: A bond issued at a discount and repaid at a face value is called a Zero-Coupon Bond. No periodic interest is paid in this case. The difference between the issue price and redemption price (face value) represents the return to the holder. The buyer of these bonds receives only one payment, at the maturity of the bond (known as a bullet payment).

• Convertible Bond: A bond giving the investor the option to convert the bond into equity, at a fixed conversion price, is referred to as a Convertible Bond.

• Commercial Paper: Commercial papers are borrowings of a company from the market. They take the shape of short-term promises to repay fixed amounts.

They are placed on the market, either directly or through specialised intermediaries. Commercial papers are money market instruments issued, minimum of 7 days and maximum of one year.

• Treasury Bills: These are short-term bearer discount security, issued by the Government (through the Reserve Bank of India), as a means of meeting its cash requirements.

Commonly Used Terms In The Capital Market

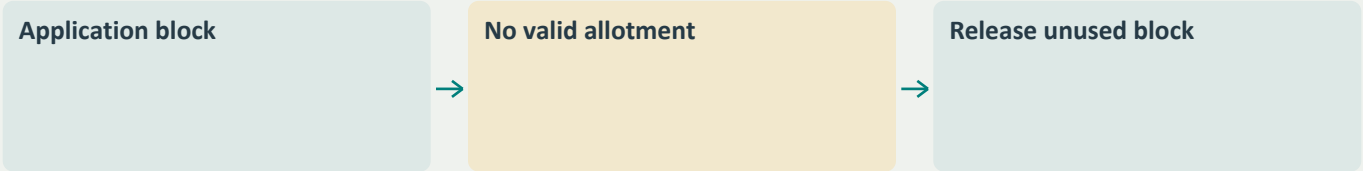
Securities Transaction Tax (STT):

▪ Securities Transaction Tax (STT) is a tax, being levied on all transactions done on the stock exchanges, at rates prescribed by the Central Government, from time to time.

▪ Pursuant to the enactment of the Finance (No. 2) Act, 2004, the Government of India notified the Securities Transaction Tax Rules, 2004 and

▪ came into effect from October 1, 2004.

No allotment / failed issue



Capital markets and stock exchanges

▪ In order to reduce transaction costs in the capital markets, the STT was reduced to 0.1% on cash delivery transactions in the annual budget 2013-14.

Rolling Settlement:

▪ In a Rolling Settlement, trades executed during the day are settled, based on the net obligations for the day.

▪ Presently, the trades pertaining to the rolling settlement are settled on a T+2 days basis.

▪ Trades executed on a Monday, hence, are typically settled on Wednesday (considering 2 working days from the trade day).

Settlement and securities lending / source 269

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Payout and lending / current mechanisms

Read the historical broker-payout description alongside modern direct securities payout to client demat accounts and the relevant settlement/auction procedures. Securities lending fees, recall, auction and close-out timelines depend on the current approved-intermediary framework; a source-era seven-day sentence is not a universal settlement calendar.

▪ The funds and securities pay-in and pay-out are carried out on T+2 day.

▪ A Stock Exchange may choose to offer T+1 settlement cycle on any of the scrips with effect from January 01, 2022, after giving an advance notice of at least one month subject to applicable terms and conditions as per SEBI guidelines dated 7 the September 2021.

Pay-in Day and Pay-out Day:

• Pay-in day is the day when the brokers make payments or delivery of securities to the exchange.

• Pay-out day is the day when the exchange makes payment or delivery of securities to the broker.

• Settlement cycle is on a T+2 rolling settlement basis, with effect from April 1, 2003.

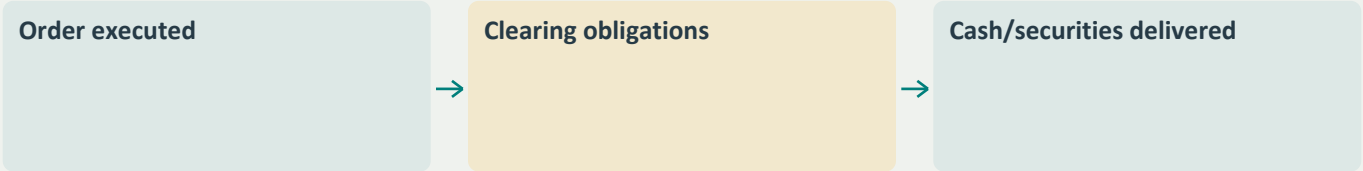
• The exchanges have to ensure that the pay-out of funds and securities to the clients is done by the broker, within 24 hours of the pay-out.

• The exchanges will have to issue a press release immediately after the pay-out Securities Lending Scheme:

▪ Securities Lending and Borrowing is a scheme which enables lending of idle securities by the investors to the clearing corporation and earning a return through the same.

▪ For securities borrowing and lending system, clearing corporations of the stock exchange would be the nodal agency and be registered as the ‘Approved Intermediaries’ (AIs).

Trading and settlement



▪ The clearing corporation can borrow, on behalf of the members, securities for the purpose of meeting shortfalls.

▪ The defaulting selling broker may make the delivery within the period specified by the clearing corporation.

▪ In the event of the defaulted selling broker, failing to make the delivery within the specified period, the clearing corporation has to buy the securities from the open market and return the same to the lender, within 7 trading days.

▪ In case of an inability to purchase the securities from the market, the transaction shall be closed out.

Types Of Capital Issues In The Primary Market

Capital-issue eligibility / source 270

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Eligibility / rights issues are regulated

Rights and preferential issues have conditions under the applicable corporate law and ICDR provisions. The source Rs.50 lakh/30-day filing rule is an old framework. The March 2025 rights-issue reforms changed the process; SEBI specified completion within 23 working days of Board approval, with adjustments for relevant shareholder approvals. DIP is a historical framework name; current issuance rules use ICDR.

Eligibility Norms For Making Capital Issues

▪ SEBI has laid down eligibility norms for entities accessing the primary market through public issues.

▪ There are no eligibility norms for a listed company that is making a rights issue, as it is an offer made to for a listed company making a preferential issue.

▪ However, for a QIP, only those companies whose shares are listed in NSE or BSE and those who are having a minimum public float, as required in terms of the listing agreement, are eligible.

▪ For making any public issue of securities, a draft Prospectus has to be filed by the issuer, with the SEBI, through a Merchant Banker.

▪ No listed issuer company shall make any rights issue of securities, where the aggregate value of such securities, including premium, if any, exceeds Rs. 50 lakhs, unless a draft letter of offer has been filed with the Board, through a

Three accounts

Bank: cash	Trading: orders	Demat: securities

Capital markets and stock exchanges

Redrawn / Source capital-issue boxes

Type	Source explanation
Public issue	IPO and FPO. Offer to new investors to enter shareholding family; detailed Disclosure and Investor Protection(DIP)guideline disclosures in offer document offered for subscription.
IPO	Unlisted company makes fresh issue, offer for sale of existing securities, or both, for first time to public; enables listing/trading.
FPO	Already listed company makes fresh issue or offer for sale through offer document. Source says offer for sale allowed only to satisfy listing/continuous-listing obligations.
Rights issue	Listed company offers fresh securities to existing shareholders on record date, in ratio to securities held before issue. Raises capital without dilution unless holders do not subscribe to entitlement.
Private placement	Shares/convertible securities to selected persons under source Companies Act 1956 section 81; neither rights nor public issue; faster equity route. QIP: listed company private placement to QIBs under source DIPChapterXIIIA.

Offer documents and RHP / source 271

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

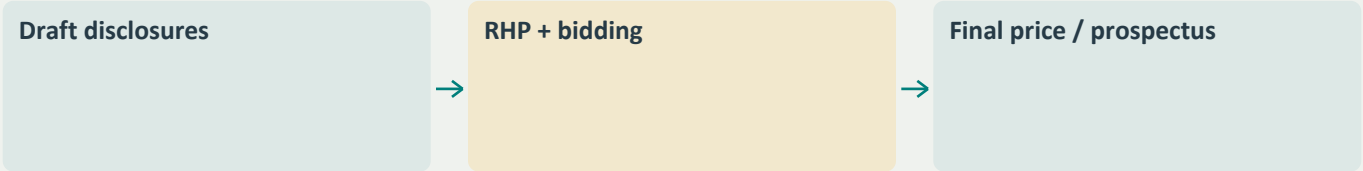
Draft versus final document

DRHP and RHP are distinct stages. Public comments on draft documents are not a guarantee of accuracy, future profitability or SEBI endorsement. Apply the current ICDR timetable to price-band advertisements; do not treat the source one-day FPO statement as a general current requirement.

Merchant Banker, at least 30 days prior to the filing of the letter of offer with the Designated Stock Exchange.

▪ In QIP, the merchant banker handling the issue has to file a copy of the placement document with SEBI, post-allotment, for record purposes.

Issue documents



Capital markets and stock exchanges

▪ Merchant banks are the specialised intermediaries who are required to display due diligence and ensure that all the requirements of DIP (Disclosure and Investor Protection) guidelines are complied with, while submitting the draft offer document to SEBI.

▪ The draft offer document filed by the merchant banker is also placed on the website for public comments.

Offer Document means

▪ Prospectus in case of a public issue,

▪ Offer for sale and Letter of Offer, in case of a rights issue, which are filed with the Registrar of Companies (ROC) and stock exchanges.

▪ SEBI may specify changes, if any, in the draft offer document and the issuer or the lead merchant banker (LM) shall carry out such changes in the draft offer document, before filing the offer document with ROC/SEs.

▪ The draft offer document will be available on the SEBI website, for public comments, for a period of 21 days, from the filing of the draft offer document with SEBI.

Red Herring Prospectus (RHP)

▪ Red Herring Prospectus (RHP) is a prospectus which does not have details of either price or number of shares being offered or the amount of issue.

▪ This means that in case the price is not disclosed, the number of shares and the upper and lower price bands are disclosed.

▪ An issuer can state the issue size and the number of shares is determined later.

▪ An RHP for an FPO can be filed with the ROC, without the price band. In such a case, the floor price or the price band will be notified by way of an advertisement, one day prior to the opening of the issue.

▪ In the case of issues for book building, it is a process of price discovery and the price cannot be determined, until the bidding process is completed.

▪ Such details are thus not shown in the RHP filed with ROC, in terms of the provisions of the Companies Act.

▪ Only on completion of the bidding process, the details of the final price are included in the offer document.

▪ The offer document filed thereafter with ROC is called a prospectus.

Read company disclosures / source 272

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Rights versus bonus

Rights: pay to subscribe

Bonus: capitalise reserves

Split: change unit size

Capital markets and stock exchanges

Use disclosures as evidence, not predictions

Audited past profits do not promise future dividends. Litigation is a risk factor to assess for materiality, not an automatic instruction to accept or reject every IPO. Distinguish fresh issue proceeds from an OFS when reading use-of-proceeds disclosures.

What is a Draft Red Herring Prospectus?

▪ A Red Herring Prospectus, or offer document, is filed by a company to SEBI (Securities and Exchange Board of India), when it intends to raise money from the public by selling shares of the company to investors.

▪ The document is very useful to investors because, it provides detailed information about the company's business operations, financials, promoters and the company's objective for raising funds by filing an IPOs.

▪ It also elaborates on how the company intends to use the money that will be raised and the possible risks for investors.

Contents of RHP:

The Red Herring Prospectus contains some of the following information Business Description:

▪ This segment talks about a company's core operations and how it conducts business.

▪ A prospective shareholder, should pay attention to this part, as the investment will be utilised by the company, in its core business.

Financial information:

▪ contains the company's audit reports and financial statements.

▪ For an investor, the financial statement will help him to get an idea of future dividends, based on the profits disclosed.

▪ The investor can gauge the safety and profitability of his future investment, based on the financial information.

Risk Factors:

▪ Companies lists out the potential risks that could impact their business and operations under a section titled 'Risk Factors'.

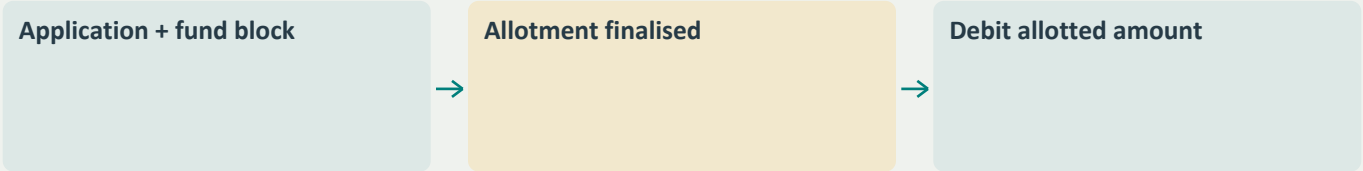
▪ While many are routinely listed risks, some risks need to be scrutinised. For instance, if the investor find that the company has a number of pending legal cases, it may be a good idea to avoid the IPO.

Use of Proceeds:

▪ The investor should find out what the company intends to do with the capital it raises, through the IPO.

▪ Also, the capital structure of the company should be scrutinised in order to see if any big private investors have put money into the company.

IPO application



Capital markets and stock exchanges

Industry overview:

Pricing and book building / source 273

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

▪ A red herring prospectus carries information about the position of the company, relative to its competitors. The performance trends of the industry to which the company belongs to, is also included in the document.

Management:

▪ A company's prospects have a lot to do with the people who run it.

▪ The management is responsible for planning strategies on varied fronts like driving growth, pushing expansions, renovation, marketing, etc.

▪ This section has details such as names, qualifications, designations about directors, promoters and key management personnel.

▪ It may also have information about any criminal cases or that of financial delinquency or pending litigations against these people.

▪ It is important for an investor to check this section because all these can be a risk factor.

Pricing of the Issue

▪ There is no price formula stipulated by SEBI.

▪ The company and merchant banker are however required to give full disclosures of the parameters, which they had considered, while deciding on the issue price.

There are two types of issues,

One where company and LM fix a price (called fixed price)

Other, where the company and LM stipulate a floor price or a price band and leave it to market forces to determine the final price (price discovery through book building process).

▪ An issuer company is allowed to freely price the issue.

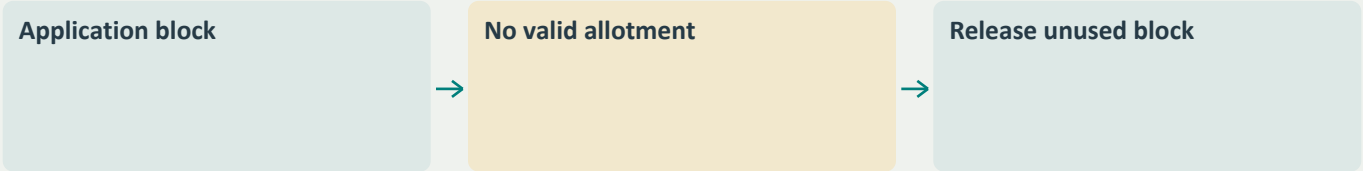
▪ The basis of issue price is disclosed in the offer document

▪ Book Building means a process by which, a demand for the securities proposed to be issued by a corporate body is elicited and built-up and the price for the securities is assessed, on the basis of the bids obtained for the quantum of securities offered for subscription by the issuer.

In a 100% of net offer to public through voluntary book-built issue, allotments to different categories of investors are required to be ensured in the following proportions:

▪ Retail Individual Investors (RIIs): Not less than 35% of the net offer to the public

No allotment / failed issue



Capital markets and stock exchanges

▪ Non-Institutional Investors (NIIs): Not less than 15% of the net offer to the public

Allocation and investor categories / source 274

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Allocation / identify the route

The ordinary and alternative IPO eligibility routes have different QIB/NII/retail allocations. Apply the actual route and current ICDR conditions; do not interchange 50/15/35 and 75/15/10. Retail application value is distinct from the higher UPI operational ceiling applicable to certain individual bids. An anchor is a subset of QIB participation under specified rules.

▪ Qualified Institutional Buyers (QIBs): Not more than 50% of the net offer to the public (5% of which should go to Mutual funds) In case of compulsory Book-Built Issues, the proportion of allotments shall be as under:

▪ QIBs: At least 75% of the net offer to the public (failing which full subscription monies to be refunded)

▪ NIIs: Not more than 15% of the net offer to the public

▪ RIIs: Not more than 10% of the net offer to the public In case of Fixed Price Issues, the proportion of allotments shall be as under:

(a)A minimum 50% of the net offer of securities to the public shall initially be made available for allotment to RIIs.

(b)The balance net offer of securities to the public shall be made available for allotment to:

▪ Individual applicants other than RIIs, and

▪ Other investors including corporate bodies/institutions irrespective of the number of securities applied for.

Retail Individual Investor

• Means an investor who applies or bids for securities of or for a value not more than `2,00,000.

Qualified Institutional Buyer

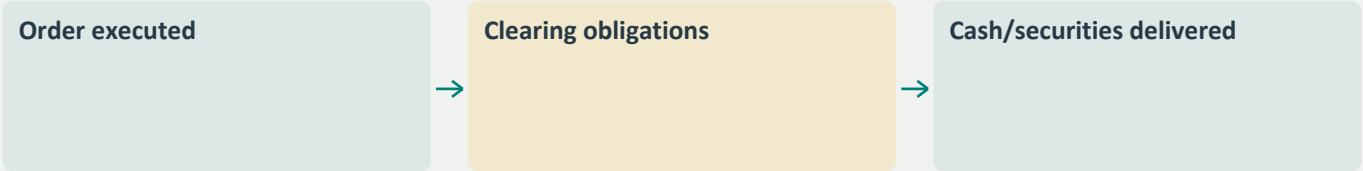
• Is an institutional investor who is perceived to possess expertise and the financial strength to evaluate and invest in the capital markets.

• SEBI has specified certain categories of investors which are considered as QIB, for example mutual funds, scheduled commercial banks, etc.

Non-Institutional Investor

• Is an investor other than a QIB or a RII. Typically, this category includes High Net Worth Individuals (HNIs) and corporate bodies.

Trading and settlement



Capital markets and stock exchanges

• “Anchor investor” means a qualified institutional buyer who makes an application for a value of at least ten crore rupees in a public issue on the main board made through the book building process in accordance with these regulations or makes an application for a value of at least two crore rupees for an issue made in accordance with Chapter IX of these regulations.

• “Green shoe-option” means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism.

• “Self-certified Syndicate Bank” means a banker to an issue registered with the Board, which offers the facility of ASBA

Intermediaries and ASBA / source 275

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

ASBA / correct the failed-issue error

If an issue fails or is withdrawn, application money is unblocked, not debited merely because it failed. Debiting is for valid allotment. A green shoe is a specified stabilisation mechanism, not a promise that price cannot fall. The historical safety-net description is not a guarantee available in every issue.

Intermediaries In An Issue In The Primary Market

▪ Merchant bankers to the issue or Book Running Lead Managers (BRLM), syndicate members, registrars to the issue, bankers to the issue, auditors of the company, underwriters to the issue, solicitors, etc., are the intermediaries to an issue, in the primary market.

Book Running Lead Managers (BRLM):

▪ A merchant banker possessing a valid SEBI registration, in accordance with the SEBI (Merchant Bankers) Regulations, 1992, is eligible to act as a BRLM to an issue.

Safety Net:

• Any safety net scheme or buy-back arrangements of the shares proposed in any public issue shall be finalised by an issuer company, with the lead merchant banker in advance and disclosed in the prospectus.

• Such a buy-back or safety net arrangement shall be made available only to original resident individual allottees, limited to a maximum of 1,000 shares per allottee and the offer is kept open for a period of six months, from the last date of dispatch of securities.

Cut-Off Price

▪ In a book-building issue, the issuer is required to indicate either the price band or a floor price in the RHP.

▪ The actual discovered issue price can be any price, in the price band or any price above the floor price.

Three accounts

Bank: cash

Trading: orders

Demat: securities

▪ This issue price is called the Cut- Off Price. This is decided by the issuer and LM, after considering the 'book and investors' appetite, for the stock.

▪ SEBI (DIP) guidelines permit only retail individual investors to have an option of applying at the cut off price.

Applications Supported By Blocked Amount (ASBA)

▪ ASBA means "Applications Supported by Blocked Amount". ASBA is an application containing an authorisation to block the application money in the bank account, for subscribing to an issue.

▪ If an investor is applying through ASBA, the application money shall be debited from the bank account, only, if his/her application is selected for allotment, after the basis of allotment is finalised, or the issue is withdrawn/failed.

▪ Under ASBA facility, investors can apply in any public/rights issues, by using their bank accounts.

▪ The investors submit the ASBA forms (available at the designated branches of the banks acting as SCSB), after filling the details like name of the applicant, PAN

ASBA and QIP / source 276

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Rights ASBA and QIP / use the current route

The source old restriction on renouncees is not a timeless ASBA rule. Current rights entitlements/renunciation and application mechanics follow the updated framework. QIP is one eligible institutional placement route; calling it the only speedy alternative to preferential allotment is an over statement. Related/promoter eligibility restrictions and placement disclosures remain important.

number, dematerialised account number, bid quantity, bid price and other relevant details, to their banking branch, by giving instructions to block the amount in their account.

▪ In turn, the bank will upload the details of the application in the bidding platform.

▪ Investors shall ensure that the details that are filled in the ASBA form are correct, otherwise the form is liable to be rejected.

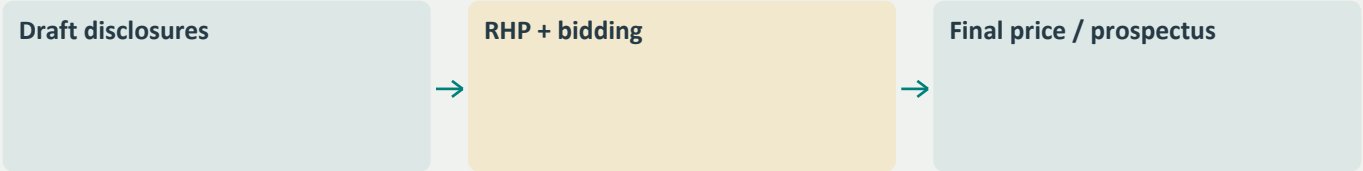
▪ In case of public issues with effect from May 1, 2010, all the investors could apply through ASBA.

In rights issues, all shareholders of the company as on record date were permitted to use ASBA for making applications provided the applicant shareholder:

Is holding shares in dematerialised form and has applied for entitlements or additional shares in the issue, in dematerialised form;

Has not renounced his/her entitlements in full or in part;

Issue documents



Is not a renouncee;

Is applying through blocking of funds in a bank account with the Self Certified Syndicate Bank. (SCSB is a bank which is specialised as a bank capable of providing ASBA services to its customers. Names of such banks would appear in the list available on the website of SEBI).

Qualified Institutional Placement (QIP)

▪ SEBI instituted the guidelines for Qualified Institutional Placement (QIP) relatively new Indian financing avenue on May 8, 2006.

▪ QIP is a capital raising tool, whereby, a listed company can issue equity shares, fully and partly convertible debentures, or any securities other than warrants, which are convertible into equity shares, to a qualified institutional buyer (QIB).

▪ Apart from preferential allotment, this is the only other speedy method of private placement for companies to raise money

▪ To enable the listed companies, raise money from domestic markets in a short span of time, market regulator- SEBI introduced the concept of QIP.

▪ Prior to introduction of QIPs, the complications associated with raising capital in the domestic markets had led many companies to look at tapping overseas markets via foreign currency convertible bonds (FCCBs) and global depository receipts (GDRs). This has also helped issuing companies price their issues closer to the prevailing market price.

▪ The specified securities can be issued only to QIBs, who shall not be promoters or related to promoters of the issuer.

▪ The issue is managed by a SEBI-registered merchant banker.

▪ There is no pre-issue filing of the placement document with SEBI.

QIP placement disclosure / source 277

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

▪ The placement document is placed on the websites of the stock exchanges and the issuer, with appropriate disclaimer to the effect that the placement is meant only for QIBs on private placement basis and is not an offer to the public.

Rights versus bonus

Rights: pay to subscribe

Bonus: capitalise reserves

Split: change unit size

Capital markets and stock exchanges

Original practice / answers with reasons

Q 01. Who receives the sale proceeds in an offer for sale?

A. Always the issuer | B. Selling shareholder | C. Only SEBI | D. Depository

Answer B. OFS is a sale by the existing holder; a fresh issue raises issuer capital.

Q 02. With no IPO allotment, what should happen to the ASBA block?

A. It becomes a tax | B. It is released | C. It is a guaranteed fee | D. It buys a bond

Answer B. Funds are not debited for securities that were not allotted.

Q 03. One-for-four rights on 400 shares gives what entitlement?

A. 25 | B. 100 | C. 200 | D. 1,600

Answer B. 400 divided by four equals 100 additional shares, subject to subscription terms.

Q 04. Demutualisation principally separates which interests?

A. Ownership, management and trading rights | B. Coupon and yield only | C. Tax and audit | D. Savings and insurance

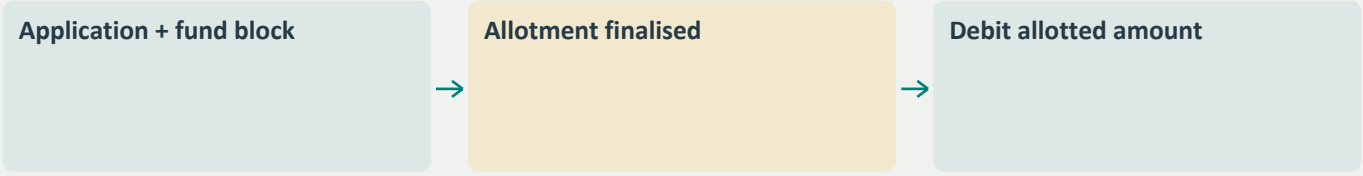
Answer A. It addresses the governance structure of an exchange.

Q 05. Which account principally holds electronic securities?

A. Demat account | B. Current account | C. Loan account | D. ASBA mandate only

Answer A. The trading account places orders; the bank account holds cash.

IPO application

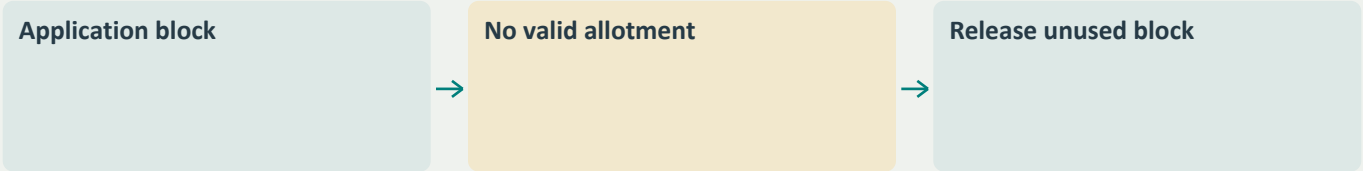


Capital markets and stock exchanges

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Primary markets include fresh securities issues.	15. Preference voting is not prohibited in every circumstance.
02. Fresh issue proceeds raise issuer funds.	16. Bonds may be secured or unsecured.
03. OFS proceeds go to selling holders.	17. Zero-coupon bonds have no periodic coupon.
04. Secondary trading transfers existing claims.	18. Convertible debt can convert under its terms.
05. Demat accounts hold electronic securities.	19. DRHP is a draft disclosure document.
06. Trading accounts are used to place orders.	20. RHP precedes complete final pricing particulars.
07. Bank accounts carry application and settlement cash.	21. Book building collects investor bids.
08. Depository participants interface with investors.	22. Issue disclosure is not a regulatory return guarantee.
09. Demutualisation separates ownership, management and trading rights.	23. ASBA blocks application funds.
10. Equity represents an ownership claim.	24. Valid allotment triggers the relevant debit.
11. Rights offers invite existing holders to subscribe.	25. Unused application funds are unblocked.
12. Bonus issues capitalise eligible reserves.	26. QIP is an institutional placement route.
13. A share split changes unit denomination.	27. Green shoe arrangements concern permitted price stabilisation.
14. Preference rights differ from ordinary equity rights.	28. NSE currently describes T+1 and optional T+0 settlement.

No allotment / failed issue



Foreign exchange markets

D 05 / Foreign exchange markets

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / FEMA and foreign-exchange markets
FEMA authorisation, eligible purpose and applicable limits matter. FEDAI is a dealers association; it does not replace statutory authorities.

Chapter route	What to study
Evolution and participants	Indian forex milestones; banks, brokers, central banks, funds, businesses and individuals.
Benchmarks and institutions	LIBOR transition, alternative reference rates and FEDAI.
Law and access	FEMA provisions, enforcement machinery and FX-Retail.



The quotation has a perspective
Learner: The dealer quotes USD/INR 83.10/83.12. Mentor: The dealer buys dollars at 83.10 and sells them at 83.12. Your action chooses the side.

Primary reference desk / 26 October 2026

- RBI / foreign-exchange market development
- India Code / FEMA 1999
- RBI / forex FAQs and authorised channels
- FCA / final LIBOR cessation
- FEDAI / official website

Importer / illustrative quote

Needs USD10,000 → **Dealer ask83.12** → **Pays Rs.831,200**

Foreign exchange markets

Learn and verify / the examinable distinctions

Read a quote / worked illustrations

Anchor	Explanation
Direct quotation	USD/INR 83.10/83.12 means rupees per US dollar from the quoting dealer perspective. These figures are illustrative, not current rates.
Importer buys USD	For USD 10,000 at ask 83.12, rupee consideration is Rs.831,200 before charges/tax.
Exporter sells USD	For USD 10,000 at bid 83.10, rupee proceeds are Rs.831,000 before charges/tax.
Spread	Ask minus bid: Rs.0.02 per dollar, or Rs.200 on USD 10,000.
Currency movement	A move from USD/INR 83 to 85 means the rupee depreciated against USD; it takes more rupees to buy one dollar.

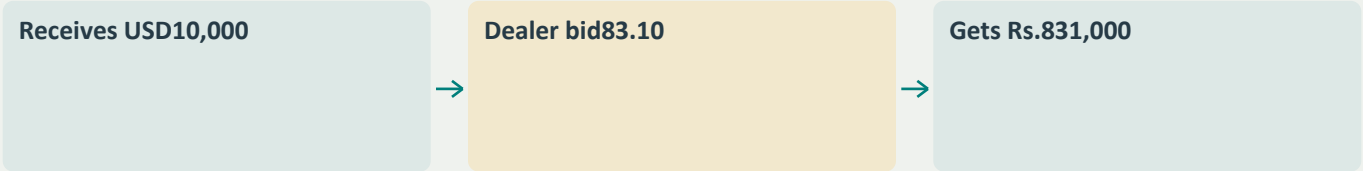
Learn the chronology

Anchor	Explanation
1978	Intraday bank forex trading relaxation; historical square/near-square condition at business close.
1991	Two-step rupee adjustment on 1 and 3 July.
1992-93	Dual-rate LERMS in 1992; exchange-rate unification from 1 March 1993.
1994	India accepted IMF Article VIII obligations in August: current-account convertibility, not complete capital-account convertibility.
2000	FEMA replaced FERA with effect from 1 June 2000.

Benchmark alternatives / match the currency

Anchor	Explanation
USD	SOFR: a secured overnight rate based on Treasury repo transactions.
GBP	SONIA: sterling overnight benchmark.

Exporter / illustrative quote



Foreign exchange markets

Anchor	Explanation
EUR	Euro short-term rate (ESTR). Do not confuse EURIBOR with ceased euro LIBOR.
JPY and CHF	TONA for yen; SARON for Swiss francs. Fallback spread/compounding conventions matter when replacing a legacy term LIBOR.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Foreign exchange / statutory definition / source 281

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

JAIIB Paper 1 IE & IFS Module D Unit 5 - Foreign Exchange

Market

Profile Of Foreign Exchange (Forex) Market

In terms of Section 2(n) of FEMA, 1999, the definition of ‘foreign exchange’ is as follows. “Foreign exchange” means foreign currency and includes:

• Deposits, credits and balances payable in any foreign currency,

• Drafts, travellers’ cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency,

• Drafts, travellers’ cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency”.

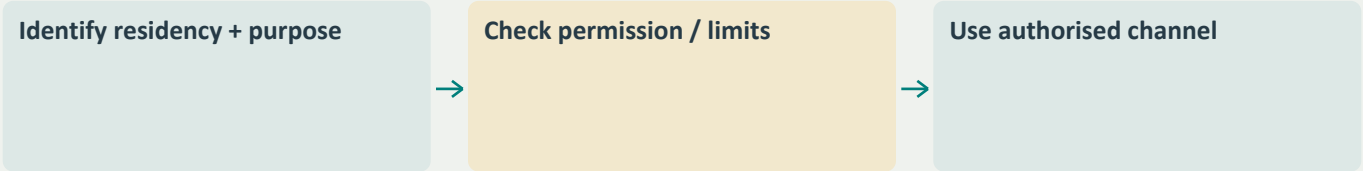
Indian forex evolution / source 282

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Turnover / date the observation

The source USD 6 billion/USD 70 billion comparison has no unambiguous endpoint attached to the latter figure. It is retained as source-era wording, not relabelled as October 2026 turnover. Global and Indian turnover statistics require a named survey, period, geography and instrument coverage.

FEMA route



Foreign exchange markets

The forex market has developed as a consequence of the international trade and foreign exchange requirement of nations. It is primarily an over-the-counter (OTC) market, although there are exchange traded transactions, as well, in the segments of futures.

Evolution Of The Forex Market In India

▪ 1978: RBI allow banks to undertake intra-day trading in foreign exchange.

▪ As a consequence, the stipulation of maintaining “square” or “near square” position was to be complied with only at the close of business each day.

▪ During the period 1975- 1992, the exchange rate of rupee was officially determined by the RBI, in terms of a weighted basket of currencies of India’s major trading partners and there were significant restrictions on the current account transactions.

▪ July 1991: Significant two-step downward adjustment in the exchange rate of the rupee on July 1 and July 3, 1991, with a view to placing it at an appropriate level in line with the inflation differential to maintain the competitiveness of exports.

▪ Following the recommendations of the High-Level Committee on Balance of Payments (Chairman: Dr C. Rangarajan):

▪ Mar 1992: The Liberalised Exchange Rate Management System (LERMS), involving dual exchange rate mechanism was instituted, which was followed by the ultimate convergence of the dual rates.

▪ Effective from March 1, 1993 (known also as modified LERMS).

▪ The unification of the exchange rate of the rupee marks the beginning of the era of market determined exchange rate regime of rupee, based on demand and supply in the forex market.

▪ It is also an important step in the progress towards current account convertibility, which was finally achieved in August 1994, by accepting Article VIII of the Articles of Agreement of the International Monetary Fund.

▪ November 1994: The appointment of an Expert Group on Foreign Exchange (popularly known as Sodhani Committee), was a landmark in the design of foreign exchange market in India.

▪ Recommendations: To develop, widen and deepen the forex market. Banks have been accorded significant initiative and freedom to operate in the market.

▪ This led to increasing turnovers in the forex market which rose from approximately USD 6 billion daily in the year 2000 to USD 70 billion daily, at present.

Characteristics Of The Forex Market

Two forms of convertibility

Current: trade / payments	Capital: assets / liabilities	Not interchangeable

Foreign exchange markets

Characteristics and market participants / source 283

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Trading claims / reject universal guarantees

High liquidity does not permit every position size at a single price. Spreads, fees, market depth, credit lines and authorised trading hours matter. Global weekday dealing is not an unrestricted 24/7 Indian retail entitlement. A 1:100 leverage ratio is not a universal RBI permission; margin/product rules and eligible purpose govern. Predictable trends and profit are not assured. RBI intervention is not a guarantee of a fixed exchange-rate band.

▪ Liquidity: The market operates the enormous money supply and gives absolute freedom in opening or closing a position in the current market quotation. High liquidity is a powerful magnet for any investor, because it gives the freedom to open or to close a position of any size whatever.

▪ Promptness: With a 24-hour work schedule, participants in the forex market need not wait to respond to any given event, as is the case in many markets.

▪ Availability: A possibility to trade round-the-clock; a market participant need not wait to respond to any given event.

▪ Flexible regulation of the trade arrangement system: A position may be opened for a pre-determined period of time in the forex market, at the investor's discretion, which enables to plan the timing of one's future activity in advance.

▪ Value: The forex market has traditionally no service charges, except for the natural bid/ask market spread between the supply and the demand price.

▪ One-Valued quotations: With high market liquidity, most sales may be carried out at the uniform market price, thus enabling to avoid the instability problem existing with futures and other forex investments where, limited quantities of currency only can be sold concurrently and at a specified price.

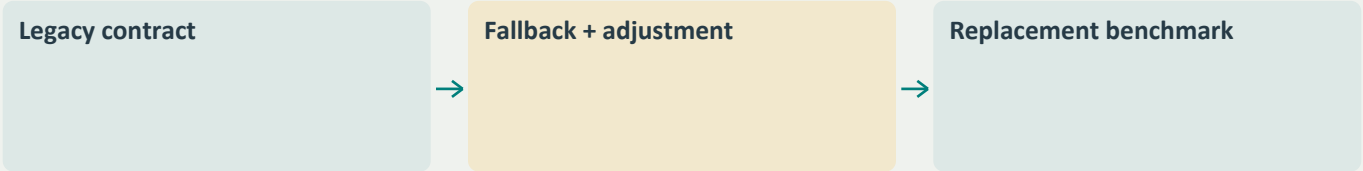
▪ Market trend: Currency moves in a quite specific direction that can be tracked for rather a long period of time. Each particular currency demonstrates its own typical temporary changes, which presents investment managers with the opportunities to manipulate in the forex market.

▪ Margin: The credit "leverage" (margin) in the forex market is only determined by an agreement between a customer and the bank or the brokerage house that pushes it to the market and is normally equal to 1:100.

Market Participants

▪ Commercial banks and investment banks: They generally act on their own behalf or based on the needs and interests of their clients.

LIBOR transition



Foreign exchange markets

▪ Brokers: They act as intermediaries between financial institutions or as links with private individuals, in exchange market, for a fee.

▪ Central banks: Central banks like RBI are responsible for issuing their respective country's currency and managing and controlling the money supply.

Central Banks therefore intervene in currency markets – individually or in a coordinated way – to keep the value of their currencies within the limits defined by their monetary policies.

▪ Sovereign funds: These are public investment funds that invest proceeds from business privatisations, natural resources (oil, gas), etc., in foreign currency assets.

Benchmarks and FEDAI / source 284

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

LIBOR / complete cessation timeline

The source end-2021 target was only part of the transition. Remaining panel USD LIBOR ended in June 2023; final synthetic settings ceased on 30 September 2024, and all 35 settings have permanently ceased. Use the appropriate replacement benchmark and contract fallback. The old CAD-LIBOR history is not a current benchmark list. FEDAI is an association, not the legislature or RBI.

▪ Hedge funds and investment entities: These entities intervene in foreign exchange markets, with speculative purposes or to obtain returns.

Multinationals, large corporations and SMEs and institutional investors (such as insurance companies and asset managers):

▪ These engage in exchange markets for commercial or investment purposes.

▪ Individuals: They operate in the foreign exchange market, for transactional hedging or speculative purposes.

Libor And Alternate Reference Rates (ARRs)

▪ London Inter Bank Offered Rate or LIBOR was a very popular benchmark and

was issued for US Dollar, British Pound, Euro, Swiss Franc, Canadian Dollar and

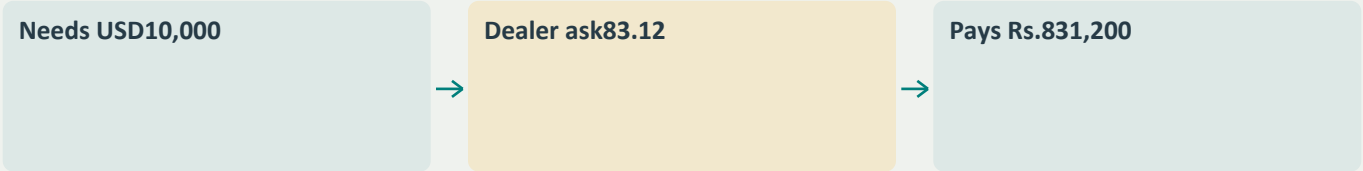
the Japanese Yen.

▪ The rate was being calculated and published each day by the ICE Benchmark Administration (IBA).

▪ The LIBOR had come into a great amount of criticism and irregularities, as a result of which, steps were taken to replace it as a financial benchmark rate.

▪ The events of 'LIBOR rigging' created shock waves in the financial system and the credibility of a financial reference used to price and determine payoffs for trillions of dollars of loans/bonds/derivatives came under a

Importer / illustrative quote



cloud.

▪ In response to these developments, the UK commissioned a review of the structure and governance of LIBOR.

▪ The review concluded that LIBOR should be retained as a benchmark but that it should be comprehensively reformed.

▪ It also recommended that the publication of LIBOR in certain currencies and maturities in which the volumes of trades were particularly low should be discontinued.

▪ However, since these steps did not generate the required confidence for a universally acceptable benchmark rate,

▪ it was decided to phase out the LIBOR and replace it with the Alternate Reference Rates (ARRs) by 31st December, 2021.

Foreign Exchange Dealers' Association Of India (FEDAI)

• FEDAI is one of the very important institutions connected with the forex market and foreign exchange transactions in India.

• The Foreign Exchange Dealers' Association of India (FEDAI) is an association of banks that are authorised to deal in foreign exchange markets in India.

Established in the year 1958, the body regulates the rules that determine various aspects of operations and charges that are attached to the foreign exchange business.

FEDAI and transition to FEMA / source 285

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

FEMA purpose / preserve the statutory wording

FEMA commenced 1 June 2000. Its purpose includes facilitating external trade AND payments and orderly development/maintenance of the foreign-exchange market. The source abbreviated objective should be read with the full Act. Current-account convertibility is subject to lawful restrictions; it does not remove capital-account controls.

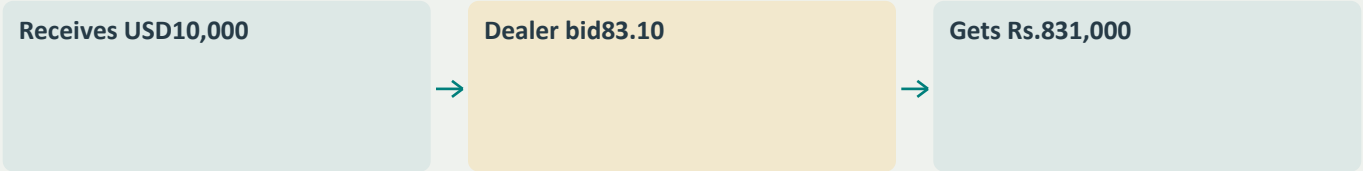
• In addition to rule setting, FEDAI assists member banks, by acting as an advisor and assists with the training of banks' personnel and accrediting foreign exchange brokers.

FEDAI has a number of functions, which are as follows:

• Issuing of guidelines and rules for handling of foreign exchange business,

• Training of bank personnel in the areas of foreign exchange,

Exporter / illustrative quote



Foreign exchange markets

• Accreditation of forex brokers,

• Advising/assisting member banks in settling issues/matters in their dealings,

• Representing member banks on Government/Reserve Bank of India/Other Bodies, and

• Announcement of daily and periodical rates to member banks.

Foreign Exchange Management Act (FEMA), 1999

▪ First time introduced through a series of rules, under the Defense of India Act, 1939, on temporary basis.

▪ An Act was promulgated in the statute under the title “Foreign Exchange Regulation Act, 1947”.

▪ Subsequently, this Act was replaced by the Foreign Exchange Regulation Act, 1973 (FERA) which came into force

▪ With effect from January 1, 1974 and regulated foreign exchange for more than 26 years under this Act.

▪ Economic liberalisation in the year 1991, foreign investment in many sectors were permitted in India.

▪ In 1997: Tarapore Committee on Capital Account Convertibility, constituted by the Reserve Bank of India.

▪ Recommendation: Changes in the legislative framework, governing foreign exchange transactions

▪ Accordingly, the Foreign Exchange Regulation Act, 1973 was repealed and replaced by the new Foreign Exchange Management Act, 1999 (FEMA), with effect from June 01, 2000.

▪ Under FEMA, the emphasis was on management, rather than on regulation, of foreign exchange.

Applicability of FEMA

▪ FEMA, 1999, was enacted to consolidate and amend the law relating to foreign exchange,

▪ Objective: Facilitating external trade and promoting the orderly development and maintenance of foreign exchange market in India.

FEMA structure and authorities / source 286

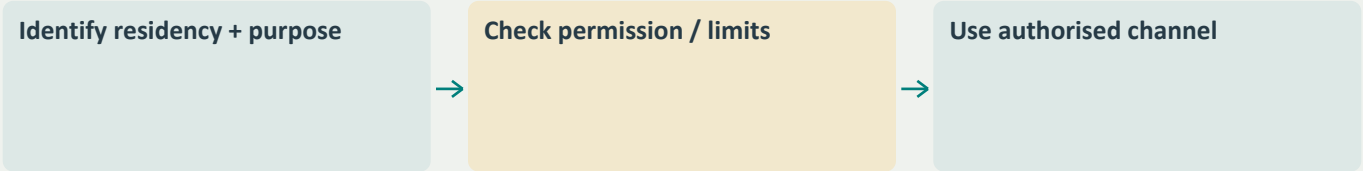
Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Law versus operational directions

Central Government rules and RBI regulations/directions have distinct delegated scopes. Non-debt and debt capital-account instruments follow their applicable current frameworks. The source historical departmental list does not establish that every listed office is the current authority for each particular transaction. Section 4 restrictions operate subject to the Act exceptions.

▪ Applies: To all branches, offices and agencies outside India owned or controlled by a person resident in India and also to any contravention committed thereunder outside India, by any person to whom this Act applies.

FEMA route



Foreign exchange markets

Overall Structure

▪ The overall structure of FEMA, 1999, is covered by legislations, rules and regulations.

▪ Contains 7 chapters divided into 49 sections.

Authorities and Enforcement Machinery

FEMA in itself is not an independent and isolated law. The provisions of FEMA are spread at different places and so there are several regulatory bodies. Reserve Bank of India makes Regulations under FEMA and the Rules are made by the Central Government. Authorities governing the enforcement of FEMA are:

• Foreign Exchange Department, Reserve Bank of India.

• Directorate of Enforcement, Department of Revenue, Ministry of Finance.

• Capital Market Division, Department of Economic Affairs, Ministry of Finance.

• Foreign Trade Division, Department of Economic Affairs, Ministry of Finance.

Machinery responsible for various aspects of FEMA

• Enforcement Directorate

• Adjudicating Authorities

• Special Director (Appeals)

• Appellate Tribunal

Important Provisions of the Act Section 3 – It prohibits dealings in foreign exchange except through an authorised person. This Section states that no person can, without general or special permission of the RBI:

• Deal in or transfer any foreign exchange or foreign securities to any person not being an authorised person.

• Make any payment to or for the credit of any person resident outside India, in any manner.

• Receive otherwise through an authorised person, any payment by order or on behalf of any person resident outside India, in any manner.

• Enter into any financial transaction in India as consideration for or in association with acquisition or creation or transfer of a right to acquire any asset outside India by any person.

Section 4 – It restrains any person resident in India from acquiring, holding, owning, possessing or transferring any foreign exchange, foreign security or any immovable property situated outside India except as specifically provided in the Act. The terms “foreign exchange” and “foreign security” are defined in sections 2(n) and 2(o)

Two forms of convertibility

Current: trade / payments	Capital: assets / liabilities	Not interchangeable

Foreign exchange markets

FEMA provisions and FX-Retail / source 287

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Section references / correct the authority mapping

Section 10 covers authorisation of authorised persons; section 11 provides RBI directions and section 12 inspection. Section 13 provides penalties; section 14 enforcement of adjudicating orders and section 15 compounding. The source grouping of 13 and 15 does not capture section 14. Sections 36/37 concern Enforcement Directorate/investigative powers. Applicable compounding rules and jurisdiction must be checked for the contravention.

respectively of the Act. The Central Government has made Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Section 6 – It deals with capital account transactions. This section allows a person to draw or sell foreign exchange from or to an authorised person for a capital account transaction. RBI in consultation with Central Government has issued various regulations on capital account transactions, in terms of sub-section (2) and (3) of section 6.

Section 7 – It deals with export of goods and services. Every exporter is required to furnish to the RBI or any other authority, a declaration, etc., regarding full export value.

Section 8 – It casts the responsibility on the persons resident in India who have any amount of foreign exchange due or accrued in their favour to get the same realised and repatriated to India, within the specific period and the manner specified by RBI.

Sections 10 and 12 – These provisions deal with duties and liabilities of the authorised persons. Authorised person has been defined in Section 2(c) of the Act, which means an authorised dealer, money changer, offshore banking unit or any other person for the time being authorised to deal in foreign exchange or foreign securities.

Sections 13 and 15 – Provisions of these sections deal with penalties and enforcement of the orders of Adjudicating Authority as well power to compound contraventions under the Act.

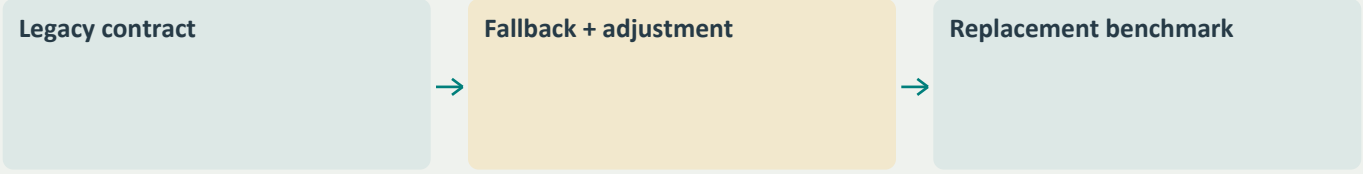
Sections 36 and 37 – These pertain to the establishment of Directorate of Enforcement and the powers to investigate the violation of any provisions of Act, rule, regulation, notifications, directions or order issued

Fx-Retail Platform

▪ The Reserve Bank of India, in its “Statement on Developmental and Regulatory Policies” dated October 04, 2017, had stated

▪ Mechanism should be in place, for improving the pricing outcome for the “Retail User” under which, client pricing is directly determined in the market by providing customers with access to an inter-bank electronic

LIBOR transition



trading platform, where bid/offers from Retail clients and Authorised Dealer banks can be matched anonymously and automatically.

▪ According to RBI, a mechanism in the form of a trading platform: Provide the much-needed transparency and at the same time, enhance competition and lead to better pricing for the customers.

▪ Further, direct execution of orders by the customer would also bring down the risk that banks face in warehousing transactions, until they can be aggregated to a market- lot.

▪ In this mechanism, the banks may charge their customers a pre-agreed flat fee, towards administrative expenses [should be disclosed to the customer by the bank]

Retail forex access / source 288

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

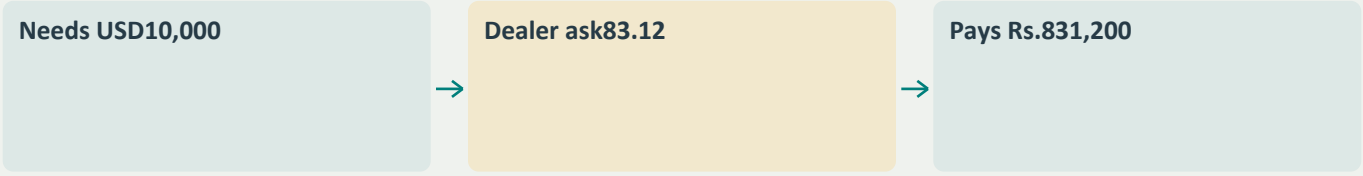
Platform pricing / possible benefit, not promise

FX-Retail seeks transparent competitive access through participating authorised dealers. Quotation, bank charges and execution conditions still matter; a lower all-in cost is an objective, not a guaranteed result for every trade.

▪ Overall, a trading platform shall bring down the total cost faced by the retail customer, in the foreign exchange market.

▪ RBI in its “Statement on Developmental and Regulatory Policies” dated June 06, 2019 announced the introduction of a Foreign Exchange Trading platform for buying and selling foreign exchange for the customers of Banks.

Importer / illustrative quote



Foreign exchange markets

Original practice / answers with reasons

Q 01. At USD/INR 83.10/83.12, an importer buys dollars at which dealer side?

A. 83.10 | B. 83.12 | C. 83.11 always | D. Zero

Answer B. The dealer sells dollars at its ask.

Q 02. USD 10,000 at 83.12 costs how much before charges?

A. Rs.83,120 | B. Rs.831,200 | C. Rs.8,312 | D. Rs.831,000

Answer B. 10,000 x 83.12 =831,200.

Q 03. FEMA commenced on which date?

A. 1 June 2000 | B. 1 January 1974 | C. 1 April 1935 | D. 1 March 1993

Answer A. FERA was replaced from 1 June 2000.

Q 04. Which statement follows from ArticleVIII acceptance?

A. Unlimited capital-account freedom | B. Current-account convertibility with applicable lawful rules | C. No forex law | D. All leverage permitted

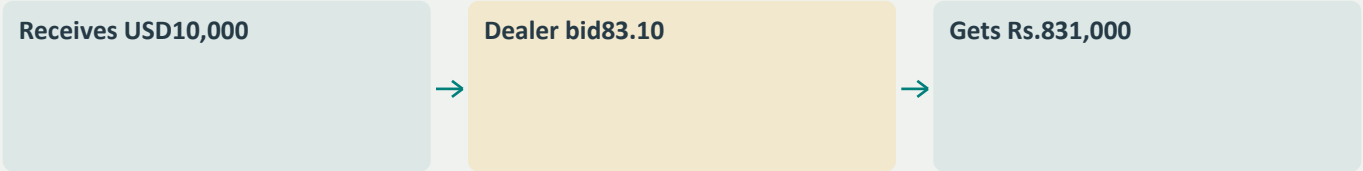
Answer B. Current and capital account convertibility are different.

Q 05. All 35 LIBOR settings had ceased by which final date?

A. December 2021 | B. September 2024 | C. December 1999 | D. Never

Answer B. Final synthetic settings ended 30 September 2024.

Exporter / illustrative quote

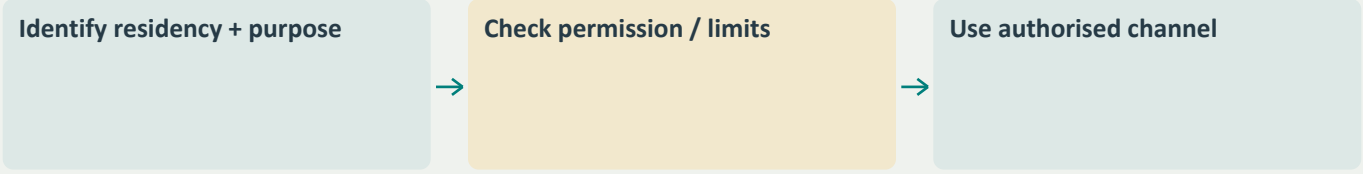


Foreign exchange markets

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Foreign exchange includes more than foreign banknotes.	15. LERMS introduced dual rates in 1992.
02. FEMA section 2(n) defines foreign exchange.	16. Exchange rates were unified on 1 March 1993.
03. Forex markets include OTC and exchange products.	17. ArticleVIII obligations were accepted inAugust 1994.
04. A dealer bid is its buying rate.	18. Current and capital account convertibility differ.
05. A dealer ask is its selling rate.	19. FEDAI was established in 1958.
06. Ask normally exceeds bid for the same quote.	20. FEDAI is a dealers association.
07. USD/INR quotes rupees per US dollar.	21. FEMA replaced FERA from 1 June 2000.
08. A higher USD/INR means rupee depreciation against USD.	22. Authorised persons operate within permission.
09. An importer buying USD uses the dealer ask.	23. Section 10 concerns authorisation of authorised persons.
10. An exporter selling USD uses the dealer bid.	24. Section 11 provides RBI directions.
11. Forward rates are not guaranteed future spot forecasts.	25. Section 12 concerns inspection.
12. Hedging reduces a specified exposure, not every risk.	26. Section 15 concerns compounding.
13. RBI permitted intraday forex trading in 1978.	27. SOFR is a USD alternative reference rate.
14. The rupee adjustment occurred on 1 and 3 July 1991.	28. Final synthetic LIBOR ended 30 September 2024.

FEMA route



Market interconnections

D 06 / Market interconnections

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

Market integration / policy transmission
RBI monetary policy and prudential oversight interact with market prices. Integration can improve allocation while also transmitting shocks.

Chapter route	What to study
Connections	Funding, asset prices, capital flows and contagion.
Levels	Domestic, regional and global integration; benefits and limits.
Regional settlement	ACU objectives, historical membership and multilateral netting.



One shock can travel through several markets
Mentor: A rise in yields can lower bond prices, change portfolio flows and influence exchange rates. Learner: The links are channels to analyse, not mechanical forecasts.

Primary reference desk / 26 October 2026

RBI / financial integration research

Asian Clearing Union / official website

Central Bank of Sri Lanka / Payments Bulletin Q 32024

Possible policy transmission

Funding conditions → **Bond yields / discount rates** → **Portfolio allocation**

Market interconnections

Learn and verify / the examinable distinctions

Trace a possible transmission channel

Anchor	Explanation
Policy to money	A policy change can influence short-term funding rates and liquidity expectations.
Money to bonds	Expected future short rates and term premia influence yields; fixed-cash-flow bond prices respond inversely.
Bonds to other assets	Discount rates, risk appetite and portfolios may change equity/forex demand. Outcomes depend on other news and policy responses.
Contagion	Shocks may spread through exposures, common holdings, funding pressure and confidence, including beyond justified fundamental repricing.

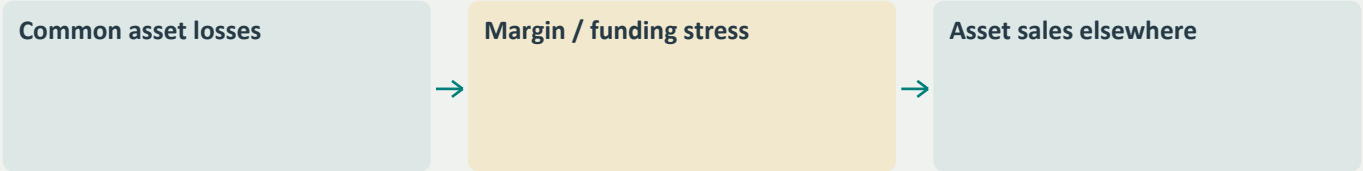
Netting / a small clearing illustration

Anchor	Explanation
Gross claims	A owes B 100; B owes C 80; C owes A 60. Illustrative common settlement units.
Net positions	A pays 40 net; B receives 20 net; C receives 20 net. Net positions sum to zero.
What is saved	Gross obligations total 240, but net payers transfer 40. This illustrates multilateral netting; actual ACU eligibility, currencies and settlement rules govern.
What is not saved	Netting does not extinguish trade obligations without settlement or eliminate sovereign, liquidity and operational risks.

Three levels / distinguish the geography

Anchor	Explanation
Domestic	Integration among markets within an economy, including common banks, funding and infrastructure.
Regional	Integration among economies in a region, through links and agreed institutional arrangements.

Possible shock channel



Market interconnections

Anchor	Explanation
Global	Cross-border participation and financial links across the wider world; not necessarily complete removal of all controls.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Interconnected markets / source 288

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Integration / conditional convergence

Comparable risk-adjusted returns may converge when barriers and frictions diminish, but credit, liquidity, currency, tax and legal risks can sustain differences. Integration does not make distinct assets identical or require identical nominal rates.

JAIIB Paper 1 IE & IFS Module D Unit 6 -

Interconnectedness Of Markets And Market Dynamics

Process Of Interconnectedness of Financial Markets

▪ With the development of the economy and with the forces of globalisation setting in, the different financial markets in India are interconnected with each other and integrated with markets in other parts of the world, as well.

▪ Similarly, other countries in the world are connected to one another and the ups and downs in one part of the globe can have a resonating effect, on other parts of the globe.

▪ “Coupling” of economies and disturbances when they spread, which can be called as “contagion effect”.

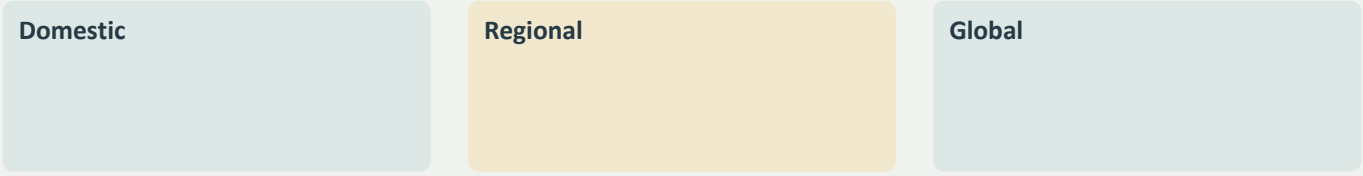
▪ Integration of financial markets is a process of unifying markets and enabling convergence of risk-adjusted returns on the assets of similar maturity, across the markets.

▪ The process of integration is facilitated by an unimpeded access of participants to various market segments. Financial markets all over the world have witnessed growing integration within as well as across boundaries, spurred by deregulation, globalisation and advances in information technology.

Reasons For Interconnectedness

The implications of integration of the financial markets are as under:

Integration levels



Market interconnections

Reasons, benefits and integration levels / source 289

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Efficiency and stability / two sides of the link

Arbitrage can exist even in well-connected markets because capital, settlement timing and transaction costs limit its elimination. Integration can diversify funding and improve pricing but can also amplify common shocks and sudden reversals. It is not an unconditional guarantee of financial stability.

• Capital has become more mobile across national boundaries, as nations are increasingly relying on savings of other nations, to supplement the domestic savings.

• Technological developments in electronic payment and communication systems have substantially reduced the arbitrage opportunities across financial centres, thereby aiding the cross-border mobility of funds.

• Changes in the operating framework of monetary policy, with a shift in emphasis from quantitative controls to price-based instruments such as the short-term policy interest rate, brought about changes in the term structure of interest rates.

• Harmonisation of prudential regulations, in line with international best practices, by enabling competitive pricing of products, has also strengthened the market integration process.

Importance Of Interconnectedness Of Financial Markets

If markets functioned on stand-alone basis and were not interconnected, there would be ample scope of arbitrage between the different segments, which in turn, would make the markets imperfect.

Other points which bring out the importance of market integration are listed below:

• Serve as a conduit for authorities to transmit important price signals.

• Efficient and integrated financial markets constitute an important vehicle for promoting domestic savings, investment and consequently economic growth.

• Fosters the necessary condition for a country’s financial sector, to emerge as an international or a regional financial centre.

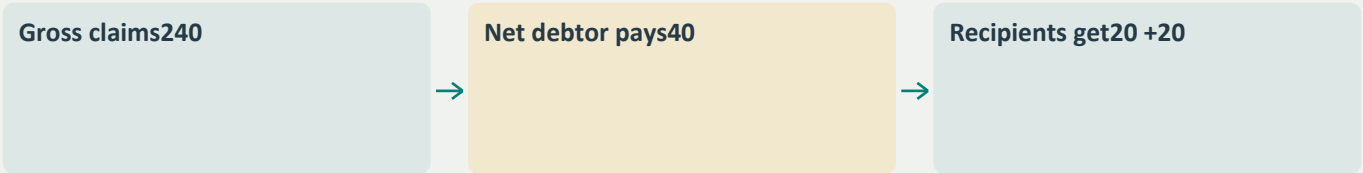
• Enhances competition and efficiency of intermediaries in their operations and allocation of resources, contributes to financial stability.

• lead to innovations and cost-effective intermediation, thereby, improving access to financial services for members of the public, institutions and companies alike.

• Induce market discipline and informational efficiency.

• Promotes the adoption of modern technology and payment systems to achieve cost effective financial intermediation services.

Multilateral netting example



Market interconnections

Different Levels Of Market Integration

Financial markets can be observed to be integrated at three different levels, viz., domestic, global and regional.

• Domestic financial integration: Domestic markets may be closely integrated because some of the intermediaries operate simultaneously in various market segments; for instance, commercial banks operate in both the saving (deposit) and loan markets.

• Global financial integration: Refers to the opening up of domestic markets and institutions to the free cross-border flow of capital and financial services, by removing barriers such as capital controls and withholding taxes.

Regional integration and ACU / source 290

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

ACU / membership versus payment eligibility

ACU is a multilateral clearing arrangement, established in 1974. The nine-country source list is preserved as its historical membership account. Membership alone does not make every payment eligible; current central-bank directions, sanctions, currency and transaction restrictions and any country-specific arrangements must be applied. A clearing union does not by itself create unrestricted currency convertibility.

• Regional financial integration: Occurs due to ties between a given region and the major financial centre serving that region. Economic integration might be easier to achieve at a regional level, due to network externalities and the tendency of market makers to concentrate in certain geographical centres.

Asian Clearing Union

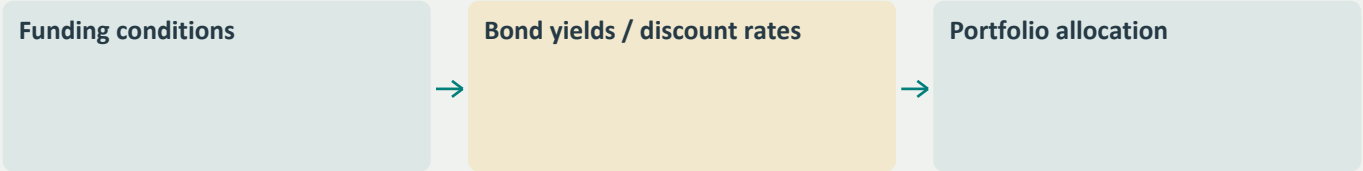
▪ Asian Clearing Union (ACU) is a payment arrangement, whereby the participants settle payments for intra-regional transactions among the participating central banks, on a net multilateral basis.

▪ Objectives: To facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade and banking relations, among the participating countries.

▪ The need for the formation was felt as early as in the 1930s, due to foreign exchange shortages, the breakdown of the gold standard, and the collapse of the international capital markets, forcing the Governments to introduce controls on foreign exchange and foreign trade on the one hand and to sign bilateral trade and payments agreements on the other.

▪ Established at the initiative of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP),

Possible policy transmission



Market interconnections

▪ Established: December 1974, when the countries in the region were facing settlement difficulties, mainly due to resource constraints.

▪ A clearing union can be defined as a multilateral payments arrangement that periodically offsets the debits and credits accumulated by each member against the other members in the process of trade and other transactions.

▪ Multilateral clearing or payments arrangements facilitate the use of national currencies, and thus, serve to relax the foreign exchange constraints of the members.

▪ Members: Bangladesh, Bhutan. India, Iran, Maldives, Myanmar, Nepal, Pakistan

and Sri Lanka.

The important reasons for the formation of a clearing union are:

Exports and imports among members can expand relatively faster because of conservation of foreign exchange in intra-group transactions, at least until the settlement date.

Trade liberalisation can be promoted initially among the members.

Exploitation of scale economies would be made possible by enlarged trade.

An adjustment process can be promoted that would raise the international competitiveness of the members which have similar distortions in trade and production.

Clearing-union benefits / source 291

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

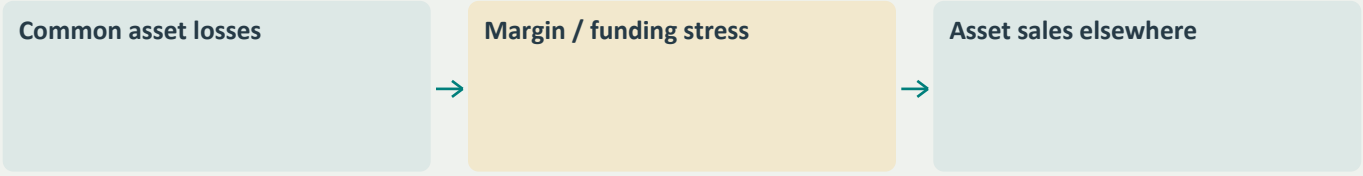
Benefits are objectives

Trade expansion, adjustment and future monetary cooperation are possible benefits of clearing arrangements; they are not automatic consequences or a commitment to a currency union.

Measures and surveillance by the union can help to secure a more balanced current account which in turn, contributes to the creation of conditions for the future convertibility of each of the currencies of member countries.

Ground can be prepared for regional economic co-operation in general and for monetary and financial co-operation in particular.

Possible shock channel



Market interconnections

Original practice / answers with reasons

Q 01. Which best describes integration?

A. Every yield identical | B. Closer financial links subject to risk and frictions | C. No regulation | D. No contagion

Answer B. Risk-adjusted comparability matters; nominal returns need not be identical.

Q 02. Common asset sales spreading losses is an example of what?

A. Contagion channel | B. Guaranteed diversification | C. An IPO | D. An insurance premium

Answer A. Common exposures and funding stress can transmit shocks.

Q 03. A owesB 100, B owesC 80, C owesA 60. A net pays?

A. 100 | B. 60 | C. 40 | D. 240

Answer C. A pays 100 and receives 60: net 40.

Q 04. ACU principally facilitates what?

A. Multilateral clearing of eligible regional payments | B. Equity underwriting | C. Life insurance | D. Unlimited capital conversion

Answer A. It helps conserve settlement resources through a clearing arrangement.

Q 05. Which is a sound stability statement?

A. Integration removes every risk | B. Integration can transmit shocks as well as improve allocation | C. Arbitrage has no costs | D. All capital controls are illegal

Answer B. Benefits and vulnerabilities coexist.

Integration levels

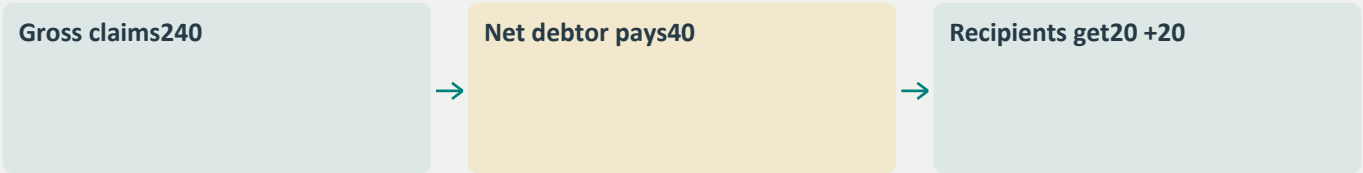
Domestic	Regional	Global

Market interconnections

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Market integration links financial segments.	15. Global integration spans wider cross-border markets.
02. Banks can link deposit and loan markets.	16. Integration can improve resource allocation.
03. Common investors can link bond and equity markets.	17. Integration can support competition.
04. Funding costs influence asset allocation.	18. Integration can support financial innovation.
05. Policy signals can travel through short-term rates.	19. Integration can also transmit adverse shocks.
06. Bond yields reflect more than the current policy rate.	20. Contagion can travel through common exposures.
07. Currency and credit risk can sustain return differences.	21. Funding stress can cause asset sales.
08. Comparable risk-adjusted returns are the relevant comparison.	22. Arbitrage is limited by costs and constraints.
09. Nominal yields need not become identical.	23. ACU means Asian Clearing Union.
10. Technology can reduce transaction frictions.	24. ACU was established in 1974.
11. Deregulation can expand cross-border participation.	25. ACU uses multilateral clearing of eligible payments.
12. Prudential harmonisation can support integration.	26. Netting offsets gross credits and debits.
13. Domestic integration occurs within an economy.	27. Net positions across a closed clearing set sum to zero.
14. Regional integration connects economies in a region.	28. Membership does not remove payment-eligibility rules.

Multilateral netting example



Merchant banking

D 07 / Merchant banking

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI / merchant-banker registration
Issue management, banking, trusteeship and portfolio management need their respective permissions. One registration is not an unrestricted financial-services licence.

Chapter route	What to study
Nature and services	Merchant versus commercial banking; pre/post issue functions and intermediary roles.
Registration	Source historical categories and capital norms, with the 2026 position added.
Conduct	Investor interest, diligence, conflicts, records, policies and responsibility.



An issue manager is not automatically a deposit-taking bank
Learner: Both names contain bank. Mentor: Match the function. A merchant banker manages securities issues; accepting public deposits is a different regulated activity.

Primary reference desk / 26 October 2026

SEBI / Merchant Bankers Regulations, amended December 2025

SEBI / current legal regulations register

Issue-management sequence

Due diligence → Offer / subscription → Allotment + reporting

Merchant banking

Learn and verify / the examinable distinctions

Roles around an issue

Anchor	Explanation
Lead merchant banker	Coordinates issue management and due diligence within the applicable regulatory framework.
Banker to the issue	Handles application/payment functions under its registration and issue arrangements.
Debenture trustee	Protects holders through the trust/security and covenant framework; not the same role as the issuer adviser.
Monitoring agency	Monitors eligible issue-proceeds use under the applicable framework.
Portfolio manager	Needs its separate registration; a merchant-banker certificate does not automatically authorise portfolio management.

Current versus historical classification

Anchor	Explanation
From 3 January 2026	The amended Regulations provide Category I and Category II. Category I can undertake all permitted activities; Category II excludes main-board public equity issues.
Minimum net worth	Category I: Rs.50 crore; Category II: Rs.10 crore. Existing registrants follow SEBI-specified transition arrangements.
Liquid net worth	Category I: Rs.12.5 crore; Category II: Rs.2.5 crore. Do not confuse this with the overall net-worth requirement.
Source categories	The older four-category structure and Rs.5 crore Category I number remain below as historical source wording, not the present general standard.

Distinct intermediary roles

Merchant banker: issue

Bank: payment function

Trustee: holder protection

Merchant banking

Conduct as a workflow

Anchor	Explanation
Before accepting	Check competence, registration, independence/conflicts, scope and resources.
During the issue	Perform due diligence; keep accurate records; provide fair, clear disclosures; protect confidential information.
After the issue	Complete allotment/refund and required reporting/record duties; address investor grievances.
Supervision	Management is responsible for employees and agents; regulatory inspection is not optional.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 291

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Meaning / avoid a false either-or

Merchant banking principally concerns securities issue-management/advisory activities under its framework. A banking group may offer different activities through permitted departments/subsidiaries; compare the licensed function rather than assuming every institution does only funding or only advice.

JAIIB Paper 1 IE & IFS Module D Unit 7- Merchant Banking

Services

Definition Of Merchant Banking

• Merchant Banking primarily involves providing financial advice and services to large corporates and wealthy individuals. Merchant Banks do not provide regular banking services to the general public.

• The notification of the Ministry of Finance defines Merchant Banker as – “Any person who is engaged in business of issue management either by making arrangements regarding selling, buying or subscribing to the securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management.”

Current categories

Category I: all permitted

Category II: excludes main-board equity IPO/FPO

Transition conditions apply

Merchant banking

Merchant Banking Vs Commercial Banking

There are key differences in approach, attitude and areas of services between Merchant Banks and Commercial Banks. Some of them are listed below:

• Merchant Banks are regulated by SEBI, whereas Commercial Banks are governed by RBI regulations;

• Merchant Banks primarily assist in raising equity and equity related finance, whereas Commercial Banks primarily deal with debt and debt related finance;

• Merchant Banks are management oriented, whereas Commercial Banks are assets oriented;

• Activities of Merchant Banks are project counseling, capital structuring, amalgamations and takeovers, whereas Commercial Banks are mainly financiers;

• Merchant Bankers mainly undertake fee-based business, whereas Commercial Banks mainly undertake funding business.

Licensing Requirements

Prospective Merchant Banks have to obtain the following Licenses from SEBI for initiating Merchant Banking activities:

• Merchant Banker: Certificate of Registration from SEBI is to be obtained for

Category I/II/III/IV Merchant Banker, for rendering Issue Management

Services (Public/Rights/Private Placement Issues related to Equity/Debt),

Complete source section / source 292

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Registration and categories / effective change

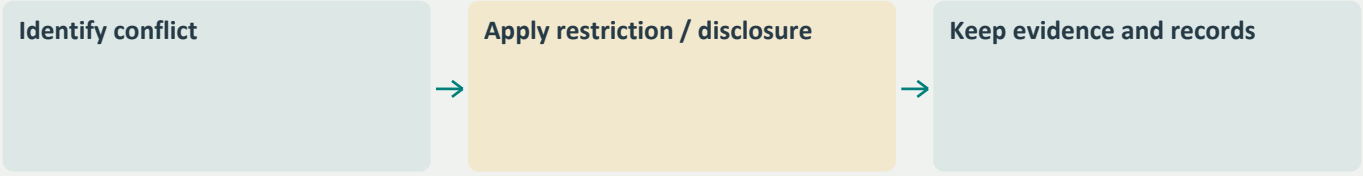
The December 2025 amendment took effect 3 January 2026 and introduced two current categories, with respective Rs.50 crore/Rs.10 crore minimum net worth and Rs.12.5 crore/Rs.2.5 crore liquid net worth, subject to transition arrangements for existing registrants. The source four-category and Rs.5 crore descriptions are historical. Portfolio management requires separate registration; the source 1993 reference has been superseded by later portfolio-manager regulations.

Underwriting, Consultancy and Corporate Advisory Services, etc., as Capital

Market Intermediary.

• Banker to the Issue: Certificate of Registration from SEBI is to be obtained to handle “Bankers to the Issue” assignments with network of exclusive

Compliance chain



Merchant banking

Capital Market Branches and Designated Branches to handle ASBA

applications, collecting (Escrow)/refund/paying banker assignments.

• Debenture Trustee : In terms of SEBI guidelines, all debenture issues (public rights) of the companies with the maturity period exceeding 18 months are required to have 'Debenture Trustee' and its name must be stated in the Prospectus to the issue. A Merchant Bank cannot, directly, be the Trustee, but the Trust can be a subsidiary of the Merchant Bank.

• Portfolio Management: In terms of SEBI guidelines, the Merchant Bank can carry on the activity as Portfolio Manager only if, separate Certificate of Registration under the provisions of the SEBI (Portfolio Manager) Regulations, 1993 is obtained.

Sebi Regulations On Merchant Banking

Certification under SEBI Regulations

Certificate from SEBI is mandatory to commence Merchant Banking activities.

Certification of Merchant Bankers is of four types, viz., Category I Merchant Bank: can act as Issue managers—

To carry on any activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of the subscriptions; and

To act as advisor, consultant, manager, underwriter, portfolio manager;

Category II Merchant Bank: Can act only as advisor, consultant, co-manager, underwriter, portfolio manager.

Category III Merchant Bank: can act as underwriter, advisor, consultant to an issue.

Category IV Merchant Bank: can merely act as advisor or consultant to an issue.

Capital Adequacy Norms as per SEBI Regulations

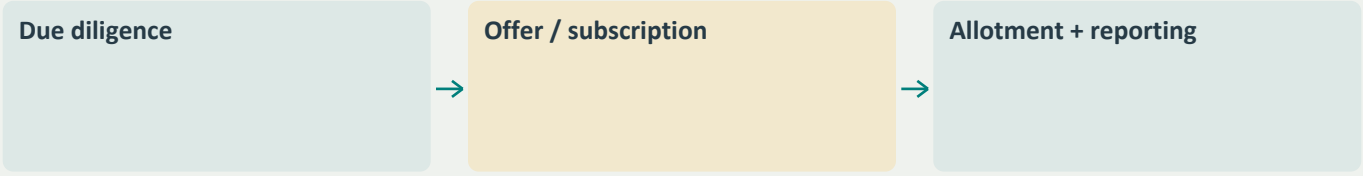
As per SEBI Regulations, the applicant for a Merchant Banking License should have net worth of not less than:

Rs. 5 crores for Category I Merchant Bank Where "net worth" means the sum of paid-up capital and free reserves of the applicant. The certificate of registration granted under sub-regulation (1) shall be valid unless it is suspended or cancelled by the Board.

Key SEBI Guidelines for Merchant Banks

SEBI's authorisation criteria to allow the applicant to act as Merchant Bank include:

Issue-management sequence



Merchant banking

Complete source section / source 293

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Independence / current activity-specific restrictions

The source associate-issue prohibition is an abbreviated historical account. Apply current conflict, disclosure, independence and activity restrictions to the actual assignment. A trust subsidiary is not by itself proof that every debenture-trustee independence requirement is satisfied. Keep required records and submit applicable reports rather than relying on a source-era reporting sentence alone.

Professional qualification in finance, law or business management

Infrastructure like office space, equipment and man power

Capital Adequacy

Past track of record, experience, general reputation and fairness in all transactions.

Activities Of Merchant Banks

• Issue Management

• Pre-issue Functions

• Post-issue Functions

• Bankers to the Issue (Collecting Banker)

• Mobilising Payment of Dividend Warrants/Interest Warrants/Refund Orders

(Paying Banker)

• Debenture Trustee

• Monitoring Agency

Key Policy Requirements As Per Sebi Regulations

• Every merchant bank should maintain copies of balance sheet, profit and loss account, statement of financial position

• Half-yearly unaudited result should be submitted to SEBI

• Merchant Banks (including their directors and employees) are prohibited from buying/selling securities, based on the unpublished price sensitive information of their clients, during the tenor of the assignment

• Merchant Bank should not associate with any business other than that of the securities market. The exception is granted to Banks and Financial Institutions.

• Lead Merchant Bank should not associate with a merchant banker, without registration

Distinct intermediary roles

Merchant banker: issue

Bank: payment function

Trustee: holder protection

Merchant banking

• Merchant Bank should not act as such for an associate.

• Every merchant bank shall appoint a Compliance Officer to monitor compliance with prevailing Regulations

• SEBI has the right to send inspecting authority to inspect books of accounts, records, etc., of merchant banks

• Inspections will be conducted by SEBI to ensure that the provisions of the regulations are properly complied with

• An initial authorisation fee, an annual fee and renewal fee shall be collected by SEBI.

Key Codes Of Conduct As Per Sebi Regulations

According to the Regulation 13 of the SEBI (Merchant Bankers) Regulations of 1992, every Merchant Bank should comply with codes of conduct, as per Schedule III of the Regulations. Some of the key Codes of Conduct as per SEBI Regulations are listed below.

A Merchant Bank

Complete source section / source 294

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Codes of conduct / current law references

Investor protection, diligence, confidentiality and fair treatment remain essential. The source 2003 insider-trading reference is historical; the current SEBI Prohibition of Insider Trading framework dates to 2015 with amendments. No intermediary may promise a favourable investment outcome merely because an issue passed its checks.

• Should make all efforts to protect the interest of investors

• Should maintain high standards of integrity, dignity and fairness in conduct of business

• Should fulfill all obligations in a professional and ethical manner

• Should not discriminate among the clients

• Should ensure that prospectus, letter of offer, etc., is available to investors at the time of issue

• Should render best possible advice to its clients

• Should inform its clients of any penal action taken against it, by SEBI

• Should inform the board about any legal proceedings initiated against it

• Should abide by the rules of ‘‘Securities and Exchange Board of India Regulations, 2003”

• Shall develop its own internal code of conduct, for governing its internal operations

Current categories

Category I: all permitted	Category II: excludes main-board equity IPO/FPO	Transition conditions apply

Merchant banking

- Should ensure that any person it employs should have the capacity to be a merchant banker
- Would be responsible for the act of its employees and agents

Original practice / answers with reasons

Q 01. Which activity defines merchant banking in the cited framework?

A. Issue management | B. Unrestricted note issue | C. All insurance claims | D. Coin minting

Answer A. It concerns arrangements/advice relating to securities issue management.

Q 02. Under the 2026 category framework, which category excludes main-board public equity issues?

A. I | B. II | C. III | D. IV

Answer B. Category II has that restriction; all activity remains subject to applicable conditions.

Q 03. Current Category I minimum net worth, before considering transition arrangements, is?

A. Rs.5 crore | B. Rs.10 crore | C. Rs.50 crore | D. Rs.500 crore

Answer C. Distinguish Rs.50 crore overall from Rs.12.5 crore liquid net worth.

Q 04. Does merchant-banker registration automatically authorise portfolio management?

A. Yes | B. No, separate registration applies | C. Only if the name includes bank | D. Only for large clients

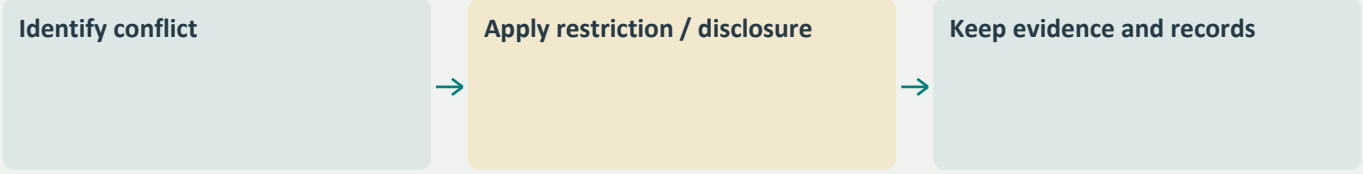
Answer B. Different regulated activities need their respective authorisation.

Q 05. Who remains responsible for employee/agent conduct?

A. No one | B. Merchant-banker management | C. Only the investor | D. Only the stock printer

Answer B. Outsourcing or staffing does not eliminate the intermediary responsibility.

Compliance chain

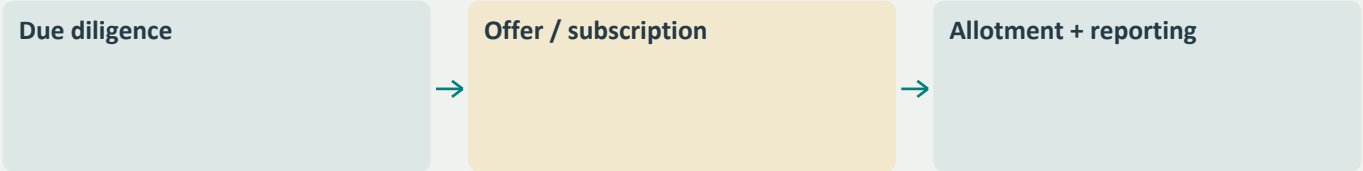


Merchant banking

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Merchant banking concerns issue-management services.	15. CategoryI covers all permitted activities.
02. Commercial banking and issue management are different activities.	16. CategoryII excludes main-board public equity issues.
03. A banking group may provide several permitted services.	17. CategoryI minimum net worth: Rs.50 crore.
04. SEBI registers securities-market merchant bankers.	18. CategoryII minimum net worth: Rs.10 crore.
05. Lead managers coordinate issue work.	19. CategoryI liquid net worth: Rs.12.5 crore.
06. Due diligence is a core responsibility.	20. CategoryII liquid net worth: Rs.2.5 crore.
07. Pre-issue work precedes subscription.	21. Existing registrants have specified transition arrangements.
08. Post-issue work includes allotment-related duties.	22. The source four-category scheme is historical.
09. Bankers to an issue handle designated payment functions.	23. The source Rs.5 crore norm is historical.
10. Debenture trustees protect debenture-holder interests.	24. Conflicts must be identified and managed under rules.
11. Monitoring agencies oversee eligible use-of-proceeds matters.	25. Confidential client information must be protected.
12. Portfolio management requires separate registration.	26. Investor disclosures must be fair and clear.
13. One intermediary licence does not cover every activity.	27. Records support regulatory inspection.
14. Current merchant-banker categories changed from 3 January 2026.	28. Employee/agent actions remain a management responsibility.

Issue-management sequence



Derivatives and credit default swaps

D 08 / Derivatives and credit default swaps

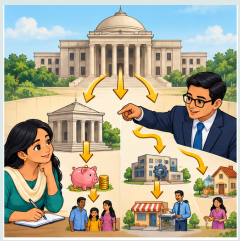
Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / permitted credit-derivative products
RBI governs the relevant OTC credit-derivative framework; SEBI/exchange requirements also apply to exchange markets. Product, participant and purpose determine permission.

Chapter route	What to study
Foundations	Underlyings, contract value, exchange/OTC markets, hedgers, speculators and arbitrageurs.
Contracts	Forwards, futures, options, currency/interest swaps and CDS.
Credit rules	Complete source 2021 draft account plus the additional 2026 effective framework.



A right is different from an obligation
Learner: I bought a call. Must I buy the asset? Mentor: A plain option gives its buyer a right. The writer has the corresponding obligation if valid exercise occurs; the premium buys that asymmetry.

Primary reference desk / 26 October 2026

RBI / Credit Derivatives Directions 2026, updated September 2026

NSE / derivatives products and contract specifications

Long call / expiry illustration

Spot120; strike100 → **Payoff20** → **Less premium5 = profit15**

Derivatives and credit default swaps

Learn and verify / the examinable distinctions

Four contract families

Anchor	Explanation
Forward	A customised future exchange on agreed terms, generally OTC. Credit support/collateral can still be required.
Future	Standardised exchange contract with clearing and margining; daily mark-to-market is a key distinction.
Option	Buyer pays premium for a specified right; writer takes the corresponding contingent obligation.
Swap	Agreed exchange of cash flows, such as fixed versus floating interest or payments in different currencies.

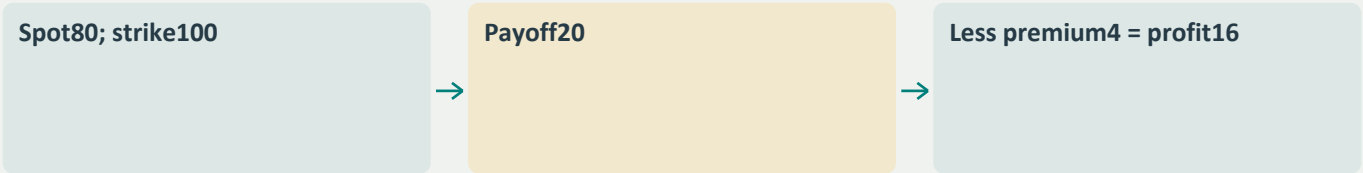
Option arithmetic / per-unit, before charges

Anchor	Explanation
Long call	Strike 100, premium 5, expiry spot 120: payoff 20, profit 15. At spot 90: payoff 0, loss 5. Break-even 105.
Long put	Strike 100, premium 4, expiry spot 80: payoff 20, profit 16. At spot 110: payoff 0, loss 4. Break-even 96.
Payoff versus profit	Payoff excludes premium; profit includes it. The calculations assume plain purchased options held to expiry.
American/European	Exercise timing, not country of trading: American style permits exercise through its exercise window; European at expiry.

Credit transfer / distinguish CDS from TRS

Anchor	Explanation
CDS	Buyer pays agreed premium; seller pays upon a defined credit event according to settlement terms. Not the same as eliminating every investment risk.

Long put / expiry illustration



Derivatives and credit default swaps

Anchor	Explanation
TRS	Transfers the entire economic performance of the reference asset against a fixed/floating payment. Includes price/return exposure beyond a default trigger.
Current reference	RBI 2026 Credit Derivatives Directions took effect 25 June 2026 and were updated 22 September 2026; the source 2021 draft is historical.
2026 scope	The effective framework covers CDS/TRS in OTC markets and permitted exchange credit-index futures, subject to detailed eligibility and safeguards.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 294

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Analogy versus financial contract

Butter derived from milk illustrates dependence of value but is not itself a financial derivative contract. A derivative may require premium, margin or collateral despite little initial net investment compared with the underlying exposure.

JAIIB Paper 1 IE & IFS Module D Unit 8- Derivatives

Market Introduction

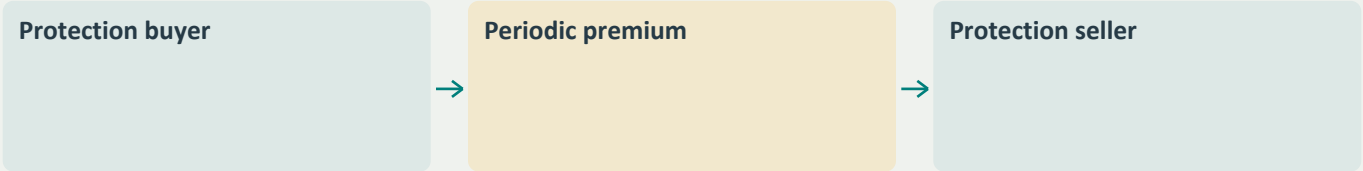
- Derivatives are financial instruments, whose values are based on the value of an underlying asset.
- Derivatives are important tools for hedging risks as well as for speculation.
- Derivatives can be Over the Counter products, as well as exchange traded instruments.
- Types: Forwards, futures, options and swaps

What Is A Derivative?

In terms of guidelines issued by RBI, A derivative is a financial instrument:

Whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (called the ‘underlying’);

CDS / no credit event



That requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and

That is settled at a future date.

Complete source section / source 295

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Definition and market structure

Read the statutory SCRA definition with amendments, not only the source shortened quotation. Clearing can reduce bilateral counterparty exposure but does not remove market, liquidity, basis or operational risk. OTC is not synonymous with unregulated.

• A derivative security is a financial contract whose value is derived from the value of something else, such as a stock price, a commodity price, an exchange rate, an interest rate, or even an index of prices.

• A simple commonplace example of derivative is butter, which Is derivative of milk. The price of butter depends upon price of milk, which in turn, depends upon the demand and supply of milk.

▪ The asset underlying a derivative may be commodity or a financial asset. For example, the price of gold or a currency, say, like US Dollars to be delivered after two months will depend, amongst other things, on the present and expected price of this commodity/currency.

Derivatives are also defined under Section 2(ac) of Securities Contract Regulation Act (SCRA), 1956. In terms of the said Act, a Derivative is:

"A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security";

"A contract which derives its value from the prices, or index of prices, of underlying securities".

Underlying Assets

As we have seen, the value of a derivative instrument depends upon the value of an underlying asset. The underlying asset may assume many forms:

• Commodities including grains, coffee, pulses, etc.;

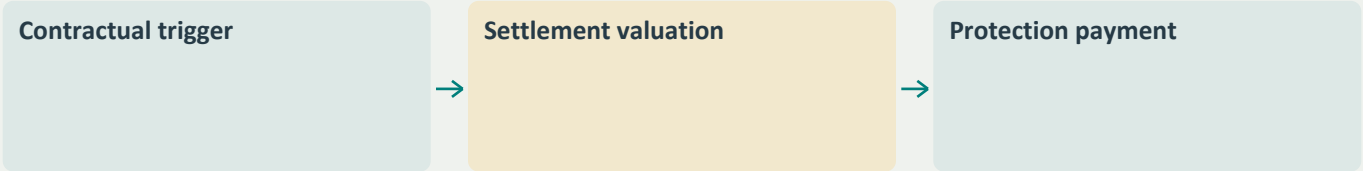
• Precious metals like gold and silver;

• Natural resources like oil and gas;

• Foreign exchange rates or currencies;

• Bonds of different types, including medium to long-term negotiable debt securities issued by governments, corporates, etc.;

CDS / covered credit event



• Shares and share warrants of companies, traded on recognised stock exchanges;

• Stock Indexes;

• Short term securities such as T-bills; and

• Over-the-Counter (OTC) money market products, such as loans or deposits.

Exchange Traded and Over-The-Counter Markets

Derivatives can trade on organised exchanges like the New York Stock Exchange, Chicago Board of Trade and National Stock Exchange or be traded/issued over-the- counter (OTC).

Exchange-Traded Markets

▪ Standardisation of the contracts: Terms and conditions are precisely specified by the exchange.

▪ This specification applies to features like the schedule of expiry dates and contract amounts.

Complete source section / source 296

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

OTC risk / regulation and collateral

Customisation can reduce liquidity, but current OTC contracts can be subject to reporting, margin, risk-management, suitability and regulatory requirements. Hedging addresses a defined exposure; leveraged positions can magnify losses.

▪ Participants: Market-makers (dealers) and speculators who are typically exchange members.

▪ The interplay between market makers and speculators creates a more liquid and more orderly market.

▪ The standardisation also ensures that clearing (verification of transaction and identities) and settlement (transfer of money) of derivatives contracts happens efficiently and allows for the provision of a credit guarantee by the clearinghouse.

▪ The clearing house can provide this guarantee through the requirement of a cash deposit called a margin.

Over-the-Counter (OTC) Markets

▪ OTC markets provide a substitute for firms wishing to trade non-standardised products.

▪ Risk management activities become more complicated.

▪ Example of OTC derivative is the forward foreign exchange contract. It can be difficult for a dealer to find an OTC contract that is a perfect match to hedge a position, and they usually have to rely on similar transactions in which, they can lay off their risk.

Participant purpose

Hedger: offset exposure	Speculator: take exposure	Arbitrageur: price differences

Derivatives and credit default swaps

▪ The ability to customize OTC contracts does not necessarily make the market less liquid than the standardised exchange-traded contracts.

▪ OTC markets have a lower level of regulation than exchange-traded markets.

However, post the 2008 Global Financial Crisis, regulatory oversight has increased.

Participants In The Derivatives Market

• Hedgers: They use derivatives markets to reduce or eliminate the risk associated with price of an asset. Majority of the participants in derivatives market belongs to this category.

• Speculators: They transact futures and options contracts to get extra leverage in betting on future movements in the price of an asset. They can increase both the

Redrawn / Derivative participants

Relationship	Source meaning
1	Hedgers
2	Speculators
3	Arbitrageurs

Complete source section / source 297

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Forwards and futures / avoid absolutes

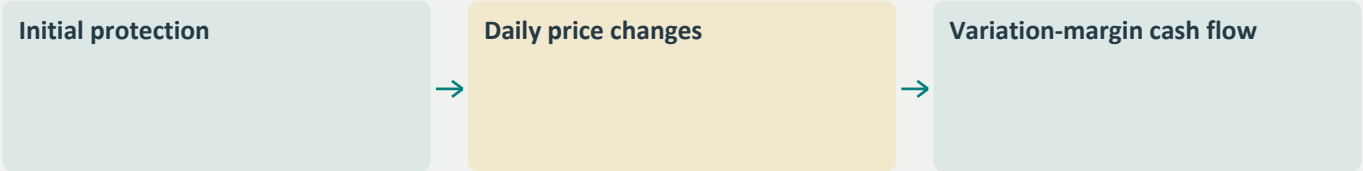
OTC forwards may have collateral or margin under agreement/regulation. Exchange futures normally use initial/variation margin and standardised clearing. Delivery may be cash or physical depending on the contract; Indian INR currency-futures contracts are not described correctly by assuming all involve currency delivery.

potential gains and potential losses by usage of derivatives, in a speculative venture.

• Arbitrageurs: Their behaviour is guided by the desire to take advantage of a discrepancy between prices of more or less the same assets or competing assets in different markets. If, for example, they see the futures price of an asset getting out of line with the cash price, they will take offsetting positions in the two markets to lock in a profit.

Functions Of Derivatives

Clearing and margin



Price Discovery

Transfer of Risk

Hedging Price Risk

Lower Transaction Cost

Provide Access to Unavailable Assets and Markets

Higher Leverage

Types Of Derivatives

Futures A futures contract is a standardised forward contract, a legal agreement to buy or sell some asset at a predetermined price, at a specified time in the future, between parties not known to each other. The asset transacted is usually a financial instrument or commodity.

Redrawn / Source derivative taxonomy

Relationship	Source meaning
1	Derivatives → financial and commodity derivatives
2	Financial derivatives → exchange-traded(futures, options) and OTC(forwards, futures, swaps, exotics/caps/collars)
3	Futures → currency/interest-rate illustrations
4	Swaps → currency, interest rate, credit default

Complete source section / source 298

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

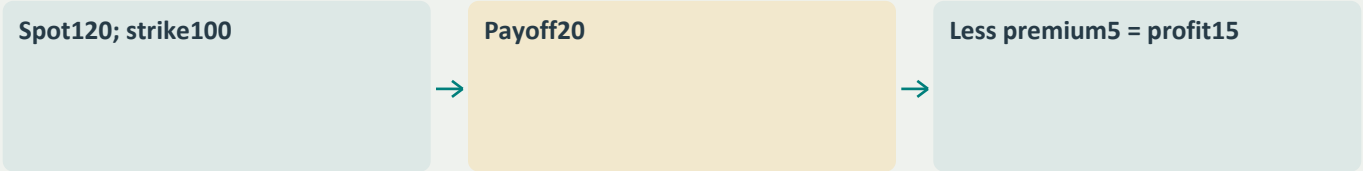
Option mechanics / identify the buyer right

A call gives the buyer a right to buy the underlying or receive the contractual cash-settlement amount; a put gives a right to sell. The writer corresponding obligation is conditional on exercise/settlement. The source school-fee drawing is an analogy; its printed Rs.5,000 per-month/dated fee wording is not a complete tradable payoff specification.

Currency Futures

Currency futures are exchange-traded contracts that specify the price in one currency at which, another currency can be bought or sold at a future date. Currency futures contracts are legally binding and

Long call / expiry illustration



counterparties that are still holding the contracts on the expiration date must deliver the currency amount, at the specified price, on the specified delivery date.

Options An option is a contract which gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific

(strike) price, on or before, a specified time (expiration date).

▪ The underlying assets may be physical commodities, like wheat/rice/cotton/gold/ oil or financial instruments like equity stocks/stock index/bonds, etc.

▪ Option buyer gets the privilege to legally back out, from a contract.

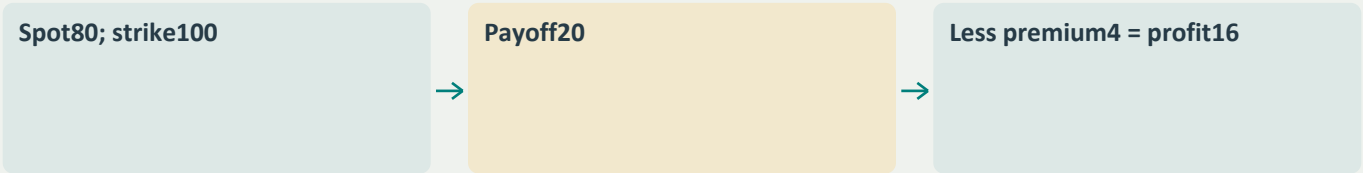
Some terminologies associated with options transactions are as follows:

• Underlying: The specific security/asset/index on which, an options contract is based (e.g., a foreign currency).

Redrawn / Futures versus forward contracts

Futures	Forwards
Standardised amounts	Non-standard amounts
Fixed maturities	Flexible maturities
Exchange traded	OTC
Initial margin marked to market	Source: no margin requirement
Exchange trading hours	Source: can trade 24 x 7
Counterparty unknown	Direct counterparty contact

Long put / expiry illustration



Derivatives and credit default swaps

Redrawn / School-admission option analogy

Relationship	Source meaning
1	SchoolA registration premiumRs 3000.
2	Option to BUY admission at SchoolA: annual feeRs 5000/month as printed strike-price analogy.
3	If option exercised, choose SchoolA; SchoolB illustrates alternative choice.
4	The source wording 1 AprFee/Rs 5000 permonth is preserved as an analogy, not a financial option quotation.

Complete source section / source 299

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Swaps / principal exchange depends on the contract

An ordinary single-currency interest-rate swap uses notional principal to calculate payments; it does not ordinarily exchange that principal. Currency swaps may exchange principal. Fixed/floating choices, netting and reset conventions are contractual.

• Option Premium: Premium is the price paid by the buyer to the seller, to acquire the right to buy or sell the option.

• Strike Price or Exercise Price: The strike or exercise price of an option is the specified/pre-determined price of the underlying asset, at which, the same can be bought or sold, if the option buyer exercises his right to buy/sell on or before the expiration day. The buyer of the Option can choose the Strike Price he wants, according to which, the premium will change.

• Expiry date: The date on which, the option expires is known as expiry date. On the expiry date, either the option is exercised, or it expires unutilised.

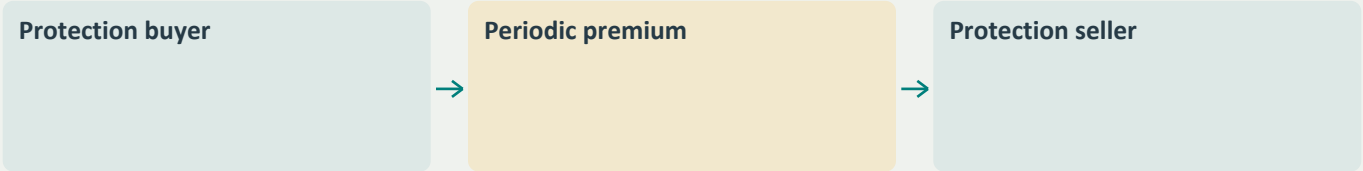
• Call option: It is an option that gives the buyer of the option the right to BUY the underlying asset, at the strike price, on or before the expiry date.

• Put option: It is an option that gives the buyer of the option the right to SELL the underlying asset, at the strike price, on or before the expiry date. Open Interest:

The total number of options contracts outstanding in the market at any given point of time.

• Option Holder: is the one who buys an option which can be a call or a put option. He/she enjoys the right to buy or sell the underlying asset, at a specified price, on or before specified time.

CDS / no credit event



• Option seller/writer: is the one who is obligated to buy from the option holder (in case of put option) or to sell to the option holder (in case of call option), the underlying asset in case the buyer of the option decides to exercise his option.

• American Option: It is the one, which can be exercised by the buyer on or before the expiration date, i.e., anytime between the day of purchase of the option and the day of its expiry.

• European Option: It is the one, which can be exercised by the buyer on the expiration day only, and not any time before that.

• Call Options: A call option gives the holder (buyer) the right to BUY specified quantity of the underlying asset at the strike price, on or before expiration date.

The seller or writer of the option, however, has the obligation to sell the underlying asset, if the buyer of the call option decides to exercise his option to buy.

• Put Options: A Put option gives the holder (buyer), the right to SELL specified quantity of the underlying asset, at the strike price, on or before expiry date. The seller of the put option, however, has the obligation to buy the underlying asset at the strike price, if the buyer of the option decides to exercise his option to sell.

Swaps

Redrawn / Option rights and obligations

Party	Call	Put
Buyer/holder	Right to buy underlying at specified price	Right to sell underlying at specified price
Seller/writer	Obligation to sell underlying if buyer exercises	Obligation to buy underlying if buyer exercises

Complete source section / source 300

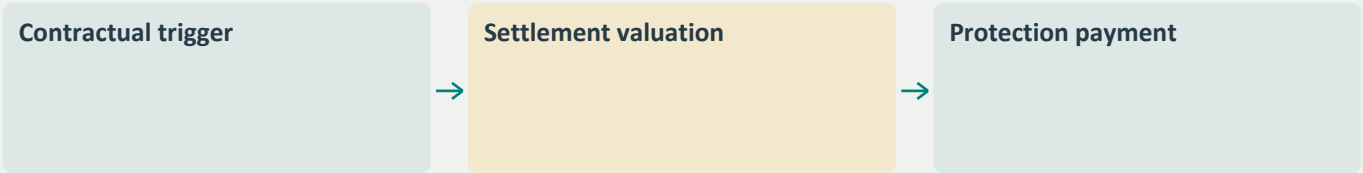
Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

CDS / credit event and continued risks

CDS protection depends on the specified reference entity/obligation, covered credit events, maturity and settlement. Premium generally continues until maturity or credit event, whichever is earlier, under the contractual arrangement. Counterparty and basis risk remain.

▪ A swap refers to an exchange of one financial instrument for another between the parties concerned.

CDS / covered credit event



▪ This exchange takes place at a predetermined time, as specified in the contract.

▪ In financial markets, the two parties to swap a transaction contract, exchange cash flows.

▪ An interest rate swap is a customised bilateral agreement, in which, the cash flows are determined by applying a pre-arranged formula, on a notional principal,

▪ whereas in a currency swap, physical exchange of one currency against another takes place at pre-determined prices.

3 types of Swaps:

• Currency swaps,

• Interest rate swaps and

• Credit default swaps.

Currency Swaps

▪ A currency swap is an agreement in which, two parties exchange the principal amount of a loan and the interest in one currency for the principal and interest in another currency.

▪ At the inception of the swap, the equivalent principal amounts are exchanged at the spot rate.

▪ Companies requiring foreign currency borrowings can use their natural advantage to borrow in their home currencies and thereafter, swap the same into foreign currency.

Interest Rate Swaps

Redrawn / Source swap illustration

Relationship	Source meaning
1	Two financial instruments exchange cash flows at regular intervals.
2	Principal/notional amount is the calculation base.
3	Source graphic labels swaps unregulated derivative, OTC, fixed time; these labels require correction against applicable regulation.

Complete source section / source 301

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Participant purpose

Hedger: offset exposure

Speculator: take exposure

Arbitrageur: price differences

Derivatives and credit default swaps

2021 draft / explicitly historical

The source RBI February 2021 draft statements are not the current operative Direction. The 2026 Credit Derivatives Directions, effective 25 June 2026, superseded the February 2022 framework. Read current classifications, permitted purposes and contract rules rather than using the draft as an entitlement.

▪ An interest rate swap (IRS) is an agreement in which, one stream of future interest payments is exchanged for another, based on a specified principal amount.

▪ Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa.

▪ IRSs can be, either floating to fixed or from fixed to floating and are used by entities to reduce their costs, as well as to protects themselves from adverse movements in interest rate.

Credit Default Swaps (CDS)

▪ A credit default swap (CDS) is a financial derivative or contract that allows an investor to “swap” or offset his or her credit risk, with that of another investor.

▪ For example, if a lender is worried that a borrower is going to default on a loan, the lender could use a CDS, to offset or swap that risk.

▪ To swap the risk of default, the investor/lender buys a CDS from a CDS seller, who agrees to reimburse the investor in the case the borrower defaults.

▪ Most CDS contracts are maintained via an ongoing premium payment,

▪ similar to the regular premiums paid on an insurance policy. A credit default swap is emerging rapidly in India and are mainly directed to cover default risks associated with corporate bonds.

▪ RBI has, also, recently issued guidelines governing CDS in India.

Rbi Guidelines On Credit Default Swaps

▪ RBI issued draft guidelines for Credit Default Swaps in February 2021.

Under the said guidelines, RBI has proposed to allow retail users undertake transactions in permitted credit derivatives for hedging their underlying credit risk.

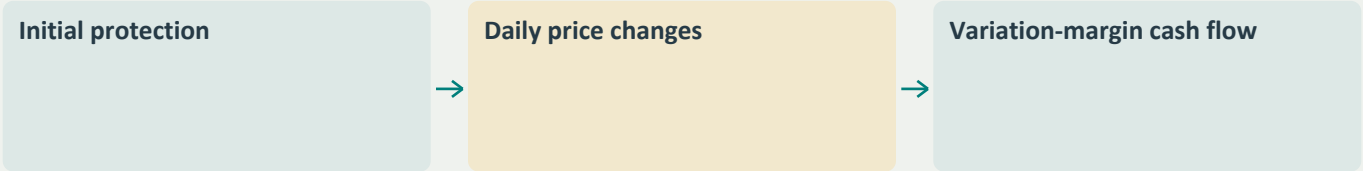
▪ Non-retail users shall be allowed to undertake transactions in credit derivatives for both hedging and other purposes.

▪ The RBI guidelines have been issued as a measure for development of a market for corporate bonds, especially for the bonds of lower rated issuers.

▪ According to the draft guidelines, exchanges may offer standardised single-name CDS contracts with guaranteed cash settlement.

▪ Retail users shall undertake transactions in exchange-traded CDS only for hedging their underlying credit risk.

Clearing and margin



Derivatives and credit default swaps

User classification

Complete source section / source 302

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Current products and reference obligations

The 2026 Direction defines corporate bonds separately from money-market debt instruments. Do not infer from the source draft list that every CP/CD is an eligible reference for every current CDS/TRS. Eligibility, underlying instrument, market-maker participation and retail/non-retail purpose restrictions must be checked in the operative text.

▪ Any user who is not eligible to be classified as a non-retail user will be classified as a retail user.

▪ Non-retail users will include insurance companies, pension funds, mutual funds, alternate investment funds, foreign portfolio investors.

▪ These entities will also be eligible to act as protection seller in CDS.

▪ Standalone primary dealers (SPDs) and non-banking finance companies (NBFCs), including housing finance companies (with minimum net owned funds of Rs 500 crores) and resident companies (with minimum net worth of Rs 500 crores), too, will be classified as non-retail users.

Eligible debt instruments

▪ Commercial Papers,

▪ Certificates of Deposit and

▪ Non-Convertible Debentures of original maturity, up to one year,

▪ Rated Indian Rupee (INR) denominated corporate bonds (listed and unlisted) and

▪ Unrated INR bonds issued by the Special Purpose Vehicles set up by infrastructure companies.

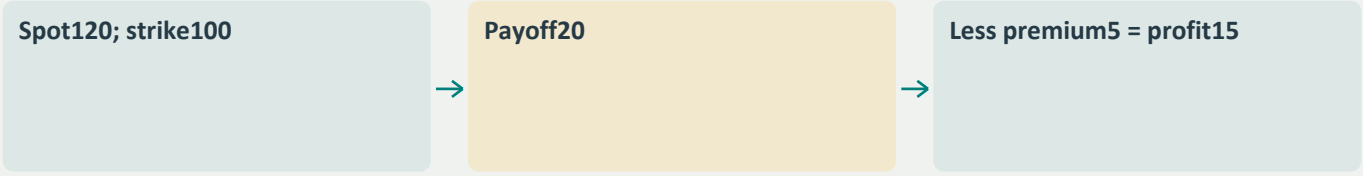
▪ Shall be in dematerialised form only.

▪ Asset-backed securities/mortgage-backed securities and structured obligations such as credit enhanced/guaranteed bonds, convertible bonds, bonds with call/put options, etc., shall not be permitted as reference and deliverable obligations.

▪ Market-makers, who are entities that can buy and sell protection from/to users and other market-makers, in order to provide liquidity to the market – will

include Scheduled Commercial Banks (except Small Finance Banks, Payment

Long call / expiry illustration



Banks, Local Area Banks and Regional Rural Banks) and NBFCs, including HFCs, and SPDs with minimum net owned funds of Rs 500 crores.

Restrictions

▪ The RBI said market-makers and users shall not enter into CDS transactions if the counterparty is a related party or where the reference entity is a related party to either of the contracting parties.

▪ Further, marketmakers and users shall not buy/sell protection on reference entities, if there are regulatory restrictions on assuming similar exposures in the cash market or in violation of any other regulatory restriction, as may be applicable.

Original practice / answers with reasons

Q 01. Long call strike 100, premium 5, expiry spot 120: profit per unit?

A. 20 | B. 15 | C. 5 | D. Minus 5

Answer B. Payoff 120-100=20; less premium 5 gives 15.

Q 02. A long put strike 100, premium 4 has expiry break-even at?

A. 104 | B. 100 | C. 96 | D. 4

Answer C. Strike minus premium equals 96.

Q 03. European exercise style means?

A. Only Europe | B. Exercise at expiry | C. Never exercise | D. Exercise any day

Answer B. Style describes exercise timing, not geography.

Q 04. A plain interest-rate swap notional normally does what?

A. Determines interest amounts | B. Must be exchanged twice | C. Is always a premium | D. Eliminates all risk

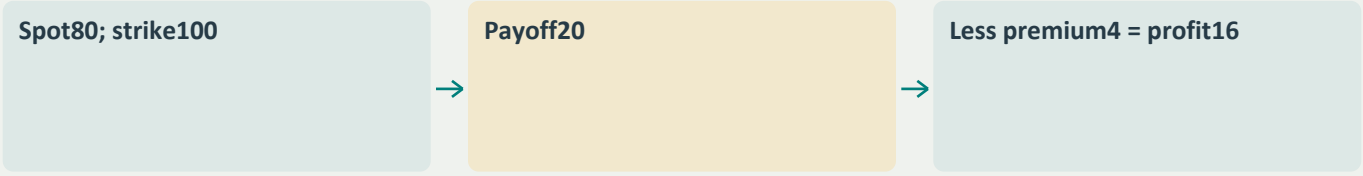
Answer A. The notional is the payment-calculation base, ordinarily not exchanged.

Q 05. Which is the current cited RBI credit-derivative framework?

A. 2021 draft | B. 2026 effective Directions | C. No framework | D. Only a school analogy

Answer B. The 2026 Direction is effective; historical draft material is retained with corrections.

Long put / expiry illustration

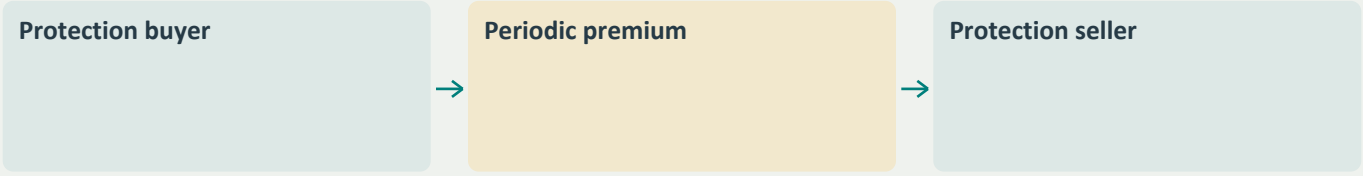


Derivatives and credit default swaps

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Derivative value depends on an underlying variable.	15. Plain long-call break-even is strike plus premium.
02. Underlyings can include rates, currencies and indices.	16. Plain long-put break-even is strike minus premium.
03. Forwards are commonly customised OTC contracts.	17. American style concerns exercise timing.
04. Futures are standardised exchange contracts.	18. European style permits exercise at expiry.
05. Futures typically use clearing and margining.	19. Hedgers offset specified exposures.
06. OTC does not mean unregulated.	20. Speculators accept exposure seeking return.
07. An option buyer purchases a right.	21. Arbitrageurs exploit relative price differences.
08. An option writer has a contingent obligation.	22. Interest swaps commonly exchange fixed/floating interest.
09. A call gives a right to buy.	23. Single-currency swap principal is generally not exchanged.
10. A put gives a right to sell.	24. Currency swaps can exchange principal.
11. The buyer ordinarily pays a premium.	25. CDS relates to defined credit events.
12. Payoff and profit are different measures.	26. TRS transfers total economic performance.
13. Long-call expiry payoff is max(spot-strike,0).	27. Credit protection leaves counterparty and basis risks.
14. Long-put expiry payoff is max(strike-spot,0).	28. RBI 2026 Credit Derivatives Directions took effect 25 June 2026.

CDS / no credit event



D 09 / Factoring, forfaiting and TReDS

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / factoring and TReDS oversight
Factoring transfers/finances receivables under the applicable legal framework. TReDS platform authorisation is distinct from the financier credit decision.

Chapter route	What to study
Factoring	Recourse/non-recourse; domestic, international and one/two-factor structures.
Forfaiting	Without-recourse trade-debt purchase, documentary flows and charges.
TReDS	MSME receivables, acceptance, financier bids, funding and repayment.



Who bears the buyer-default risk?
Learner: The factor paid me early. Mentor: Check recourse. Early cash does not by itself transfer default risk. In non-recourse arrangements, the covered risk and exclusions are contractual.

Primary reference desk / 26 October 2026

- India Code / Factoring Regulation Act 2011
- RBI / TReDS expansion circular 2023
- RBI / TReDS FAQs
- FCA / LIBOR cessation

Factoring triangle

Seller assigns receivable → Factor advances funds → Buyer pays factor

Factoring, forfaiting and TReDS

Learn and verify / the examinable distinctions

Compare the promise

Anchor	Explanation
Recourse factoring	The supplier can remain liable if the buyer does not pay, subject to contract.
Non-recourse factoring	The factor assumes specified buyer-credit risk; disputes, fraud or seller breaches are not automatically covered.
Forfaiting	Purchase of eligible trade receivables without recourse to the exporter for covered payment risk; often supported by negotiable/guaranteed instruments.
TReDS	Electronic financing of accepted MSME receivables through competing eligible financiers, without recourse to the MSME seller.

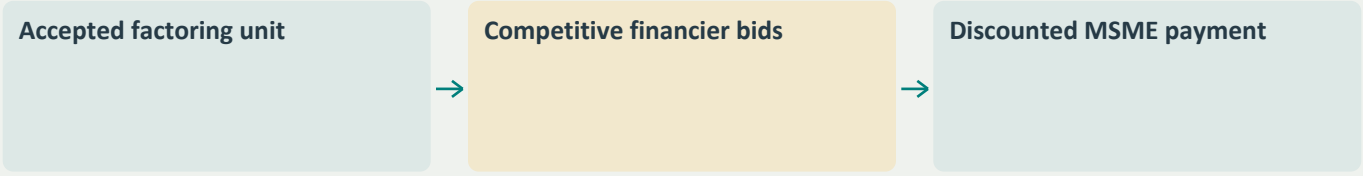
Invoice cash flow / illustration

Anchor	Explanation
Invoice	Rs.10 lakh accepted invoice; assume 80% advance under a hypothetical factoring agreement.
Advance	Rs.8 lakh before any deductions specified by the contract.
Reserve	Rs.2 lakh retained until collection, then released after agreed finance/service charges.
Important	80/20 is an illustration/source convention, not a universal statutory advance percentage.
Annualised finance cost	On Rs.8 lakh for 60 days at 12% Actual/365, illustrative interest = Rs.15,780.82. Service fees and taxes, if any, are additional.

TReDS / six actions

Anchor	Explanation
Create	Seller or buyer uploads the invoice/bill and supporting details as allowed.

TReDS financing



Anchor	Explanation
Accept	Counterparty accepts the factoring unit and obligation.
Bid/select	Financiers quote discount terms; the permitted party accepts a bid.
Fund	Selected financier pays the MSME at the discounted amount.
Settle	Buyer pays on due date to settle the financing obligation.
Default	No recourse to MSME does not mean buyer liability disappears or the platform guarantees financier payment.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 303

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Factoring / default protection is not universal

The source general introduction suggesting the factor bears losses is subject to the recourse structure. Factoring Regulation Act 2011 has been amended, including in 2021; apply the current definition, registration and assignment framework. Lending against receivables as security is distinct from a receivable acquisition/assignment.

JAIIB Paper 1 Module D Unit 9: Factoring, Forfaiting and

Trade Receivables Discounting System (TReDS)

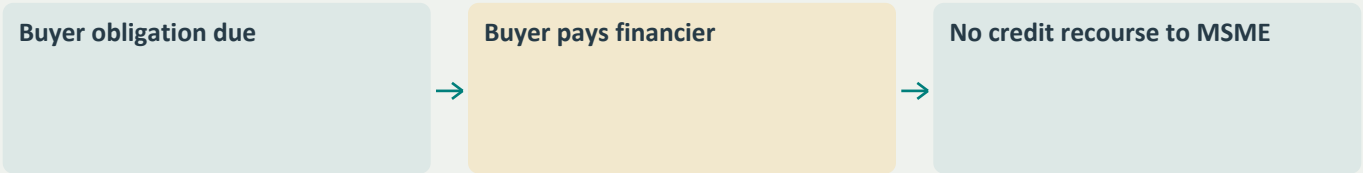
What Is Factoring?

Factoring is an arrangement for financing a company’s business against invoices raised on its buyers and in which, the factor is responsible for credit control, sales ledger administration, and collection activities. In full-service factoring, the factor bears the losses, if the buyer fails to pay.

The business of factoring in India is regulated by the Factoring Regulation Act, 2011, and Section 2(j) of the Factoring Regulation Act, 2011, defines factoring business as follows:

“Factoring business” means the business of acquisition of receivables of assignor by accepting assignment of such receivables or financing, whether by way of making loans or advances or otherwise, against the security

TReDS maturity



interest over any receivables but does not include:

• Credit facilities provided by a bank in its ordinary course of business against security of receivables;

• Any activity as commission agent or otherwise for sale of agricultural produce or goods of any kind whatsoever or any activity relating to the production, storage, supply, distribution, acquisition or control of such produce or goods or provision of any services.

Types Of Factoring

Two types of factoring services, Recourse factoring (with recourse):

▪ In this case of non-payment of invoices by buyers, the factor will recover the amount advanced from the client (seller).

Non-recourse factoring (without recourse).

Redrawn / Factoring triangle

Relationship	Source meaning
1	Company sells goods on credit to debtor.
2	Company assigns receivables to factor; factor pays at discount.
3	Debtor pays factor after credit period.

Complete source section / source 304

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Domestic terms / source conventions

80% advance,20% balance and 150 days including 60 daysgrace are source illustrative/practice descriptions, not mandatory terms for every factoring contract. Fees, advance rate, tenor, recourse and eligible debts must be checked in the agreement.

▪ Factor provides both finance and credit protection.

▪ In case of non-payment of invoices by customers, the factor will bear the risk of bad debts and cannot recover the amount from the client/supplier.

▪ The factor operates by buying, from the seller’s company, their invoiced debts.

These are purchased usually with credit protection by the factor, who will then be responsible for all credit control, collection and sales accounting work.

Compare risk allocation

Recourse: seller exposure

Non-recourse: covered credit risk

Exclusions still matter

▪ The management of the seller company can, thus, concentrate on production and sales and need not concern itself, with unremunerative work, like control and sales accounting matters.

Factoring can also be classified as domestic or international, depending upon whether the sellers and buyers are in the same country (domestic) or in different countries (international). International factoring is also called cross-border factoring.

Domestic Factoring

▪ Under domestic factoring, receivables arising only out of domestic (inland) trade are considered for factoring.

▪ The supplier/borrower draws bills of exchange for goods supplied and the purchaser accepts them.

▪ Factor makes an upfront payment of about 80% of invoice value after deducting its discount charges, at normal interest rates for the period of bill of exchange to the supplier.

▪ The balance of payment (20% of the invoice value) is made, after collecting the payment from the purchaser.

▪ If the purchaser fails to pay the due amount on due dates, the supplier has to make good the payment.

▪ The borrower/supplier submits the bill of exchange along with the invoice and LR/ RR receipts, while requesting for factoring the transaction.

▪ Maximum credit period normally permitted under factoring is 150 days - inclusive of a maximum grace period of 60 days.

▪ Various Management Information System (MIS) reports such as Debtors Ageing

Analysis, Weekly Statement of Accounts, Sales Analysis and Statement of

Outstanding Invoices are provided to the seller by the factor.

▪ Sub-limit of each purchaser is fixed and sum of these sub-limits is the overall limit of the supplier.

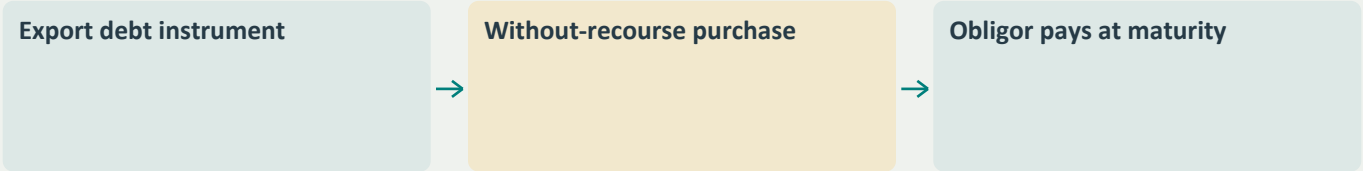
International Factoring

In international factoring, there are usually two factors

Complete source section / source 305

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Forfaiting flow



Factoring, forfaiting and TReDS

International factoring / correct the protected party

An import factor assesses/collects from the buyer and may provide covered credit protection through the factor arrangement; the beneficiary is the seller/exporter-side financing chain, not a guarantee protecting the defaulting buyer. Two-factor and direct routes have different roles.

Export factor

▪ looks at financing the exporter

▪ Sales administration (presenting invoices at the right time and collecting payments being the key tasks).

Import factor

▪ Interested in evaluating the buyer,

▪ collecting the money on time

▪ Ensuring that the buyer is protected against default.

International factoring encompasses all the four services,

• Pre-payments,

• Sales ledger administration.

• Credit protection

• Collections The various steps involved in international factoring are listed here.

• The importer places the order for purchase of goods with the exporter.

• The exporter requests the export factor for limit approval on the importer.

• The export factor, in turn, forwards this request to an import factor in the Importer’s country.

• The import factor evaluates the importer and conveys its approval to the export factor, who in turn conveys commencement of the factoring arrangement to the exporter.

• The exporter delivers the goods to the importer.

• The exporter produces the documents to the export factor.

• The export factor disburses funds to the exporter up to the prepayment amount decided and at the same time forwards the documents to the import factor.

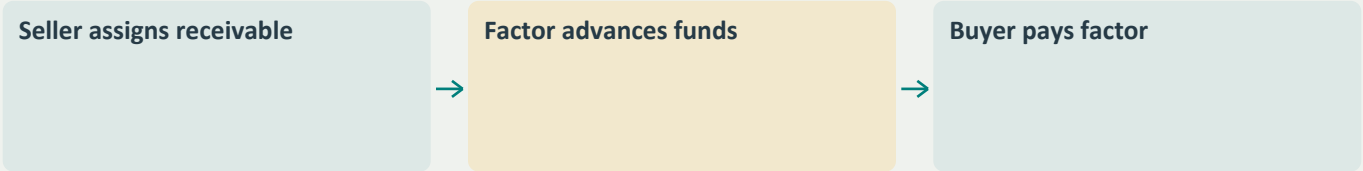
• The importer, on the due date of the invoice, pays the import factor, who in turn, remits this payment to the export factor.

• The export factor applies the received funds to the outstanding amount of the advance against the invoice.

• The exporter receives the balance payment. The above arrangement is also called the Two-factor system.

• In addition to the above, there are three other types of international factoring.

Factoring triangle



Single factor system –

▪ In this type of factoring, the import factor comes into focus only if the buyer defaults in making the payment.

Complete source section / source 306

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Source single-factor diagram / internal inconsistency

The source diagram labelled single-factor still introduces an import factor in its 90-daydefault steps. That makes the displayed flow internally in consistent with a true single-factor route. Both original labels/steps are preserved; learn the actual contract participants and do not treat 90 daysas a universal payment guarantee.

▪ In such case, the export factor recovers the amount from the import factor, and it is then left to the import factor to recover the factored amount from the buyer.

• Factoring Agreement

• Delivery of goods

• Assignment of accounts receivable

• Funding to supplier by export factor

• Payment by buyer to export factor

• In case buyer does not pay in 90 days, import factor pays to export factor

• If point (6) materialises, import factor recovers amount from buyer

Direct Export Factoring System –

▪ In this system, there in only one factor, viz., the Export Factor.

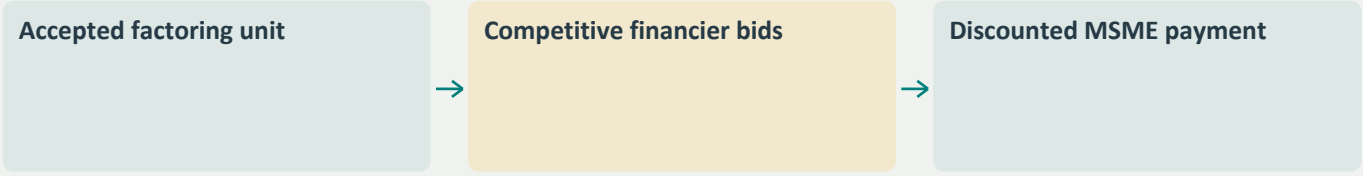
▪ This factor manages all aspects of the factoring transaction

• Factoring Agreement

• Delivery of goods

• Assignment of accounts receivable

TReDS financing



Redrawn / Single-factor route

Relationship	Source meaning
1	1 Factoring agreement: supplier/export factor
2	2 Supplier delivers goods to buyer
3	3 Assignment of accounts receivable
4	4 Export factor funds supplier
5	5 Buyer pays export factor
6	6 If buyer does not pay in 90 days, import factor pays export factor
7	7 Import factor recovers from buyer after step 6

Redrawn / Direct export factor

Relationship	Source meaning
1	Supplier/export factor agreement; delivery to buyer; receivables assignment; export-factor funding; buyer pays export factor.

Complete source section / source 307

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Direct routes / distinguish the contracting factor

Direct export factoring uses an export-country factor; direct import factoring uses an import-country factor. The exact service/risk coverage depends on the agreement. Bills discounting and factoring overlap in finance but can differ in assignment, administration and credit protection.

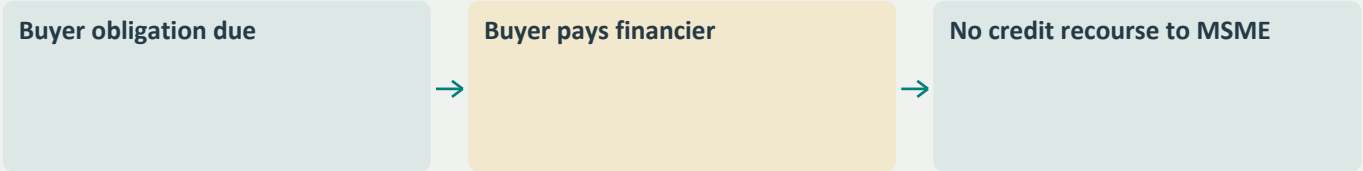
• Funding to supplier by export factor

• Payment by buyer to export factor

Direct Import Factoring System –

▪ In this type of factoring, there is only one factor, viz., the import factor and the sellers directly deal with the import factor for all aspects of the transaction.

TReDS maturity



• Factoring Agreement

• Delivery of goods

• Assignment of accounts receivable

• Funding to supplier by import factor

• Payment by buyer to import factor

Bills Discounting Vs Factoring

▪ Although, both bills discounting and factoring involve financing of receivables (often exports receivables), there are differences between them.

Redrawn / Direct import factor

Relationship	Source meaning
1	Supplier/import-factor agreement; delivery to buyer; receivables assignment; import-factor funding; buyer pays import factor.

Complete source section / source 308

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Fees / examples, not a tariff

The 0.1%-0.3% service-fee range is source-era indicative practice. Current price depends on receivables, tenor, service and credit risk; it is not an RBI-prescribed universal range. Finance charges, service fees and taxes should be separately identified.

Fees Involved In Factoring

Finance Charge

• Finance charge is computed on the pre-payment outstanding in exporter’s account, at monthly intervals.

Service Fee

• Service charge is a nominal charge levied, at monthly intervals in order to cover the cost of services, viz., collection, sales ledger management and periodical MIS reports.

• It ranges from 0.1% to 0.3% on the total value of invoices factored/collected by the Banks.

Advantages Of Factoring

• Factoring replaces high-cost market credit and enables purchases on cash basis, for availing cash discounts.

Compare risk allocation

Recourse: seller exposure

Non-recourse: covered credit risk

Exclusions still matter

• The customer gets instant finance against each invoice.

• Low margin (up to 20%), thereby improving cash flow.

• The customer gets large credit/grace period.

• Each invoice is followed up for payment by the factor, on the due date and thereafter.

• MIS reports and sales ledger administration is totally taken care of by the factor.

• Factoring accelerates receivables turnover and improves operating cycle, resulting in more production, larger sales, higher profits and increased ROI.

FORFAITING

What Is Forfaiting?

Redrawn / Source bills discounting versus factoring

Bills discounting	Factoring
Requires strong balance sheet and collateral	Can use weak balance sheet, no collateral if receivables good quality
Always with recourse	Can be without recourse
Exporter collects	Factor collects
Transaction-based finance	Accounts-receivable-ledger finance
Only financing	Receivables management including MIS, collection and credit insurance
No assignment of debt	Assignment of debt

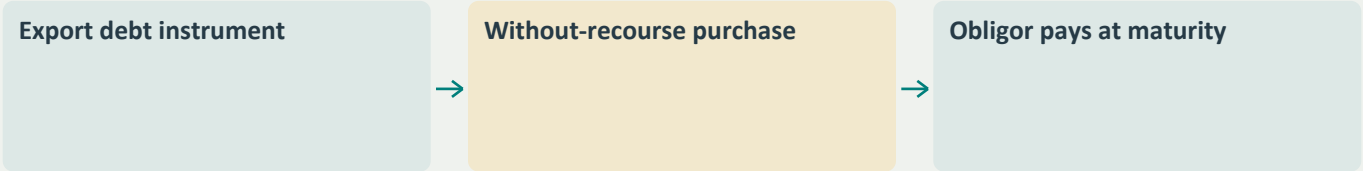
Complete source section / source 309

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Forfaiting / avoid minimum-size and completeness guarantees

The source USD 250,000 size is a practice indication, not a universal legal minimum. Financing may cover up to eligible invoice value net of discount/fees;100% does not mean fee-free or that every exporter warranty disappears. Retained risks/exclusions and instrument validity matter.

Forfaiting flow



Factoring, forfaiting and TReDS

▪ Forfaiting can be defined as financing exports by discounting export receivables, evidenced by bills of exchange or promissory notes, carrying medium to long- term maturities, on fixed rate basis (known as discount) up to 100% of the invoice value.

▪ When an exporter transfers his right to receive payment in favour of the forfaiter, the transaction is called forfaiting.

▪ Thus, forfaiting is a method of discounting of international trade receivables on a 'without recourse' basis.

▪ Forfaiting is used for international trade transactions.

▪ In fact, it is the discounting of trade receivables such as drafts drawn under letters of credit, bills of exchange, promissory notes, or other freely negotiable instruments on a 'no recourse' basis

▪ Forfait' is derived from the French word 'forfeit', which means surrendering of rights.

▪ All forfaiting transactions have a minimum transaction size, normally in the range of US$ 250,000.

▪ In terms of RBI guidelines, Exim Bank and AD Category – I Banks (on Non- recourse basis only) are permitted to handle forfaiting transactions.

Mechanism Of A Forfaiting Transaction

• Forfaiter gives commitment to forfeit to exporter

• Commercial contract made between exporter and importer

• Shipment of goods to importer

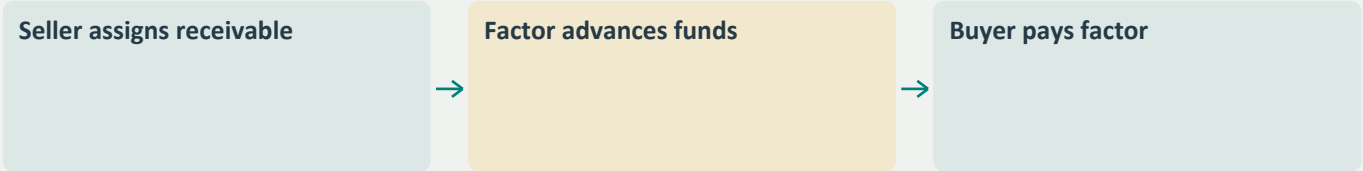
• Exporter submits shipping documents to importer's bank thru his banker

• Importer's bank obtains acceptance of importer an bill of exchange

Redrawn / Ten-step forfaiting

Relationship	Source meaning
1	1 Forfaiter commits to exporter
2	2 Exporter/importer commercial contract
3	3 Shipment
4	4 Shipping documents through exporter banker to importer bank
5	5 Importer accepts bill
6	6 Importer bank avalises and returns accepted bill through exporter banker
7	7 Exporter tenders avalised bill to forfaiter

Factoring triangle



Relationship	Source meaning
8	8 Forfaiter pays exporter less charges
9	9 Forfaiter presents bill to importer bank at maturity
10	10 Importer pays on maturity

Complete source section / source 310

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Pricing benchmark / LIBOR is historical

LIBOR-linked fee descriptions are historical: all LIBOR settings ceased by 30 September 2024. Current forfaiting pricing uses the agreed available benchmark/fixed rate, spread, tenor and risk adjustments. The source 0.5%-1.5% commitment range is not a universal current tariff.

• Importer’s bank co-accepts (avalises) the bill of exchange and sends to exporter thru his banker

• Exporter tenders avalised bill of exchange to forfaiter

• Forfaiter makes payment to exporter, less charges

• Forfaiter presents bill of exchange to importer’s bank on maturity

• Importer makes payment on maturity

Fees Involved In Forfaiting

Discount fees

▪ Discount is the interest cost payable by the exporter for the entire period of credit involved and is deducted by the forfaiter from the amount paid to the exporter, against the avalised (accepted) promissory notes or bills of exchange.

▪ The discount is normally linked to an international benchmark interest rate like LIBOR.

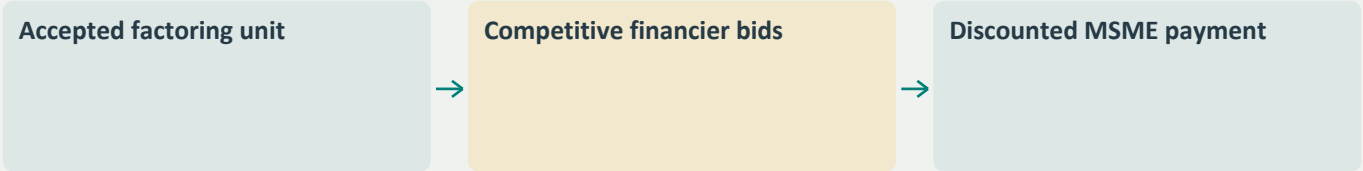
Commitment fees

▪ Commitment fees is payable to the forfaiting agency for its commitment to execute a specific forfaiting transaction at a firm discount rate, within a specified time.

▪ Ranges between 0.5% and 1.5% per annum of the unutilised amount to be forfaited and is charged for the period between the date the commitment is given by the forfaiter and the date the discounting takes

▪ Place or until the validity of the forfaiting contract, whichever is earlier.

TReDS financing



Advantages Of Forfaiting

The following are the advantages of forfaiting to the exporters:

• 100% Financing: Forfaiting provides 100% financing – without recourse

• Improves cash flow of the exporter: By converting receivables into current cash inflow and it is beneficial to the exporter to improve his liquidity and his ability to improve further the fund-raising capability.

• Saves administration cost: By using forfaiting, the exporter will be freed from the management of the receivables.

Increases trade opportunity: With forfaiting, the exporter is able to grant credit to his buyer freely and thus, be more competitive in the market.

• Helps to realise price transfer: The exporter can also transfer the corresponding financing cost, which is known in advance, into the sale price.

• Enables the exporter to avoid various risks, i.e., forfaiting business enables the exporter to transfer various risks, resulting from deferred payment, such as interest-rate risk, currency risk, credit risk and political risk.

Differences Between Factoring and Forfaiting

Complete source section / source 311

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

TReDS / what without recourse means

The MSME seller does not bear buyer-credit recourse under the TReDS financing model. Buyer acceptance, valid invoices and platform rules still matter; the platform is not automatically a credit guarantor. Seller fraud/mis representation is not made lawful by non-recourse wording.

TRADE RECEIVABLES DISCOUNTING SYSTEM (TReDS)

What is TReDS?

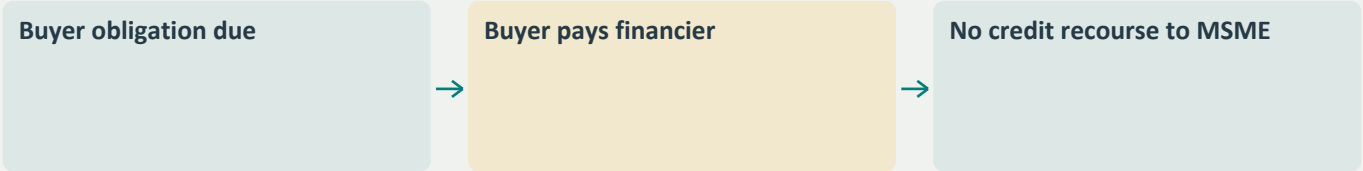
▪ TReDS is a scheme for setting up and operating the institutional mechanism, for facilitating financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers.

▪ It is a form of factoring.

▪ MSMEs, despite their important role in contributing to the Indian economy, continue to face constraints in obtaining adequate finance.

▪ One big factor which affects the ability of MSMEs to convert trade receivables into liquid funds are their difficulty to realise the payments, in the absence of any well established system for doing so.

TReDS maturity



Factoring, forfaiting and TReDS

▪ RBI in the year 2014, introduced the concept of TReDS, a mechanism of trade receivables financing for MSMEs on a secure digital platform.

▪ It may be stated that the TReDS facilitates the discounting of both invoices as well as bills of exchange.

▪ Further, as the underlying entities are the same (MSMEs and corporate and other buyers, including Government Departments and PSUs), TReDS could deal with both receivables factoring as well as reverse factoring, so that, higher transaction volumes come into the system and facilitate better pricing.

▪ "Without recourse" to the MSMEs.

Participants Under TReDS

Direct Participants:

Redrawn / Source factoring versus forfaiting

Factoring	Forfaiting
Ongoing open-account sales, not backed by LCs/accepted bills	One-off transactions backed by LC or accepted/avalised bills
Short term	Medium/long term 1-5 years
With or without recourse	Generally without recourse
Continuous factor/client arrangement routes all sales through factor	Transaction-wise; other sales need not route through forfaiter
Factor collection and related recovery	Responsibility limited to collection of forfaited debt
Finance, collection, administration, credit protection, MIS fees	Discount and commitment charges
Domestic and international	Commonly international only

Complete source section / source 312

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Compare risk allocation

Recourse: seller exposure

Non-recourse: covered credit risk

Exclusions still matter

Factoring, forfaiting and TReDS

Participants / updated framework

Read the source banks/NBFC-factors list with RBI subsequent TReDS eligibility/insurance and secondary-market initiatives. Not every buyer upload is an accepted factoring unit; counterparty acceptance and financing are separate stages.

MSME sellers,

Corporate and other buyers, including the Government Departments and PSUs, and

Financiers (both banks and NBFC factors)

▪ The TReDS will provide the platform to bring these participants together for facilitating uploading, accepting, discounting, trading and settlement of the invoices/bills of MSMEs.

▪ The bankers of sellers and buyers may be provided access to the system, where necessary, for obtaining information on the portfolio of discounted invoices/bills of respective clients.

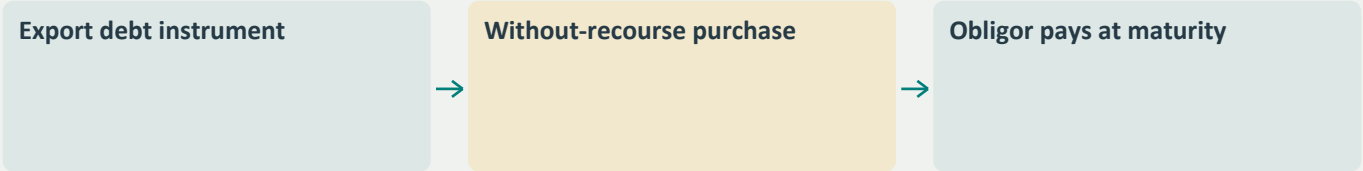
▪ TReDS may tie up with necessary technology providers, system integrators and entities providing dematerialisation services for providing its services

Process Flow Under TReDS

Redrawn / TReDS source process

Relationship	Source meaning
1	1 MSME supplies goods
2	2 Supplier logs in/uploads invoice
3	3 Buyer verifies/approves invoice
4	4 Invoice becomes Factoring Unit for bidding
5	5 Different financiers bid
6	6 Supplier accepts favourable bid
7	7 Platform generates settlement: debit financier, credit supplier.

Forfaiting flow



Factoring, forfaiting and TReDS

Original practice / answers with reasons

Q 01. Early payment alone establishes which factoring form?

A. Non-recourse always | B. Neither; read the agreement | C. Insurance always | D. A derivative

Answer B. Advance timing does not establish credit-risk transfer.

Q 02. 80% of a Rs.10 lakh invoice is?

A. Rs.2 lakh | B. Rs.8 lakh | C. Rs.10 lakh | D. Rs.80 lakh

Answer B. 10 x 0.8=8 lakh before contractual charges.

Q 03. Who principally pays at TReDS maturity?

A. MSME seller in every case | B. Accepted buyer obligor | C. The regulator | D. Only the platform

Answer B. The financing is without buyer-credit recourse to the MSME seller.

Q 04. What describes forfaiting?

A. Purchase of trade debt without recourse for covered payment risk | B. Always a share IPO | C. A mandatory 0.1% tariff | D. Only domestic salaries

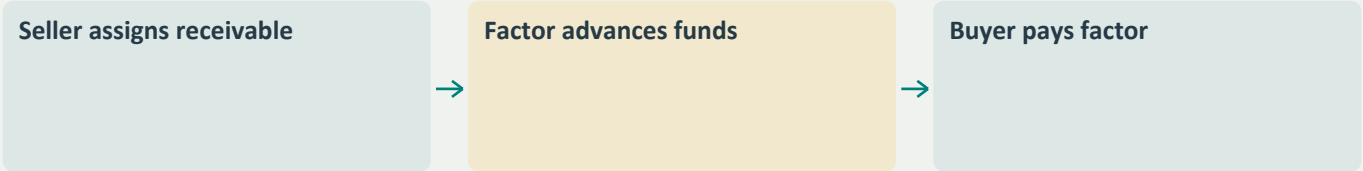
Answer A. Instrument, obligor and risk coverage are determined by the transaction.

Q 05. Which statement about LIBOR-linked source fees is sound?

A. LIBOR is still universal | B. They require updating to the agreed available benchmark | C. Fees disappeared | D. All rates became zero

Answer B. LIBOR cessation requires current pricing/fallback terms.

Factoring triangle

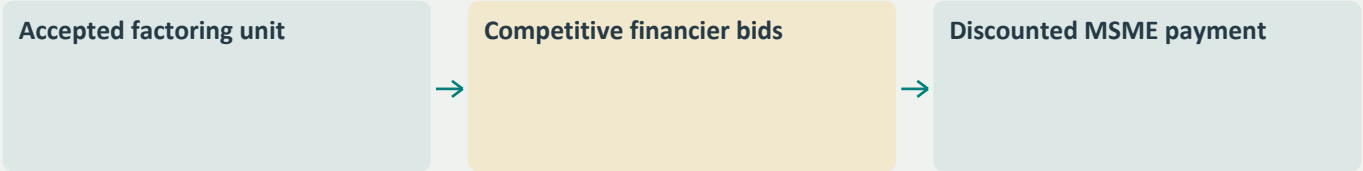


Factoring, forfaiting and TReDS

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Factoring concerns eligible receivables.	15. An export factor supports the exporter-side relationship.
02. Assignment differs from a loan secured by receivables.	16. An import factor assesses/collects from the buyer.
03. Recourse factoring can leave buyer-default exposure with the seller.	17. Direct factoring uses a different participant structure.
04. Non-recourse covers specified credit risk.	18. The source single-factor diagram contains an extra import-factor step.
05. Non-recourse does not cover every seller breach.	19. Forfaiting purchases eligible trade debt.
06. Finance and credit protection are distinct services.	20. Forfaiting is without recourse for covered payment risk.
07. Sales-ledger administration can be a factoring service.	21. Aval/guarantee terms affect instrument support.
08. Collections can be a factoring service.	22. Discounting still involves charges.
09. Advance rates depend on the agreement.	23. Commitment fees relate to an agreed commitment.
10. An 80/20 advance split is not a universal law.	24. LIBOR fee references in the source are historical.
11. A factor may retain a reserve pending collection.	25. TReDS means Trade Receivables Discounting System.
12. Finance charges reflect funding/time.	26. TReDS finances accepted MSME receivables.
13. Service fees pay for specified services.	27. Financiers bid on eligible factoring units.
14. International factoring can use two factors.	28. TReDS financing is without buyer-credit recourse to the MSME seller.

TReDS financing



Venture capital

D 10 / Venture capital

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI / venture funds within the AIF framework

A venture fund and its portfolio start-up are different entities. Historical VCF rules are retained alongside the newer AIF framework.

Chapter route	What to study
Concept and history	Risk-bearing growth capital; the complete source Indian evolution timeline.
Lifecycle	Seed/start-up/expansion financing, appraisal, negotiation, monitoring and exit.
Instruments and rules	Equity, preference, conditional/convertible loans and historical VCF versus AIF regulation.



A high valuation is not cash in the bank

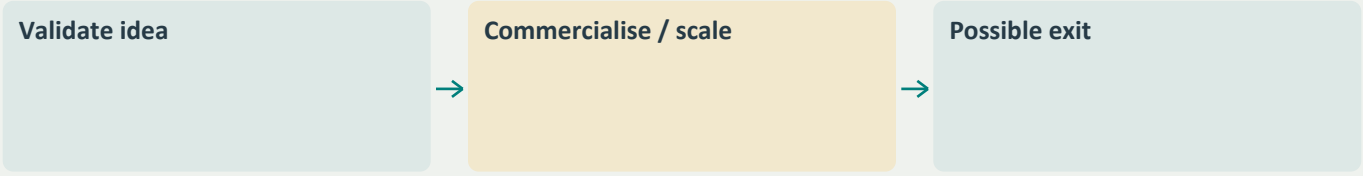
Learner: The start-up valuation doubled. Mentor: The investor still needs a viable exit or distribution. Valuation gains can remain unrealised, and the business can still fail.

Primary reference desk / 26 October 2026

SEBI / AIF Regulations, amended October 2026

SEBI / current legal regulations register

Venture lifecycle



Venture capital

Learn and verify / the examinable distinctions

Capital, support and control

Anchor	Explanation
Venture capital	Risk capital for high-growth potential enterprises, commonly equity/equity-linked with active monitoring and advice. Returns are uncertain.
Ownership	An equity investor is an owner to the extent of its rights. Not running daily operations does not mean it has no ownership.
Instrument choice	Ordinary/preference equity, convertibles and permitted loans allocate voting, liquidation preference, conversion and repayment rights differently.
Exit	IPO, strategic sale, secondary sale or permitted buyback can provide liquidity; no exit or capital gain is guaranteed.

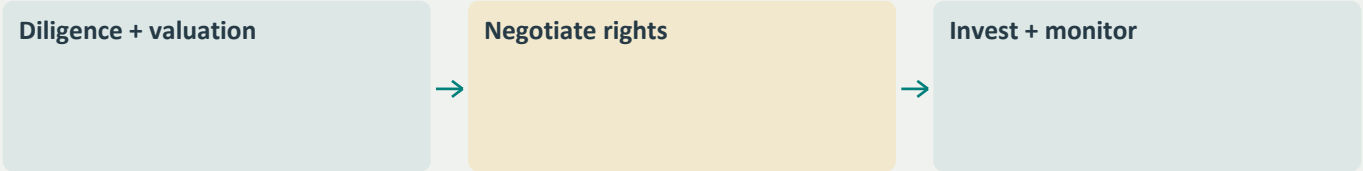
Lifecycle / match funding to uncertainty

Anchor	Explanation
Seed	Concept, technical feasibility, early product development and founding team.
Start-up	Initial commercialisation and market testing.
Expansion	Working capital/capacity or market growth after initial validation.
Later/bridge	Later-stage financing and possible preparation for a transaction or exit. Labels vary by transaction.
Appraisal	Screen, conduct business/financial/legal diligence, value, negotiate terms, invest and monitor.

Dilution / simple illustration

Anchor	Explanation
Before investment	Founders own 100 shares; assume a new investor subscribes for 25 new ordinary shares.

Investment process



Venture capital

Anchor	Explanation
After investment	Total 125 shares. Investor holds 20%; founders hold 80%.
Assumptions	No options, convertibles, preferences or other share classes in the illustration. Actual fully diluted ownership needs all instruments.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 312

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Venture capital / risk and return

A promised high return is not a defining guarantee. Venture finance can be early-stage or later-stage and can use several permitted instruments. Separate the fund vehicle, fund manager and investee undertaking.

JAIIB Paper 1 IE & IFS Module D Unit 10: Venture Capital

Introduction

▪ Venture Capital is a private institutional investment made to start-up companies, at early stage.

▪ Venture capital funds are the investments made by the investors, who seek private equity stakes, in small to medium business, which have potential to grow.

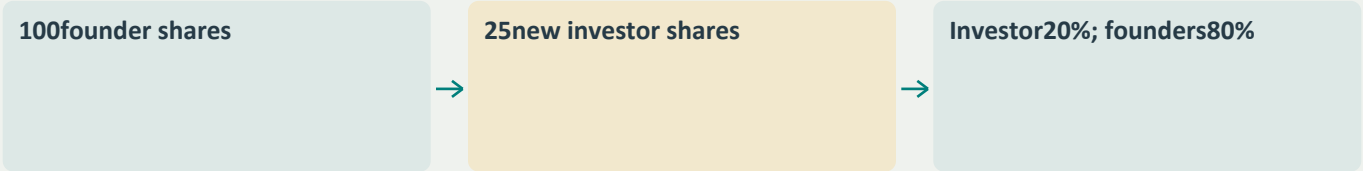
▪ These investments are generally high-risk/high-return opportunities.

▪ The ventures involve risk in the expectation of sizable gain.

Complete source section / source 313

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Simplified dilution



Venture capital

Historical institutions / preserve the timeline

The source describes earlier Indian schemes and institutions. Their dates/names remain as historical source claims; they are not a list of currently open investment products. Institutional successions and individual scheme launch claims require their original historical records before being used as unqualified date-based exam facts.

▪ The people who invest this money become the financial partners are called venture capitalists (VCs).

▪ Venture capital is the most suitable option for funding capital for companies, which are start-ups, with little or no track record of performance.

Concept Of Venture Capital

▪ When an entrepreneur is a new and unknown technocrat, who possesses innovative ideas to develop a new product, but lacks his own capital, which is essential to turn his ideas into a successful commercial venture.

▪ Risk involved as the innovative ideas of the entrepreneur have not been tried on a commercial scale.

▪ On the other hand, if the venture proves successful, it has potential for high returns.

▪ Usual sources of finance cannot be tapped by the entrepreneurs, for lack of availability of funds from his own sources.

▪ In such circumstances, the Venture Capitalist comes to his rescue by providing risk bearing capital, which is widely known as Venture Capital.

▪ Venture Capital may be broadly defined as long-term investment in business, which has potential for significant growth and financial returns.

▪ In the form of equity, apart from conditional loans and conventional loans.

▪ Venture Capitalists: Financiers + Risk bearer .

▪ Their return from the enterprise depends upon the extent of the success achieved by them.

▪ The most distinguishing feature: That it meets the needs of a business wherein the probability of loss is quite high, because of the uncertainties associated with the business, but the returns expected are also higher than normal.

▪ Venture Capital is therefore termed as high risk, high return capital.

Evolution Of Venture Capital In India

▪ 1972: Bhatt Committee (Committee on Development of Small and Medium Entrepreneurs) ,

▪ Recommendation: Creation of venture capital in India.

▪ The committee urged the need for providing such capital to help new entrepreneurs and technologists in settings up industries.

Exit possibilities

IPO

Strategic / secondary sale

Permitted buyback

Venture capital

A brief description of some of the venture capital funds which have been established are as follows:

Complete source section / source 314

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Ownership and exit / correct the absolutes

An equity VC is an owner/shareholder; it may avoid day-to-day management while holding board/protective rights. Not all VC finance is confined to new technology, and an exit need not wait until accounting profit. Debt/conditional instruments can generate contractual income, so returns are not exclusively capital gains.

• Risk Capital Foundation: The Industrial Finance Corporation of India (IFCI)

launched the first venture capital fund, in the year 1975. The fund, 'Risk Capital Foundation' (RCF) aimed at supplementing promoters' equity, with a view to encouraging technologies and professionals to promote new industries.

• Seed Capital Scheme: This venture capital fund was launched by IDBI in 1976, with the same objective in mind.

• Venture capital schemes: Venture capital funding obtained official patronage, with the announcement by the Central Government of the "Technology Policy Statement" in 1983. It prescribed guidelines for achieving technological self- reliance, through commercialisation and exploitation of technologies. ICICI Ltd set up a Venture Capital Scheme in 1986, to encourage new technocrats in the private sector, to enter new fields of high technology, with inherent high risk.

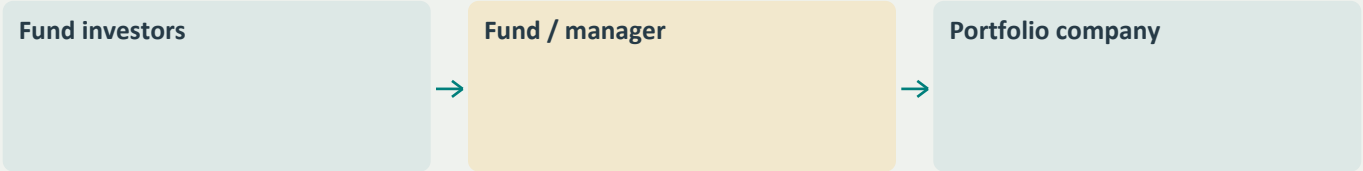
The scheme aimed at allocating funds for providing assistance in the form of venture capital to economic activities having risk, but also high profit potential.

• PACT: ICICI undertook the administration of Programme for Application of Commercial Technology (PACT) aided by USAID, with an initial grant of USD 10 million. The programme aims at financing specific needs of the corporate sector industrial units along the lines of venture capital funding.

• Government fund: IDBI, as nodal agency, administers the venture capital fund created by the Central Government, with effect from April 1, 1986. The government started imposing a Research and Development (R & D) levy on all payments made for the purchase of technology from abroad, including royalty payments, lump sum payments for foreign collaboration and payment for designs and drawings under the R & D Cess Act, 1986. The levy was used as a source of funding the venture capital fund.

• TDICI: In 1988, an ICICI sponsored company, viz., Technology Development and Information Company of India Ltd. (TDICI) was founded, and venture capital operations of ICICI were taken over by it, with effect from July 1, 1988.

Distinct entities



Venture capital

• RCTFC: The Risk Capital Foundation (RCF) sponsored by IFCI was converted into Risk Capital and Technology Finance Corporation Ltd. (RCTFC) in the year 1988. It took over the activities of RCF, in addition to the management of other financing technology development schemes and venture capital fund.

Characteristics Of Venture Capital Finance

Largely in the form of equity The most distinguishing feature of Venture Capital is that it is provided largely in the form of equity, when the investee company is unable to float its equity shares independently in the market, or from other sources, in the initial stage. Thus, risk capital is provided, which is not available otherwise, due to the high degree of risk involved in the venture.

Not act as owner:

• The venture capitalist, though participating in the equity, does not intend to act as the owner of the enterprise. The venture capitalist does not participate in the

Complete source section / source 315

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Stages and process / not a fixed statutory template

The financing stages and six-step process are teaching frameworks. Actual rounds, diligence order, milestones, control rights and exit routes vary; legal, commercial and regulatory requirements govern the agreement.

day-to-day management, but aids and guides the management, by providing the benefit of the skill, experience and expertise.

• The venture capitalist nurtures the new enterprise, till it enters the profit- earning stage.

Exit at the time of profit-earning

• The Venture Capitalist does not intend to retain the investment in the investee company for ever.

• He/she intends to divest his/her shares, as soon as the company becomes a profitable business and the returns from the business are high, as per expectations.

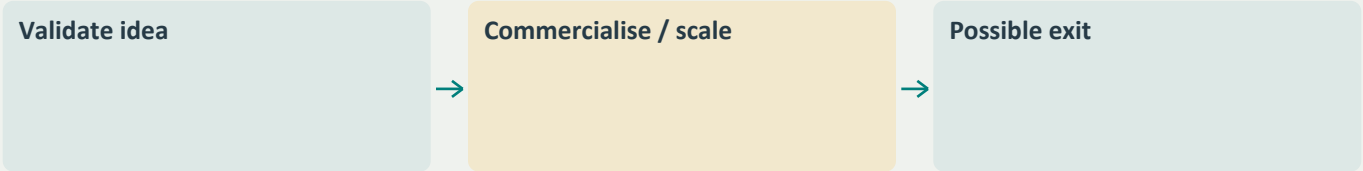
• At this stage, he/she withdraws himself from the venture and in turn, provides finance for another venture.

Earning from capital gain

• A Venture Capitalist intends to earn largely by way of capital gains arising out of sale of the equity holdings, rather than through regular returns, in the form of interest on loans.

Conditional Loan

Venture lifecycle



Venture capital

• A Venture Capitalist also provides conditional loans, which entitles him/her to earn royalties on sales, depending upon the expected profitability of the business. (Such loan is partly or fully waived, if the business enterprise does not prove to be a success).

Venture capital investments have the following features:

• High risk investments made with an intention of making high profits;

• Based on long-term goals;

• Made in start-ups, which have potential to grow;

• Money is invested, generally, by buying equity shares, in the start-up company;

• Generally done in innovative projects in the fields of technology and biotechnology;

• The provider of venture capital can participate in the management of the company.

Stages Of Venture Capital Financing

A venture capital fund provides finance to the venture capital undertaking at different stages of its life cycle, according to the requirements.

Complete source section / source 316

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Regulatory era / legacy VCF rules

The source 1996 VCF and 2000 amendment account is historical. New funds generally fall under the SEBI AIF Regulations 2012 with amendments; Categorylincludes venture capital funds, with specific angel-fund provisions. Existing legacy VCFs and migrated funds follow their applicable transition regime. Do not apply old resource thresholds to every modern AIF.

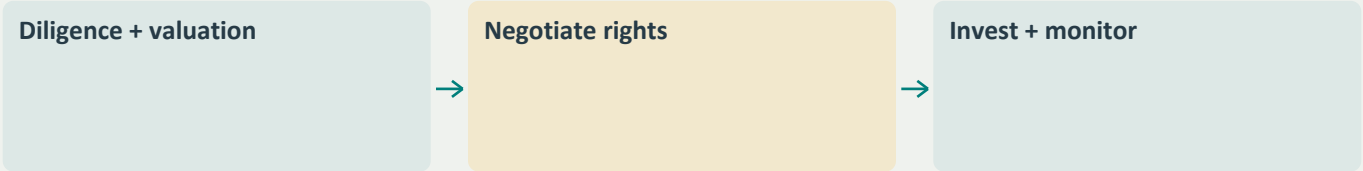
Process Of Venture Capital Financing

Venture capital financing consists of the following six steps:

• Deal origination: Origination of a deal is the primary step, in venture capital financing. One of the most common sources of such origination is referral system. In referral system, deals are referred to the venture capitalist by their business partners, parent organisations, friends, etc.

• Screening: Screening is the process by which, the venture capitalist scrutinises all the different projects which are available for investing in ventures. The projects are categorised under certain criterion, such as market scope, technology or product, size of investment, geographical location, stage of financing, etc. For the process of screening the entrepreneurs have to either provide a brief profile of their venture or they are invited for face-to-face discussions, for seeking certain clarifications.

Investment process



Venture capital

• Evaluation: The short-listed proposal is evaluated, after the screening and carrying out a detailed study. Some of the documents which are studied in detail are projected profile, track record of the entrepreneur, future prospects, etc. The

Redrawn / Venture financing stages

Relationship	Source meaning
1	Early stage: seed capital, start-up, second-round financing.
2	Later stage: expansion, replacement, turnaround, buyout deals.

Complete source section / source 317

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Source definitions and investor eligibility

Negative-list, undertaking and registration language must be associated with its regulation/year. A private fund vehicle and an underlying start-up are not inter change able definitions; angel funds have additional specific conditions.

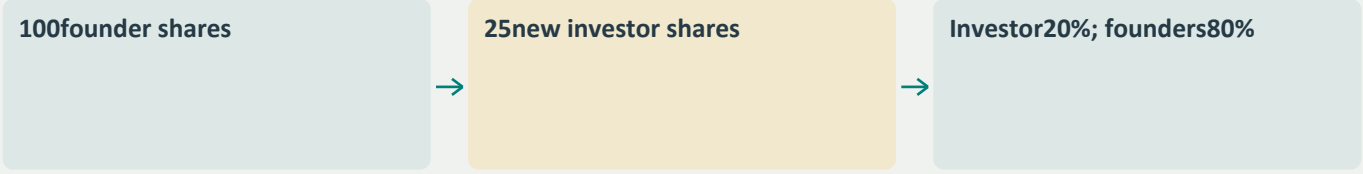
process of evaluation is thorough, which not only evaluates the project capacity, but also the capacity of the entrepreneurs to meet such projections. Certain qualities in the promoters, such as entrepreneurial skills, technical competence, manufacturing and marketing abilities and experience are considered, during such evaluation. After considering all the factors, a thorough risk management study is done, which is then followed by deal negotiation.

• Deal negotiation: Deal negotiation is a process by which, the terms and conditions of the deal are formulated so as to make it mutually beneficial. Both the parties put forward their demands and a mutually acceptable solution is sought, in order to meet the requirements. Some of the factors which are negotiated are, the amount of investment, the percentage of profit for both the parties, the rights of the venture capitalist and entrepreneur, etc.

• Post investment activity: Once the deal is finalised, the venture capitalist becomes a part of the venture and takes up certain duties and responsibilities.

The capitalist however does not take part in the daily activities of the firm, but becomes involved only during the situation of financial risk. The venture capitalists participate in the enterprise by a representation in the Board of Directors and ensures that the enterprise is operating, as per the plan.

Simplified dilution



Venture capital

• Exit plan: The last stage of venture capital investment is to make an exit plan, based on the nature of investment, extent and type of financial stake, etc. The exit plan is made in order to minimise losses and maximise profits. The venture capitalist may exit through IPOs, acquisition by another company, purchase of the venture capitalist's share by the promoter or an outsider.

Regulatory Aspects Of Venture Capital Funds

▪ Regulated by the guidelines issued by the Controller of Capital Issues, Government of India, in 1988.

▪ In 1995: Securities and Exchange Board of India Act was amended, which empowered SEBI to register and regulate the Venture Capital Funds in India.

▪ December, 1996: SEBI issued its regulations in this regard.

▪ These regulations replaced the Government Guidelines issued earlier.

Redrawn / Six-step VC process

Relationship	Source meaning
1	Deal origination
2	Screening
3	Evaluation
4	Deal negotiation
5	Post-investment activity
6	Exit plan

Complete source section / source 318

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Resource thresholds / keep the context

Rs.5 lakhminimum contribution andRs.5 crorefirm commitment are source legacy-VCF figures. They are not the general present AIF minimums. Modern fund corpus, investor-ticket and exemption conditions follow the current AIF category and scheme rules.

The SEBI guidelines, as amended in 2000, are as follows:

Definitions

Exit possibilities

IPO

Strategic / secondary sale

Permitted buyback

Venture capital

A Venture Capital Fund has been defined to mean a fund established in the form of a trust or a company including a body corporate and registered with SEBI which –

has a dedicated pool of capital, raised in the specified manner; and

invests in venture capital undertakings, in accordance with these regulations.

A Venture Capital Fund may be set up either as a trust or as a company.

The purpose of raising funds should be to invest in Venture Capital Undertakings, in the specified manner.

A Venture Capital Undertaking means a domestic company –

Whose shares are not listed on a recognised stock exchange in India, and

Which is engaged in the business for providing services, production or manufacture of articles or things and does not include such activities or sectors, which have been included in the negative list by the Board.

The negative list of activities : Real estate, non-banking financial services, gold financing, activities not permitted under Government's Industrial Policy and any other activity specified by the Board.

As per SEBI definition "venture capital fund" means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings, mainly involved in new products, new services, technology or intellectual property-right based activities or a new business model and shall include an angel fund.

Registration of Venture Capital Funds

A venture capital fund may be set up either by a company or by a trust. SEBI is empowered to grant a certification of registration to the fund on an application made to it.

The applicant company or trust must fulfil the following conditions:

MoA of the company must specify, as its main objective, the details of business activity of the venture capital fund.

It is prohibited by its memorandum of association and Articles of Association from making an invitation to the public to subscribe to its securities.

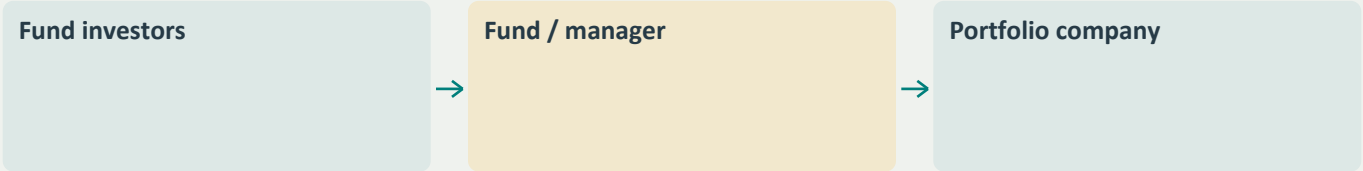
Its director, or principal officer or employee is not involved in any litigation connected with the securities market.

Its director, principal officer or employee has not been, at any time, convicted of an offence involving moral turpitude or any economic offence.

The applicant is a 'fit and proper' person.

Resources for Venture Capital Fund

Distinct entities



Venture capital

Complete source section / source 319

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Equity instruments / read the term sheet

Preference dividend, participation, liquidation and conversion rights depend on terms and law. Convertible instruments can change future ownership; headline share percentages may differ from fully diluted ownership.

A Venture Capital Fund may raise moneys from any investor – India, foreign or Non-Resident Indian – by way of issue of units, provided, the minimum amount accepted from an investor is Rs. 5 lakhs.

This restriction does not apply to the employees, principal officer or directors of the venture capital fund, or non-Resident Indians or persons or institutions of Indian Origin.

It is essential that the venture capital fund shall not issue any document or advertisement inviting offers from the public for subscription to its securities/units.

Moreover, each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors to contribute at least Rs. 5 crores, before the start of its operations.

Modes Of Venture Capital Financing

Venture capital funds provide finance to venture capital undertakings through different modes/instruments, which are traditionally divided into:

(i)Equity

(ii)Debt instruments.

Equity Instruments

Equity instruments are ownership instruments and bestow the rights of the owner to the investor/VCFs. They are:

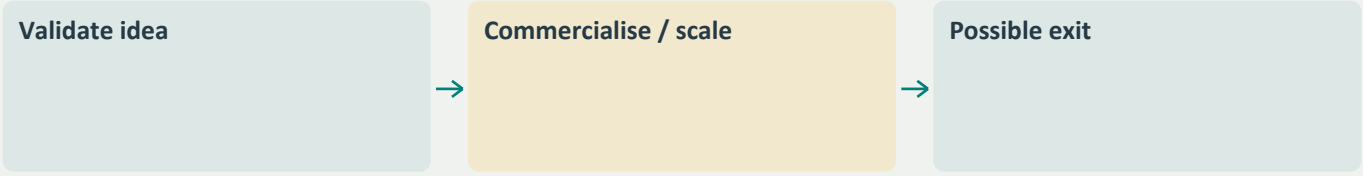
• Ordinary Shares on which no dividend is assured. Non-voting equity shares may also be issued, which carry a little higher dividend, but no voting rights are enjoyed by the investors.

• Preference Shares carry an assured dividend at a specified rate. Preference shares may be cumulative/non-cumulative, participating preference shares which provide for an additional dividend, after payment of dividend to equity shareholders. Convertible preference shares are exchangeable into equity shares, after a specified period of time.

Debt Instruments

VCFs may prefer debt instruments, in order to ensure a fixed return in the earlier years of financing, when the equity shares do not give any return. The debt instruments are of various types, as follows:

Venture lifecycle



Venture capital

Conditional Loans

• Conditional loans are the one that does not carry interest and are repayable to the lender in the form of royalty, after the venture capital undertaking is able to make revenue.

• The VC funds recover their investments along with the return thereon, by way of a stake in the sale of the undertaking, after a specified period of time.

Complete source section / source 320

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Conditional loans / repayment is contractual

Royalty or revenue-linked conditional loans, convertible loans and conventional loans allocate payment risk differently. An agreed repayment/conversion term is not automatically a guarantee that a start-up can pay.

• The recovery by the VCFs depends upon the success of the business enterprise.

Hence, such loans are termed as ‘conditional’ loans.

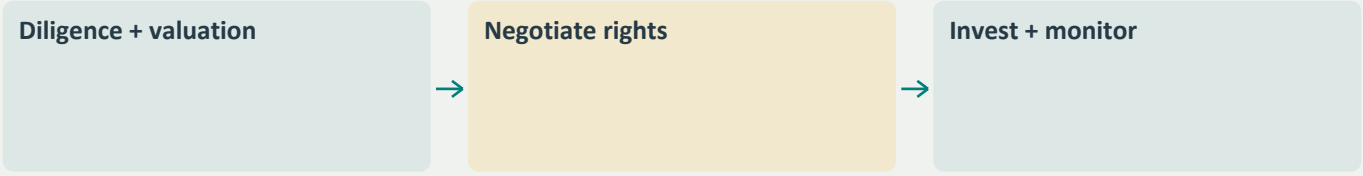
Convertible Loans:

• Sometimes loans are provided with the stipulation that they may be converted into equity at a later stage, at the option of the lender or as agreed upon between the two parties.

Conventional Loans:

• These loans are the usual term loans carrying a specified rate of interest and are repayable in instalments, over a number of years.

Investment process



Venture capital

Original practice / answers with reasons

Q 01. After 25 new shares are issued against 100 existing, the new investor holds?

A. 25% | B. 20% | C. 80% | D. 100%

Answer B. 25/125=20%, under the stated simple-capital assumptions.

Q 02. An equity VC is which of the following?

A. Not an owner in any sense | B. A shareholder with defined rights | C. Always a depositor | D. A regulator

Answer B. Avoiding daily operations does not remove ownership.

Q 03. Which is a possible VC exit?

A. Strategic sale | B. Guaranteed monthly salary | C. Printing currency | D. Compulsory profit every year

Answer A. An IPO or secondary sale may also provide an exit; availability is uncertain.

Q 04. Which framework generally governs new Indian AIF venture funds?

A. Only 1996 VCF rules | B. SEBI AIF Regulations 2012 as amended | C. No regulation | D. Only a school timetable

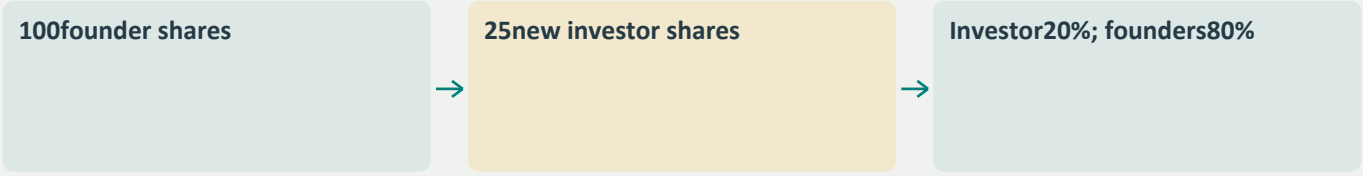
Answer B. Legacy and transition arrangements require separate treatment.

Q 05. Which is a useful early-stage diligence focus?

A. Team, product and market viability | B. Only office colour | C. Guaranteed stock quote | D. A promised exit date alone

Answer A. Business and execution risks are central to investment appraisal.

Simplified dilution



Venture capital

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. VC means venture capital.	15. Legal diligence examines rights and obligations.
02. Venture capital bears enterprise risk.	16. Valuation and investment price affect dilution.
03. VC returns are uncertain.	17. New share issuance can dilute existing holders.
04. VC commonly uses equity or equity-linked instruments.	18. Fully diluted ownership includes relevant potential shares.
05. The fund and investee company are distinct.	19. Preference rights depend on the instrument terms.
06. An equity VC holds ownership rights.	20. Convertible instruments can become equity.
07. Ownership need not mean daily management.	21. Conditional loans can link payments to specified outcomes.
08. Board/protective rights can accompany investment.	22. Conventional loans have contractual repayment terms.
09. Seed funding supports early validation.	23. Monitoring follows investment.
10. Start-up funding supports commercialisation.	24. IPO is a possible exit.
11. Expansion funding supports growth.	25. Strategic sale is a possible exit.
12. Bridge financing can precede a later transaction.	26. Secondary sale is a possible exit.
13. Stage labels vary by transaction.	27. Exit liquidity is not guaranteed.
14. Diligence examines commercial and financial risk.	28. Modern venture funds generally use the AIF framework.

Exit possibilities

IPO

Strategic / secondary sale

Permitted buyback

Leasing and hire purchase

D 11 / Leasing and hire purchase

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

Leasing and hire purchase / separate legal and accounting tests
RBI prudential permissions, contractual ownership and the entity applicable accounting standard answer different questions.

Chapter route	What to study
Lease forms	Finance/operating, direct, leveraged, sale-and-leaseback and other source classifications.
Financial effects	Full source balance sheets and ratio examples, with modern accounting caveats.
Law and HP	Bailment, bank permissions, hire purchase ownership, instalments and remedies.



Use, ownership and accounting are three questions
Learner: I lease the machine, so there is nothing on my balance sheet? Mentor: Under IndAS116, most lessee leases create a right-of-use asset and lease liability. Legal title is a separate question.

Primary reference desk / 26 October 2026

MCA / Ind AS 116 Leases

ICAI / lessee accounting under Ind AS 116

India Code / operative central legislation

Lease relationship

Lessor: asset/right → **Lessee: use** → **Rentals under agreement**

Leasing and hire purchase

Learn and verify / the examinable distinctions

Compare the arrangements

Anchor	Explanation
Lessor / lessee	Lessor grants the right to use; lessee uses the asset and pays agreed rentals.
Finance lease	Transfers substantially the risks/rewards of ownership under the relevant classification; legal title need not transfer.
Operating lease	A lease not meeting the finance-lease classification under the relevant lessor/AS 19 framework; maintenance terms are contractual.
Hire purchase	Hirer obtains possession and an option/route to ownership under the agreement after meeting conditions; distinguish an ordinary instalment sale.

Accounting and ratios / state the framework

Anchor	Explanation
Source example	Equity 100, debt 100, assets 200: debt/equity 1. A new debt-funded asset 100 makes debt 200/equity 100=2.
Historical operating-lease illustration	The source FirmBoff-balance-sheet treatment is a teaching illustration of an older/applicable operating-lease model, not a rule for every entity today.
Ind AS 116 lessee	Most leases recognise a right-of-use asset and lease liability, with specified short-term/low-value exemptions. Recognition changes ratios and expense patterns.
AS 19	A different applicable framework; do not call it Indian Accounting Standard 19 or confuse it with Ind AS 116.

IndAS116lessee

Lease commencement

Right-of-use asset

Lease liability

Leasing and hire purchase

Structures / trace the parties

Anchor	Explanation
Direct lease	Lessor acquires/provides the asset for use by lessee.
Leveraged lease	A lender finances part of lessor asset acquisition; debt and security arrangements matter.
Sale and leaseback	Seller sells an asset and leases it back. Accounting depends on the applicable sale/lease rules; cash raised is not automatically profit.
Cross-border lease	Lessor and lessee are in different jurisdictions; tax, currency and legal risks require separate assessment.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 320

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Possession versus ownership

Leasing provides a contractual right of use; it does not automatically confer title on the lessee. Calling leasing neither equity nor borrowing does not mean the arrangement has no financing liability under its applicable accounting framework.

JAIIB Paper 1 IE & IFS Module D Unit 11 -Lease Finance &

Hire Purchase

Lease Finance

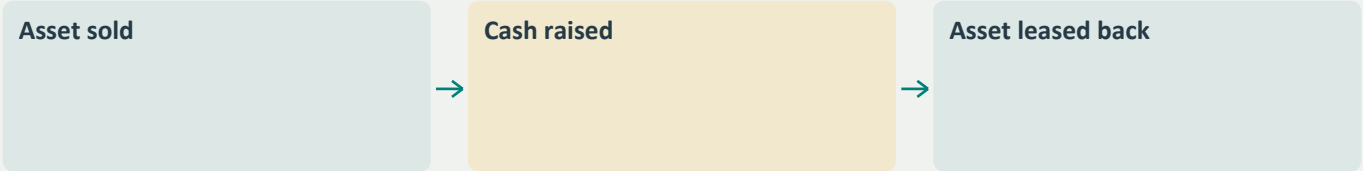
▪ Business enterprises need capital assets like plant, machinery, building, land, transportation equipment, etc., in order to produce goods and services.

▪ These can be acquired either using capital funds (equity) or borrowings from various sources (debt).

▪ Funding could also be a mixture of both equity and debt.

▪ There are two other methods of acquiring capital assets – lease financing and hire purchase.

Sale and leaseback



Leasing and hire purchase

▪ These are two important sources of finance, whereby, the entrepreneur resorts to, neither equity nor borrowings to acquire the assets.

Leasing

Complete source section / source 321

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Historical development

The 1973 First Leasing Company account and later institutional entries are preserved as source history. They do not establish that those historic entities are current operating counterparties.

Is a method of acquiring right to use an equipment or asset for a consideration, resulting in an entrepreneur getting the right to use the asset.

• A lease is a contract whereby, the owner of an asset (the lessor) grants to another person (the lessee) exclusive right to use the asset, for an agreed period of time, in return, for the payment of a rent (called lease rental).

• Capital assets like land, buildings, equipment, machinery, vehicles are usually the assets, which are generally acquired on lease basis.

• The lessor remains the owner of the asset, but the possession and economic use of the asset is vested in the lessee.

Evolution Of Leasing In India

▪ 1973: Leasing activity was initiated in India

▪ The first leasing Company: First Leasing Company of India Ltd.

▪ By Farouk Irani, with industrialist Shri A C Muthiah.

▪ By 1981: Shetty Investment and Finance, Jaybharat Credit and Investment, Motor and General Finance, and Sundaram Finance, etc., joined the leasing game.

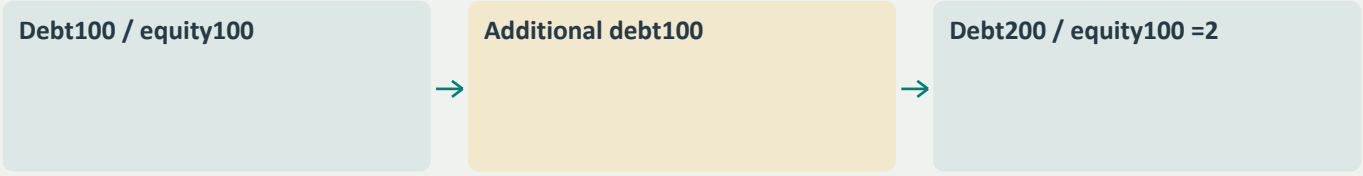
▪ These firms, already involved with hire-purchase of commercial vehicles, were looking for a tax break and leasing seemed to be their ideal choice.

▪ Third Stage of Growth: In late 1982, when numerous financial institutions and commercial banks either started leasing or announced plans to do so.

▪ 1983: ICICI, entered the industry, giving a boost to the concept of leasing.

▪ International Finance Corporation (IFC) announced its decision to open 4 leasing joint ventures in India.

Debt/equity illustration



Leasing and hire purchase

Redrawn / Lease relationship

Relationship	Source meaning
1	Lessor provides asset/right to lessee; lessee pays lease rentals to lessor.

Complete source section / source 322

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Lease categories / payment and purchase rights

Rentals are paid by the lessee to the lessor, not the reverse. A finance lease need not contain a purchase option in every case. Repair, insurance and cancellation rights depend on the contract; not every operating lease requires the lessor to pay all costs.

▪ To add to the leasing boom, the Finance Ministry announced strict measures for enlistment of investment companies on stock exchanges, which made many investment companies to turn overnight, into leasing companies.

▪ Another significant phase in the development of Indian leasing was the G S Dahotre Committee's recommendations, based on which, the RBI formed guidelines for commercial banks funding leasing companies.

▪ The growth of leasing in India has distinctively been assisted by funding from banks and financial institutions.

▪ Banks themselves were allowed to offer leasing facilities later in the year 1994, with banks like State Bank of India and Bank of India opening specialised branches for handling Lease Financing.

Types Of Leasing

Finance Lease: Also called a capital lease

▪ Usually covers the full useful economic life of the assets or a period that is close to the economic life.

▪ The lessor receives lease rentals during the lease period so as to recover fully, not only the cost of the assets but also the interest cost.

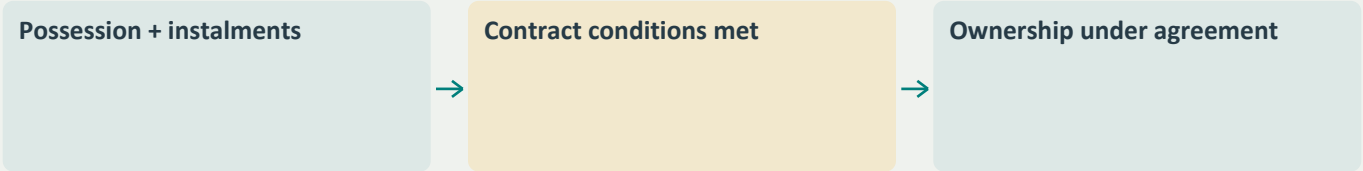
▪ Usually a non-cancellable and the lessee provides for the maintenance of the assets.

Operating Lease

▪ Period of lease is short, when compared to the useful life of the asset or the equipment being leased.

▪ For instance, an aircraft which has an economic life of 25 years may be leased to an airline for 5 years, on an operating lease.

Hire purchase



Leasing and hire purchase

▪ Lessor will recover the cost of the asset from multiple lessees.

▪ They are typically for assets like computers, windmills and so on.

▪ In operating lease, the lessor is responsible for all kinds of maintenance, insurance and all other expenses related to the leased asset.

Complete source section / source 323

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Other lease labels / read the obligation

Percentage rent is an obligation of the lessee under agreed terms, not lessor rent payable to itself. Open-end/closed-end labels concern residual-value/risk and end-of-term obligations under the contract; do not infer an automatic universal purchase right from the label.

Other types of lease finance arrangements that are prevalent are:

• Close- and Open-ended Lease - In a close-ended lease, the asset gets transferred to the lessor, at the end of the lease-contract period, whereas in an open-ended lease, the lessee has the option of purchasing the asset.

• Up-front and Back-end Lease - In an upfront lease, higher lease rentals are charged in the initial years and lower rentals in the later years of contract.

Whereas, in the back-end lease, in the initial years, the lease rentals are less with increase in the later years.

• Percentage Lease - In the percentage lease, the lessor needs to pay fix-lease rentals plus some percentage of the previous year’s gross revenue.

• Cross-border Lease - In the cross-border or international lease, the lessee and the lessor are situated in two different countries.

Lease Financing can be of three different types, depending upon how the lessee acquires the asset. These are as follows:

Direct Lease

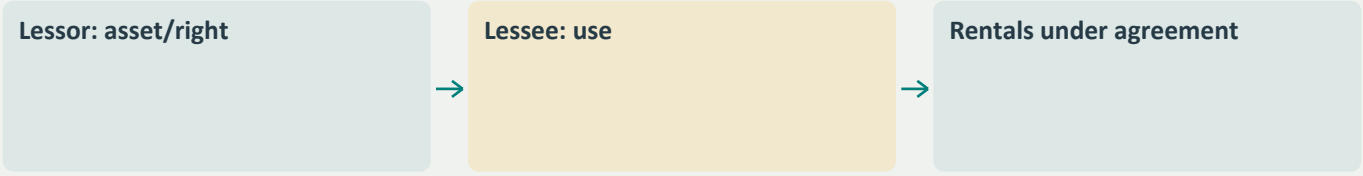
• The lessor firm itself purchases the asset and hands it over to the lessee.

• A manufacturer can also act as a lessor and can deliver the assets to the lessee, under the lease agreement (instead of delivering under the sale agreement).

• In other words, the lessee will normally specify the manufacturer, the model number and other relevant characteristics of the asset it wishes to lease and the lessor will procure for the lessee.

Leveraged Lease

Lease relationship



Leasing and hire purchase

• A leveraged lease is an arrangement, where the lessor borrows a portion of the purchase price, from some lender/financial institutions.

• This loan is secured by the assets and the lease rentals.

• The loan is repaid out of the lease rentals either directly by the lessee or the lessor.

• The surplus (i.e., the under the leveraged lease, the lessor acts as an equity participant, supplying only a part of the cost of the assets and the lender supplies

Redrawn / Source finance versus operating leases

Dimension	Finance lease	Operating lease
Duration	Whole useful economic life	Shorter duration
Revocation	Cannot revoke	Revocable
Maintenance	Lessee bears maintenance, taxes, insurance	Lessor bears expenses
Obsolescence	Lessee	Lessor
Purchase option	Contract provides end-purchase option	No such option

Complete source section / source 324

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Ratio claim / not universal today

The full source balance-sheet illustration remains below. Most Ind AS 116 lessee leases are on balance sheet through a right-of-use asset and liability; the source blanket claim that leasing leaves assets/debt untouched is not current for those entities.

the balance. The lease rentals are distributed first to the lender to satisfy the scheduled debt service payments; any surplus then going to the lessor.

• If lease payments < the debt service, the lessor or the lessee (as the contract may provide for) will have to make up the difference.

Sale and Lease Back

IndAS116lessee

Lease commencement	Right-of-use asset	Lease liability

Leasing and hire purchase

• The lessee is already the owner of the assets. The to-be lessee, under the lease agreement, sells the assets to the lessor who, in turn, leases the assets back to the owner (now the lessee).

• Under the sale and lease back, the lessee not only retains the use of the assets but also gets funds from the 'sale' of the assets to the lessor.

• The 'sale and lease back arrangement' is usually preferred by firms requiring fixed assets but are short of funds.

Advantages And Disadvantages Of Lease Finance

The Lease Finance offers following advantages:

• Regular income: Lessor gets assured rental income during the period of lease, without transferring the ownership of the asset to the lessee.

• High profitability: Leasing is highly profitable since the rate of return is the lease rental is higher than the interest payable on financing the asset.

• Growth and expansion: An entrepreneur will not have to spend a lot of money acquiring the asset. He/she can utilise the funds for further growth of the business.

• Tax benefit: Lease rental is deductible from the taxable income of the lessee.

The lessor has the benefit of depreciation in respect of leased assets.

• Economical: Leasing as a source of financing is cheaper than many other sources of finance. The lessee can use the asset and earn profits, without investing money in the asset.

Impact Of Leasing On Financial Ratios

▪ When an asset is acquired on lease basis, lease rentals are shown as an expense in the firm's profit and Loss account.

▪ Neither the leased asset nor the liability under the lease agreement are shown in the Balance Sheet.

▪ Hence, the debt-equity ratio remains unaffected, as compared to a firm which buys the asset with borrowed funds.

Example:

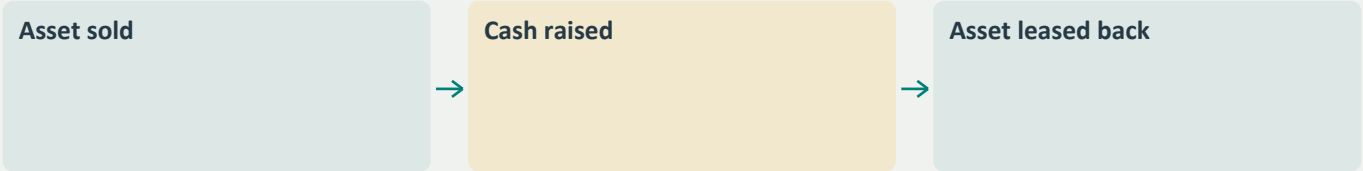
There are two firms in an industry with identical balance sheets as shown below:

Balance Sheet

Equity Capital 100 Fixed Assets 100

Debt 100 Current Assets 100

Sale and leaseback



Leasing and hire purchase

Redrawn / Source starting balance sheet

Liabilities	Amount	Assets	Amount
Equity capital	100	Fixed assets	100
Debt	100	Current assets	100
Total	200	Total	200

Complete source section / source 325

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Accounting terminology and bailment section

AS 19 is Accounting Standard 19, whereas Ind AS 116 is the contemporary Ind ASlease standard. Bailment is defined in section 148 of the Indian Contract Act 1872, not section 146 as printed in the source. Lease, tax and bailment treatment need their respective conditions; tax deductibility is not automatic for every payment.

Total 200 Total 200

▪ Debt Equity Ratio = 1: 1

▪ Firm A: borrows Rs. 100 to buy a fixed asset, while

▪ firm B : Takes it on lease. The respective balance sheets of the two firms will appear as follows:

▪ Debt Equity Ratio = 1:1

▪ The debt-equity ratio of firm A increases from 1:1 to 2:1,

▪ while that of firm B remains unaffected.

▪ In its balance sheet, the leased asset is shown as an off-balance sheet item.

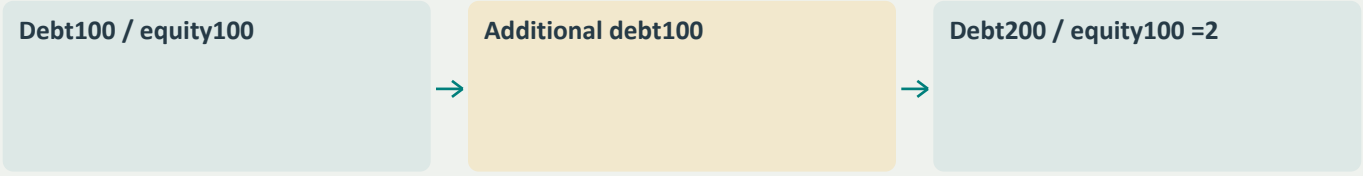
▪ Higher debt-equity ratio of Firm A will adversely affect its further debt taking capacity, while firm B can take further debt easily to acquire other assets or to meet its working capital needs.

Legal Aspects Of Leasing

The Transfer of Property Act : Defines a lease as a transaction in which, a party owning the asset provides the asset for use, over a certain period of time, to another for consideration, in the form of periodic rent.

Indian Accounting Standard 19 : Defines a lease as an agreement, whereby, the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset, for an agreed period of time.

Debt/equity illustration



Leasing and hire purchase

Sale of Goods Act: A ‘sale’ means a transfer of property in goods. A lease, on the other hand, is merely a transfer of the right to use the goods and is therefore not a sale.

▪ A lease transaction is a deemed sale under the law and Goods and Services Tax (GST) is levied on the lease rentals.

Redrawn / Source FirmA borrowing case

Liabilities	Amount	Assets	Amount
Equity capital	100	Fixed assets	200
Debt	200	Current assets	100
Total	300	Total	300

Redrawn / Source FirmB lease case

Liabilities	Amount	Assets	Amount
Equity capital	100	Fixed assets	100
Debt	100	Current assets	100
Total	200	Total	200

Complete source section / source 326

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

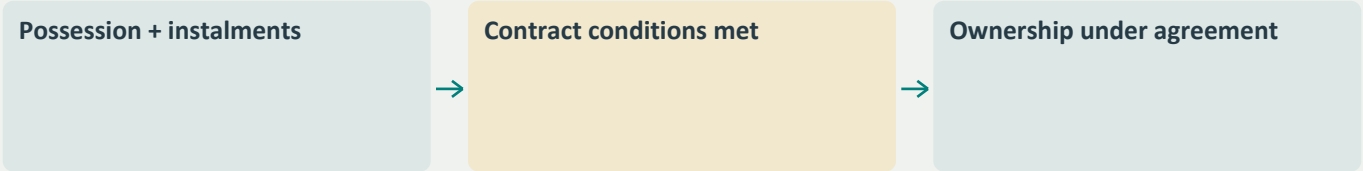
Bank prudential limits / historical numbers

The source 100% risk-weight,15%/20% single-borrower and 40%/50% group figures belong to its historical prudential account. They are not a complete current large-exposure/risk-weight framework. Apply current bank-category, counterparty, capital-base and financial-services Directions before using a numerical ceiling.

▪ As there is no separate statute in India to govern the contracts of leasing, which is akin to a contract of bailment, the provisions of the Indian Contract Act apply to it.

▪ According to Section 146 of the Indian Contract Act, 1872: Bailment is “the delivery of goods by one person to another person for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of, according to the directions of the person delivering them.”

Hire purchase



Leasing and hire purchase

▪ Bailor: The person delivering the goods

▪ Bailee: Person to whom they are delivered.

▪ Since equipment lease transactions fall in the category of a bailment contract, the obligations of the lessor and the lessee are similar to those of the bailor and the bailee (unless expressly specified otherwise in the lease agreement), as given in the Indian Contract Act.

Briefly, these may be stated as follows:

The lessor has the duty to deliver the asset to the lessee, to legally authorise the lessee to use the asset and to leave the asset in peaceful possession of the lessee during the lease period.

The lessor has the obligation to pay the lease rentals, as specified in the lease agreement, to protect the lessor's title, to take reasonable care of the asset, and to return the leased asset, at the expiry of the lease period.

Regulatory Aspects Of Leasing Activities

Banks are permitted by RBI to undertake leasing activities, either through subsidiaries or through their departments.

Equipment Leasing Services through Subsidiaries

With the prior approval of the Reserve Bank of India

• The subsidiaries formed should primarily be engaged in leasing activities and such other activities as are incidental to equipment leasing services.

• In other words, they should not engage themselves in direct lending or carrying on the activities which are not approved by the Reserve Bank and financing of other companies or concerns engaged in equipment leasing services.

Equipment Leasing Services as Departmental Activities

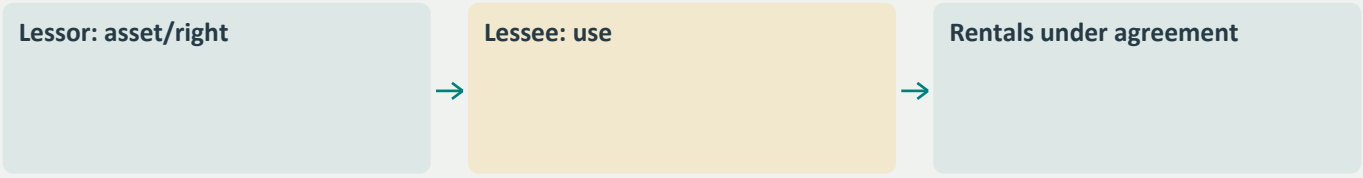
▪ Banks can also undertake equipment leasing services departmentally.

▪ Prior approval of the RBI is not necessary

Redrawn / Bank leasing subsidiary

Relationship	Source meaning
1	Bank → subsidiary; source says prior RBI approval.

Lease relationship



Leasing and hire purchase

Complete source section / source 327

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Hire purchase / contract conditions

Possession, ownership option, instalment payments and repossession rights are governed by law and contract. Default does not permit unlawful or forcible repossession. Down-payment 20%-25% and 36-48 monthtenors are examples, not universal statutory requirements.

▪ However, report to the RBI about the nature of these activities together with the names of the branches from where these activities are taken up.

The banks should comply with the following prudential guidelines when they undertake these activities departmentally:

• Require skilled personnel and adequate infrastructural facilities, they should be undertaken only by certain select branches of banks.

• These activities should be treated on par with loans and advances and should accordingly be given risk weight of 100%, for calculation of capital to risk asset ratio. Further, the extant guidelines on income recognition, asset classification and provisioning would also be applicable to them.

• The facilities extended by way of equipment leasing services would be covered within the exposure ceilings with regard to

Single borrower (15% of the bank's capital funds; 20% provided the additional credit exposure is on account of extension of credit to infrastructure projects)

Borrower group (40% of the bank's capital funds; 50% provided the additional credit exposure is on account of extension of credit to infrastructure projects).

• Their exposure to each of these activities should not exceed 10% of total advances.

• Banks are required to frame an appropriate policy on leasing business with the approval of their Boards and evolve safeguards to avoid possible asset liability mismatch.

Hire Purchase

• Hire purchase is another method of acquiring a capital asset for use, without paying its price immediately.

• Under hire purchase arrangement, goods are let on hire, the hirer (user) is allowed to pay the purchase price in instalments and enjoys an option to purchase the goods, after all the instalments have been paid.

• Thus, the ownership in the asset is passed on to the hirer only on payment of the last instalment.

• The amount and number of instalments is fixed at the time of delivering the asset to the hirer.

IndAS116lessee

Lease commencement	Right-of-use asset	Lease liability

Leasing and hire purchase

• If the hirer makes default in making payment of any instalment, the seller is entitled to recover the asset from the hirer.

• The hirer may, on his own also, return the asset to the hiree, without any commitment to pay the remaining instalments.

• The instalments for this purpose are treated as hire charges.

• Thus, the property in the asset remains vested in the seller (hiree) till, the right of. purchase is exercised by the hirer, after making payment of all the instalments The hire purchase transaction takes place in the following manner:

Complete source section / source 328

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

HP history and accounting

The source institutional history is retained. Hire purchase is not inter change able with every consumer loan or instalment sale; the title-transfer and purchase-option terms distinguish the arrangements.

The seller (hiree) purchases the asset from the supplier/manufacturer and hires it to the hirer who is required to make a cash down payment of, say 20-25% of the cost of the asset.

The balance of the cost price of the asset with interest thereon is payable in equated monthly instalments, over a pre-determined period, which ranges between 36 months and 48 months.

Sometimes, in place of cash down payment, a fixed deposit is required to be made with the seller and the entire amount of the cost is recovered through EMIs.

The amount of FDR plus interest is returned to the hirer on payment of the last instalment.

The hirer is entitled to terminate the hire purchase contract by giving due notice to the seller (hiree).

Evolution Of Hire Purchase In India

• 1 ST hire-purchase company is believed to be Commercial Credit Corporation, successor to Auto Supply Company.

• Based in Madras (presently Chennai), North India:

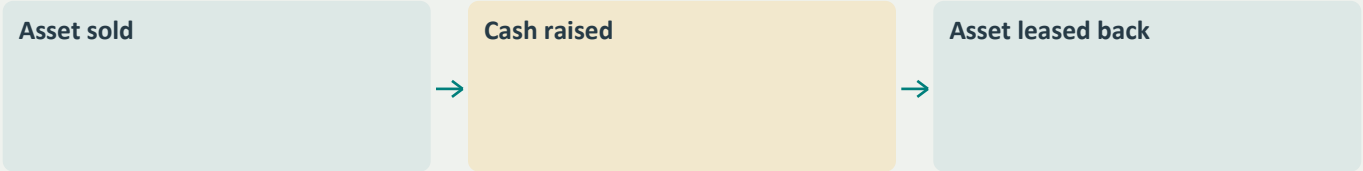
1920s- Motor and General Finance

1930s- Instalment Supply Company Development of Hire-purchase took two forms:

Consumer durables

Automobiles.

Sale and leaseback



Leasing and hire purchase

Redrawn / Hire purchase

Relationship	Source meaning
1	Manufacturer supplies seller/hiree; hiree supplies hirer; hirer pays balance EMIs with interest.
2	Cash down 20%-25% or fixed-deposit alternative; right of termination shown.

Complete source section / source 329

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Hire-Purchase Act 1972 / not operative

The Hire-Purchase Act 1972 was never brought into force and was repealed in 2005. Do not learn it as the current operative law governing all hire-purchase contracts. Applicable contract, sale-of-goods, consumer, tax and financial-regulatory requirements still matter.

Consumer durables hire-purchase was promoted by the dealers in their respective equipment.

▪ Thus, Singer Sewing Machine company, or Murphy radio dealers would provide instalment facilities on hire-purchase basis to the customers of their products The other side that developed very fast was the hire-purchase of commercial vehicles.

▪ The dealers in commercial vehicles, as well as pure financing companies, were set up.

▪ The value of the asset being good and repossession being comparatively easy, this branch of financing activity flourished fast.

Legal Aspects Of Hire Purchase

▪ Hire purchase agreement is not a contract of sale but a contract of bailment as, although the hirer has the right of using the goods, he is not the legal owner while the term of the agreement is operational.

▪ In India, all the hire purchase finance organisations are controlled by the Hire Purchase Act, 1972.

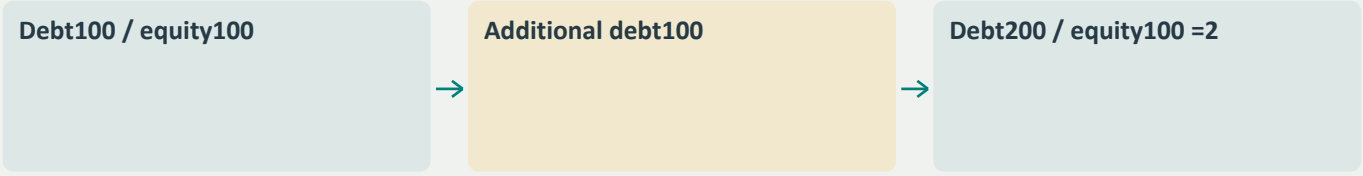
▪ However, a Bill was initiated in the year 1989, for making certain amendments which could never come into force.

▪ Such a transaction has two basic elements which are governed by the

▪ Indian Contract Act, 1872 Sale of Goods Act, 1930:

▪ Bailment: This aspect of the hire purchase agreement is governed by Chapter IX of the Indian Contract Act, which covers finance agreements like the purchase of consumer durables such as motor vehicles, computers,

Debt/equity illustration



household appliances like televisions, refrigerator.

▪ Sale: This aspect of the hire purchase agreement is a part of the Sale of Goods Act. The law commission had recommended in its eighth report of Sale of Goods Act that there should be a separate enactment, regulating hire-purchase transaction.

▪ As there were no proper laws to regulate such transactions of hire purchase, hence provisions were made by a separate act called the Hire Purchase Act, 1972.

Complete source section / source 330

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

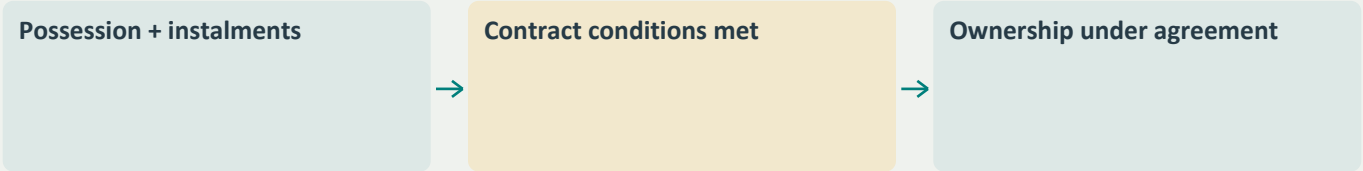
Legal-era correction applies to continuation

Any continued reference below to the 1972 Act is retained historical wording, subject to the correction above. Rights and remedies must be established under the operative legal framework and the actual agreement.

Redrawn / Source lease versus hire purchase

Dimension	Lease	Hire purchase
Meaning	Owner/manufacturer grants equipment use for rent	Instalment-credit hiring with principal/interest and option to buy
Option	Except financial lease, no purchase option	Ownership after last instalment
Payment nature	Entire rentals revenue expenditure	Only interest component revenue expenditure
Depreciation claimant	Lessor	Hire purchaser
Tax treatment	Lessor depreciation; lessee maintenance/rental expense	Hirer depreciation/interest; seller interest on borrowed acquisition funds

Hire purchase



Leasing and hire purchase

Original practice / answers with reasons

Q 01. Who pays lease rentals?

A. Lessee | B. Always the regulator | C. Only the seller customer | D. Nobody

Answer A. The lessee pays the lessor according to the lease.

Q 02. Bailment is defined in which ContractAct section?

A. 146 | B. 148 | C. 13 | D. 45

Answer B. The source 146 reference is corrected to 148.

Q 03. Under Ind AS 116, most lessee leases create?

A. Nothing on balance sheet | B. ROU asset and lease liability | C. Only equity | D. Only a deposit

Answer B. Specified exemptions exist; legal title is a separate issue.

Q 04. Debt 200/equity 100 equals?

A. 1 | B. 2 | C. 0.5 | D. 3

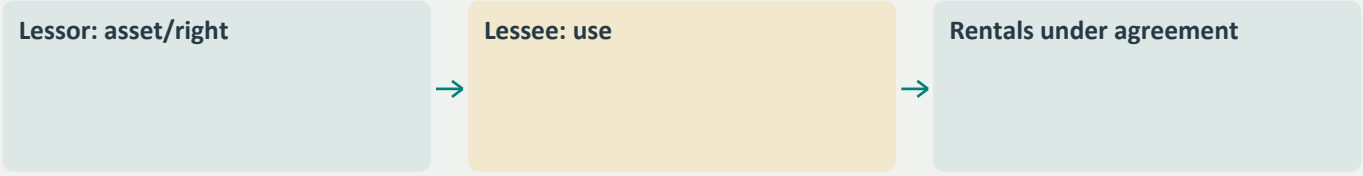
Answer B. Divide debt by equity using the stated unchanged-equity illustration.

Q 05. The Hire-Purchase Act 1972 is?

A. The operative universal current code | B. Never commenced and repealed in 2005 | C. An RBI circular | D. A GST rate

Answer B. Use the applicable operative laws and contract instead.

Lease relationship



Leasing and hire purchase

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. A lessor grants a right to use an asset.	15. AS 19 andInd AS 116 are different frameworks.
02. A lessee uses the asset and pays rentals.	16. AS 19 means Accounting Standard 19.
03. Possession and ownership are different.	17. Ind AS 116 concerns leases.
04. Lease terms allocate maintenance and insurance obligations.	18. Most Ind AS 116 lessee leases are recognised on balance sheet.
05. Finance-lease classification concerns risks and rewards.	19. The recognised asset is a right-of-use asset.
06. Title transfer is not essential in every finance lease.	20. A lease liability reflects qualifying payment obligations.
07. Operating-lease terms are contractual.	21. Specified recognition exemptions exist.
08. Direct leasing links lessor asset provision and lessee use.	22. Leasing can affect financial ratios.
09. Leveraged leasing includes third-party finance.	23. Debt 200/equity 100 gives a ratio of 2.
10. Sale-and-leaseback combines a sale and subsequent lease.	24. Bailment is defined in ContractAct section 148.
11. Cross-border leasing spans jurisdictions.	25. A bailor delivers goods under bailment.
12. Residual-value risk depends on the agreement.	26. A bailee receives goods under bailment.
13. Lease advantages must be assessed against total cost.	27. Hire purchase separates initial possession from ownership conditions.
14. Tax treatment is not determined solely by an asset label.	28. The Hire-Purchase Act 1972 never commenced and was repealed in 2005.

IndAS116lessee

Lease commencement

Right-of-use asset

Lease liability

Credit ratings and credit scores

D 12 / Credit ratings and credit scores

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI ratings / RBI credit-information oversight

A credit rating agency and a credit information company are different regulated businesses. A rating/score is not a lending approval or repayment guarantee.

Chapter route	What to study
Ratings	Need, process, analytical factors, symbols, agencies, regulation and fees.
Credit scoring	Creditworthiness, risk pricing, reports and scores.
CICs	India bureaus, membership/reporting and borrower information.



A high score is useful evidence, not a loan sanction

Learner: My score is high; the loan must be approved. Mentor: A lender also checks income, obligations, documents, policy and the facility. A score does not replace appraisal.

Primary reference desk / 26 October 2026

SEBI / CRA Regulations, amended January 2026

RBI / reporting frequency circular 2024

CIBIL / RBI regulatory references

Rating workflow

Collect / analyse → Committee opinion → Disclosure + surveillance

Credit ratings and credit scores

Learn and verify / the examinable distinctions

Rating versus score

Anchor	Explanation
Credit rating	An opinion on relative credit risk of the rated issuer/instrument under its stated scope. Not an investment recommendation or guarantee.
Credit score	A statistical indicator based on a credit-information/model dataset; interpretation is model-specific.
Credit report	Underlying account, repayment, enquiry and identifying information; verify disputed or inaccurate data.
Regulatory distinction	SEBI regulates CRAs in its securities framework; RBI regulates CICs and credit-reporting obligations.

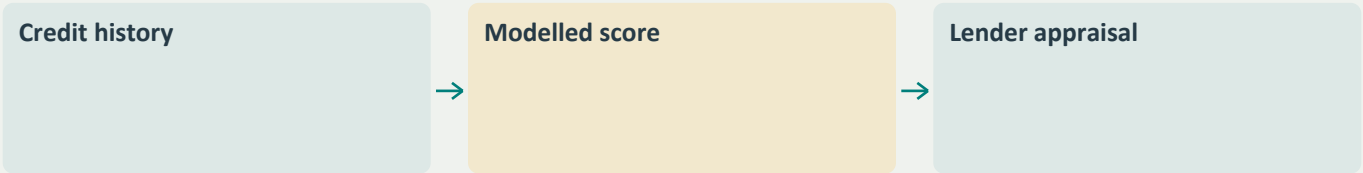
Read symbols without inventing equivalence

Anchor	Explanation
Long-term scale	AAA, AA, A, BBB, BB, B, C, Dfamilies convey relative credit risk with defined modifiers. Use the agency/SEBI definition.
Short-term scale	A 1, A 2, A 3, A 4, Dare a separate scale. A side-by-side source table is not a row-wise conversion formula.
Surveillance	A rating may be upgraded, downgraded or otherwise changed as information develops.
Conflict	Issuer-paid ratings create conflicts that require independence, process controls and disclosure.

Credit-information workflow

Anchor	Explanation
Credit institution	Reports accurate borrower/facility and repayment information under the applicable directions.

Score is one input



Credit ratings and credit scores

Anchor	Explanation
CIC	Compiles credit information and supplies eligible reports/scores through authorised access.
Borrower	Review the report; raise an error/dispute with the relevant institution/CIC.
Lender	Combine bureau evidence with independent credit appraisal and policy.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 330

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Rating scope

A rating describes relative credit risk within its defined scope; it does not certify market price, liquidity or suitability. Unrated does not automatically mean default, and rated does not mean risk-free.

JAIIB Paper 1 IE & IFS Module D Unit 12-Credit Rating and

Credit Scoring

What Is Credit Rating

▪ Credit rating is an analysis of the credit risks associated with a financial instrument or a business entity.

▪ It is a risk grade given to a particular entity, based on its credentials and the extent to which, the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past.

Usually, a credit rating is in the form of

An alpha/numeric grade,

Accompanied by a detailed report, based on the financial history of borrowing or lending and

Credit worthiness of the entity or the person obtained from the statements of its assets and liabilities,

▪ With a view to determining their ability to meet the debt obligations

▪ It helps in assessment of the solvency of the particular entity.

Different regulators

SEBI: securities CRAs

RBI: CIC framework

Separate permissions

Credit ratings and credit scores

▪ In other words, a credit rating may be defined as an opinion of a Credit Rating Agency (CRA) as to the issuer's (i.e., borrower of money) capacity to meet its financial obligations to the depositor or bondholder (i.e., lender of money), on a

Complete source section / source 331

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Analytical factors / not a mechanical promise

Business, financial, management and economic factors inform judgment. Historical statements and projections can change; analytical models do not ensure a certain outcome.

particular issue or type of instrument (e.g., a domestic or foreign currency - short-term or medium or long-term, etc.), in a timely manner.

▪ HIGH credit rating indicates a high possibility of paying back the loan in its entirety, without any issues;

▪ POOR credit rating suggests that the borrower has had trouble paying back loans in the past and might follow the same pattern, in the future.

Credit Rating Agencies (CRAs)

▪ A private company

▪ Looks at the credit worthiness of a large-scale borrower, such as a company or country.

▪ Effectively ranks the borrower on their ability, to pay off their loan.

▪ It assigns credit ratings, which assess a debtor's ability to pay back debt, by making timely payments of interest and repayments of principal and the likelihood of default.

▪ An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.

▪ The debt instruments rated by CRAs may include, corporate bonds, Certificate of Deposits (CDs), Commercial Paper, Municipal Bonds, Preferred Stock, Debentures, and collateralised securities, such as mortgage-backed securities, collateralised debt obligations, etc.

History Of Credit Rating

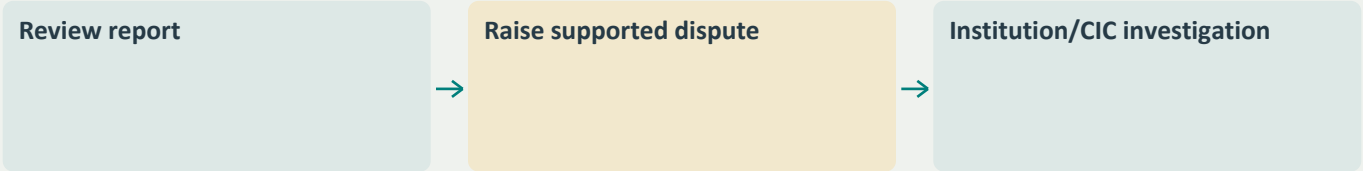
▪ 1909: John Moody started rating US railroad bonds.

▪ Currently, three rating agencies dominate the international scene.

▪ Moody's Investors Service,

▪ Standard & Poor's Global Ratings

Correct an error



Credit ratings and credit scores

▪ Fitch.

▪ While normally CRAs assign a rating on the request of an issuer, there are occasions, when unsolicited ratings are assigned.

▪ While the rating of corporate bonds started in early 20th century, sovereign ratings represent a relatively new line of business for the agencies.

▪ 1959: 1st industrial country to be rated was France, by S&P

▪ The Credit Rating Information Services of India Limited (CRISIL) initiated the concept of credit rating in India.

▪ 1987: CRISIL was established

Complete source section / source 332

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Agency names and affiliations

The source institutional list is historical. CARE Ratings should not be identified as the Fitch-owned Indian entity: India Ratings and Research is the Fitch-group agency. Current registration/accreditation must be checked for the relevant purpose rather than inferred from a historical list.

▪ Jan 1988: Started its operations

▪ Currently, 7 rating agencies are in operation in India, for rating bonds, time deposits, CPs and structured obligations.

Some of these Indian rating agencies have tie-ups/alliances with international rating agencies, such as

▪ CRISIL with S&P,

▪ ICRA with Moody’s

▪ CARE with Fitch.

Characteristics Of Credit Rating

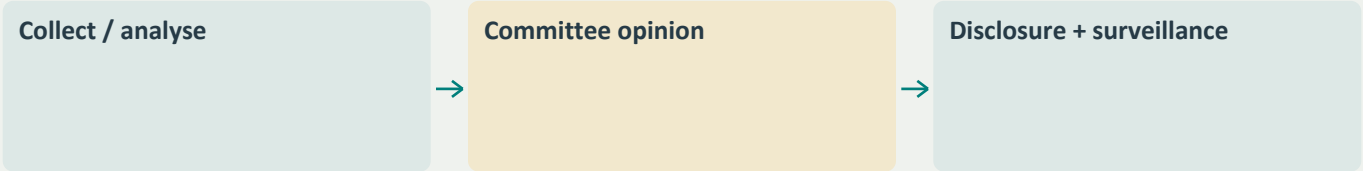
• Assessment of issuer’s capacity to repay: It assesses issuer’s capacity to meet its financial obligations, i.e., its capacity to pay interest and repay the principal amount borrowed, as per the decided repayment schedule.

• Based on data: A credit rating agency assesses financial strength of the borrower, on the basis of its financial data.

• Expressed in symbols: Ratings are expressed in symbols, e.g., AAA, BBB, etc., which can be understood by non-experts, as well.

• Carried out by experts: Credit rating is done by experts of reputed, accredited institutions.

Rating workflow



Credit ratings and credit scores

• Guidance about investment not recommendation: Credit rating is only a guidance to investors. It is not a recommendation to invest in any particular instrument.

Benefits Of Credit Rating

There are 2 main stakeholders in the credit rating by CRAs, viz.,

• Investor

• The issuer.

Benefits to the Investors

• Assessment of risk

• Information at low cost

• Advantage of continuous monitoring

• Provides the investors a choice of Investment Benefits to the Issuer

• Ease in borrowing

• Borrowing at cheaper rates

• Facilitates growth

• Recognition of lesser-known companies

• Imposes financial discipline on borrowers

• Greater information disclosure

Complete source section / source 333

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Symbols / distinct scales

Do not interpret the source long-term/short-term table as a one-to-one equivalence or universal probability-of-default chart. Ratings and modifiers have the published agency/SEBI meanings and tenor scope.

Factors Considered While Rating Companies/Instruments

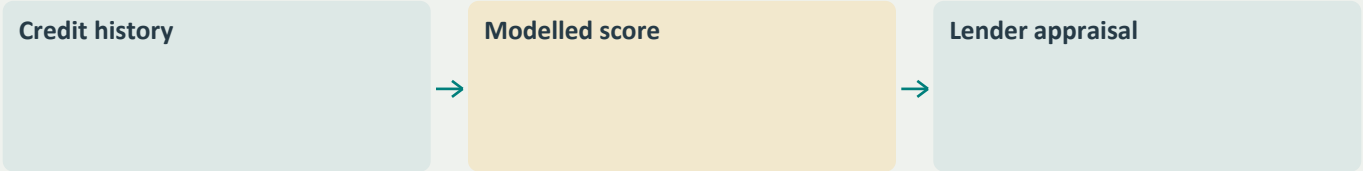
Issuer’s ability to service its debt:

For this, credit rating agencies take into consideration:

• The issuer Company’s past and future cash flows.

• Assess how much money the company will have to pay as interest on borrowed funds and how much will be its earnings.

Score is one input



Credit ratings and credit scores

• The current outstanding debts of the Company.

• The company's short-term liquidity position

• Value of assets pledged as collateral security by the company.

• Availability and quality of raw material to be used, advantages of its location, its cost advantage in operations.

• Track record of the promoters and directors.

Market position of the company

• What is the market share of various products of the company, whether the Company's market shares will be stable, does the company possess any competitive advantage due its distribution network, customer base research and development facilities, etc.

Quality of management

▪ The CRA will also take into consideration the Company's track record, strategies, competency and philosophy of senior management.

Industry risks

▪ Industry risks are studied in relation to position of demand and supply relating to the products of that industry, how much is the international competition, what are the future prospects of that industry, etc.

Regulatory environment

▪ Whether that industry is being regulated by government (like liquor industry), whether there is a price control on it, Whether there is government support for it, can it take advantage of any tax concessions, etc.

Other factors

▪ In addition to the above, certain other factors to be noted for credit rating of a company are its cost structure, accounting quality, market reputation, quality of working capital management, human resource quality, funding policy.

Process Of Credit Rating

Complete source section / source 334

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Different regulators

SEBI: securities CRAs

RBI: CIC framework

Separate permissions

Credit ratings and credit scores

Rating process

Issuer discussions and data collection do not remove an agency independence obligation. Rating committee decisions, disclosure, review and surveillance have distinct roles.

Credit Rating Symbols

Presently, in India, there are seven CRAs which have been approved by SEBI. These are:

• CRISIL Ratings Limited

• India Ratings and Research Pvt. Ltd. (Ind-Ra, formerly Fitch Ratings India Pvt.

Ltd.)

• ICRA Limited

• CARE Ratings Ltd.

• Brickwork Ratings India Pvt. Ltd.

• Infomerics Valuation and Rating Pvt. Ltd.

• Acuite Ratings & Research Limited

Presently, in India, there are 7 CRAs which have been approved by SEBI.

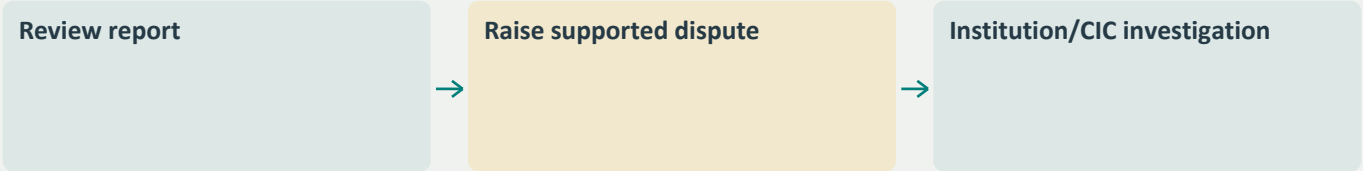
These are:

• All these 7 CRAs also have been accredited by RBI, for the purpose of risk weighting banks' claims for capital adequacy purposes.

Redrawn / Credit rating process

Relationship	Source meaning
1	Company/CRA agreement
2	Analytical team appointed
3	Company information obtained
4	Meet officials
5	Analyse financials
6	Rating committee decides
7	Communicate to company

Correct an error



Credit ratings and credit scores

Relationship	Source meaning
8	Publish on CRA website
9	Monitor/review

Complete source section / source 335

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Regulatory permissions

SEBI registration for securities ratings is distinct from RBI recognition/accreditation for a bank regulatory purpose. The source agency count and recognitions need their effective date.

▪ The investment-grade is considered by CRAs to be a significantly safer grade than the rest.

▪ Rating agencies use symbols such as AAA, AA, BBB, B, C, D, to convey the credit rating to the investors for long tenor instruments of the issuers.

▪ In all, risk is classified into 14 or 15 categories.

▪ Signs '+' or '-', are used to further fine tune the rating.

▪ The suffix + or - is also used to indicate the comparative position of the instrument within the group covered by the symbol.

▪ Thus, BBB- : lies one notch above (better) BB+.

High Investment Grades AAA

Triple A denotes highest safety in terms of timely payment of interest and principal. The issuer is fundamentally strong and any adverse changes are not going to affect it.

AA: Double A denotes high safety in terms of timely payment of interest and principal.

A: denotes adequate safety in terms of timely payment of interest and principal.

Changes in circumstances can adversely affect such issues.

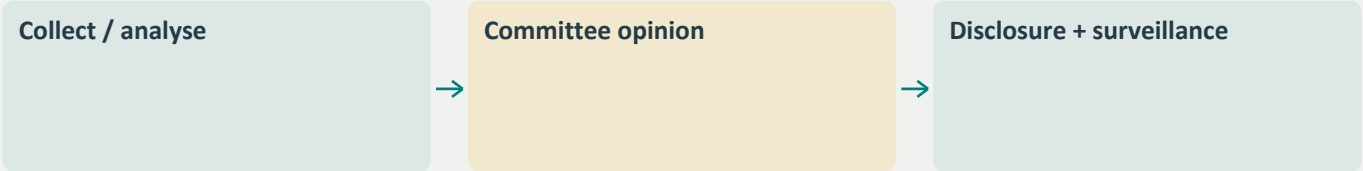
BBB: Triple B denotes moderate safety in terms of timely payment of interest and principal speculative grades.

Speculative Grades

BB: Double B denotes inadequate safety in terms of timely payment of interest and principal. Uncertain changes can lead to inadequate financial capacity to make timely payments in the immediate future.

B: Denotes high risk. Adverse changes could lead to inability or unwillingness to make timely payment.

Rating workflow



Credit ratings and credit scores

C: Denotes substantial risk. Issue rated is vulnerable to default.

Redrawn / Source grade labels

Relationship	Source meaning
1	High investment, investment, speculative grades.
2	Alternative source grouping: investment, non-investment, default.
3	Risk 14 or 15 categories;+/-notches.

Complete source section / source 336

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Minimum net worth / source 5 crore is obsolete

The current cached SEBI CRA Regulations, amended 15 January 2026, specify minimum net worth ofRs.25 crore. Do not use the sourceRs.5 crore as the present general norm.

D: Denotes default in terms of timely payment of interest and principal. These symbols are just a current opinion of an agency and they are not recommendations to invest or not to invest. The rating assigned applies to a particular instrument of the company and is not a general evaluation of the company.

CRAs are required to give uniform credit rating codes, so that there is no confusion amongst the stake holders, with regard to interpretation of a credit rating. Example of the ratings given by CRISIL are as tabulated in table, AAA being the highest and D being the lowest credit

Ratings Outlook

▪ Credit Ratings are forward-looking opinions on the relative credit risk associated with the rated debt instrument, as represented by an appropriate symbol, on the relevant rating scale.

▪ A rating outlook gives additional information to lenders, investors or other users, about the expected direction of rating movement in the near to medium term (typically six months to two years).

The rating outlooks assigned by CRAs generally fall into four categories:

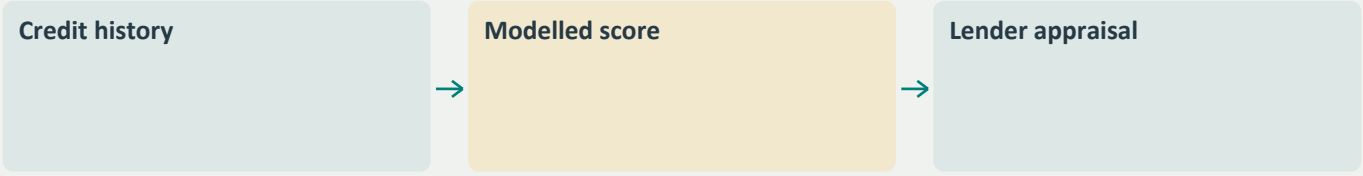
• Stable,

• Positive,

• Negative,

• No Outlook.

Score is one input



Credit ratings and credit scores

Regulations For CRAs In India

▪ In India, CRAs are regulated by the Securities and Exchange Board of India (SEBI).

▪ SEBI was one of the first regulators globally, to put forth a comprehensive framework, for the regulation of CRAs, through the SEBI (Credit Rating Agencies) Regulations, 1999 ('CRA Regulations').

▪ Some of the CRA Regulations cover the following areas:

Redrawn / Source CRISIL scales

Long-term	Short-term
AAA	A 1
AA	A 2
A	A 3
BBB	A 4
BB	D
B	
C	
D	

Complete source section / source 337

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Fees / qualify the 95% claim

Issuer-paid fees are a common revenue model. The source 95% revenue assertion has no universally applicable period/sample and is preserved only as a source-era claim. A fee is not an assurance of a favourable rating.

Registration:

Broadly, the CRA Regulations require that the CRAs should be companies promoted by persons who have experience in the field of credit rating, i.e., by financial institutions or

by persons who have a net worth of more than Rs. 100 crores.

Different regulators

SEBI: securities CRAs

RBI: CIC framework

Separate permissions

Credit ratings and credit scores

CRAs need to have a minimum net worth of Rs. 5 crores, and adequate infrastructure, professionals and employees to carry on the activity of issuing credit ratings.

Additionally, registration would only be granted, if it is registering the applicant in the interest of investors and the securities market.

Obligations:

The CRA Regulations envisage that the CRAs need to carry out their activities, in accordance with the terms of their engagement with the issuer, and the baseline principles in the Regulations.

Comply with the Code of Conduct prescribed by SEBI : Duties with integrity, professional competence, independence and confidentiality.

CRAs are required to monitor their rating throughout the lifetime of the securities rated and carry out periodic reviews of their rating as well.

Fees For Credit Rating

▪ In the credit rating business, the users of rating services, i.e., investors, financial intermediaries and other end-users, do not pay the rating fees.

▪ The issuer of the financial instrument pays fees to the credit rating agency and this is the major source of revenue of the CRA.

▪ The issuer's fees constitute 95% of the total revenues of rating agencies.

▪ In addition to rating fees, CRAs also charge an annual surveillance fee to monitor the rated instrument/company.

What Is Credit Scoring

▪ Credit scoring is a statistical analysis performed by lenders and financial institutions to determine the creditworthiness of an individual.

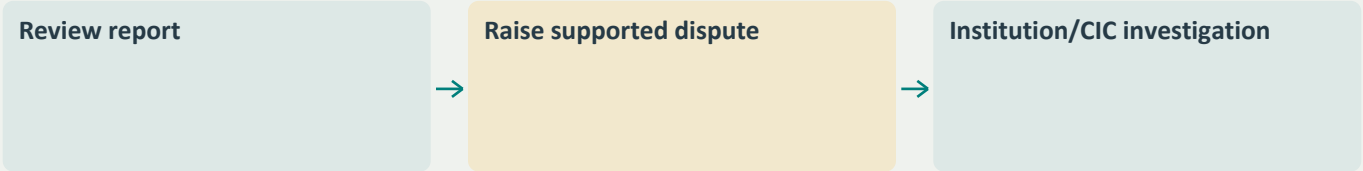
▪ A credit score can impact many financial transactions, including home loans, auto loans, credit cards, and personal loans.

▪ Lenders also use credit scoring in risk-based pricing, in which, the terms of a loan, including the interest rate, offered to borrowers are based on the probability of default.

Complete source section / source 338

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Correct an error



Credit ratings and credit scores

Ratings, scores and bureau history

Credit information also covers commercial borrowers, not only individuals. The source scores-only-individuals contrast is simplified. CIC licensing and CRAs are governed by different frameworks; institutional launch dates and member counts are historical, not October 2026 statistics.

▪ While credit ratings apply to corporations and governments, credit scoring applies to individuals.

▪ In India, credit scores are evaluated and monitored by Credit Information Companies (CICs).

▪ Originated in USA, where consumer credit, in the form of personal and home loans and credit cards, has been established for a long time.

The three major credit bureaus, globally, are

• Experian,

• Equifax and

• TransUnion.

Credit Information Companies (CICs) In India

▪ A Credit Information Company (CIC) collects and maintains records of an individual's payments and dues pertaining to loans and credit cards.

▪ These records are submitted by the respective banks and other credit institutions to the CIC.

▪ This information is then used to create credit information reports, which is provided to credit institutions, in order to access the credit worthiness and capacity of a borrower to repay his loan and advances and discharge his other obligations in respect of credit facility availed or to be availed by him.

▪ This requirement has been fulfilled by The Credit Information Companies (Regulations) Act, 2005, under which, CICs in India are licensed by the RBI and governed by the various other rules and regulations prescribed for them.

Credit Information Companies (Regulations) Act, 2005

Objective - An Act to provide for regulation of credit information companies and to facilitate efficient distribution of credit and for matters connected therewith or incidental thereto.

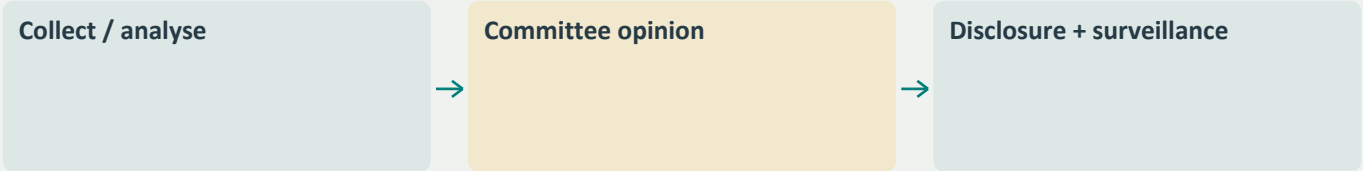
Other features - The CIC Act, 2005 further provides for the functioning of CIC, its registration procedure, settlement of dispute, privacy principles and furnishing of credit information. The RBI has further issued Credit Information Companies Regulations, 2006 to facilitate the smooth working of CIC.

At present, there are 4 CICs operating in India.

TransUnion CIBIL

• CIBIL is the first entrant in the country.

Rating workflow



Credit ratings and credit scores

• Incorporated: August 2000

• Recommendations by: Siddiqui Committee.

• Commenced commercial bureau operations: in May 2004.

• Prepares credit information reports for: Individuals & corporate entities.

Complete source section / source 339

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Bureaus / model and scope

TransUnion CIBIL, Experian, Equifax and CRIF High Mark are distinct bureau businesses. A score range commonly used for consumer products is 300-900; no-history/non-numeric codes and product-specific models exist. Names on a membership-eligibility list do not give unrestricted access to every customer record.

• Apart from compiling a credit history, a credit score is also compiled and is made available to lenders as well as proponents.

• Members: 500 members including more than 200 cooperative banks.

• Credit score varies from 300 to 900.

• A credit score gives an indication about the borrower's propensity to pay, so that a lender can decide quickly on the request received for a loan/credit card.

Experian

▪ 2006: Established as a joint venture with several banks and financial institutions in India.

▪ Prepares credit reports of individuals, based on the information provided by banks and other financial institutions about the financial history of the individual.

Equifax

▪ 1899: Founded in Atlanta.

▪ One of the oldest CIC as of now

▪ 2010: Started operations in India.

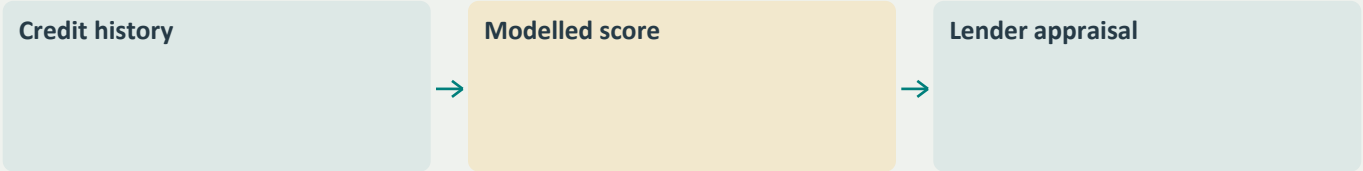
CRIF High Mark Credit Information Services

▪ An RBI approved credit bureau in India.

▪ It serves retail, agriculture and rural, MSME, commercial and microfinance.

Membership To CICs

Score is one input



Credit ratings and credit scores

Available to the following institutions-

• Credit Institutions (banks, RRBs, Cooperative banks, NBFCs, Public Financial

Institutions, Housing Finance Institutions, etc., companies engaged in the business of credit cards and other similar cards and companies dealing with distribution of credit in any other manner or any other institution, which the Reserve Bank may specify, from time to time, for this purpose).

• Insurance Companies,

• Companies providing cellular or telephone services,

• Credit Rating Agencies and Asset Reconstruction Companies

Regulatory Guidelines Governing CICs

▪ Following enactment of the Credit Information Companies (Regulation) Act (CICRA) in 2005, three other Credit Information Companies (CICs) were also set up.

▪ Section 15 of the CICRA, every Credit Institution is required become member of at least one CIC.

Complete source section / source 340

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Uniform model and approval rate / correct the claim

CICs do not all use one identical scoring model. The source 90% ofloans/700 threshold claim is not a universal lending rule and lacks a stated dataset/date. A high score can help appraisal but never guarantees approval. RBI required credit information to be updated at least fortnightly from 1 January 2025 under its 2024 circular; apply subsequent current directions for reporting details.

▪ Section 17 of CICRA stipulates that a CIC may seek and obtain credit information from its members only (that is, member banks and other credit institutions).

▪ As a result, whenever there was any enquiry, the enquiring bank was able to obtain credit information on a particular borrower/client as maintained by that CIC.

▪ Accordingly, the information was incomplete as it did not include credit history related to those non-member Credit Institutions with which the borrower had a current or a past exposures.

▪ To overcome such issues, RBI appointed a committee, under the Chairmanship of Mr. Aditya Puri, which submitted its Report in January 2014.

▪ Recommendations: RBI issued guidelines to the effect that all Credit Institutions should become members of all CICs and the CICs should, therefore, moderate their membership and annual fees suitably. Consequently, now:

Different regulators

SEBI: securities CRAs	RBI: CIC framework	Separate permissions

Credit ratings and credit scores

All banks and concerned financial institutions are members of all CICs, and,

No CIC should charge membership fee and annual renewal fees exceeding Rs.10,000 and Rs 5,000, respectively.

Credit Scores

▪ A credit score is a statistical number that evaluates a consumer's creditworthiness and is based on credit history.

▪ Lenders use credit scores to evaluate the probability that an individual will repay his/her debts.

▪ A credit score is a three-digit summary of the credit history of an individual.

▪ All CICs use a uniform system of scoring so that interpretation is uniform across the entire spectrum of CICs.

▪ Credit scores range from 300 to 900 – with 900 being the best score and 300 being the worst.

▪ Consequently, applications with higher credit scores have better chances of success in sanctions and those with lower scores have lesser chances of sanctions.

▪ Nearly 90% of all loans sanctioned are those with credit scores of 700 and above A typical credit report has six sections, which sum up the applicant's demographic and credit profile and provide details of his/her credit history.

Credit score

Personal information

Contact information

Complete source section / source 341

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Report sections

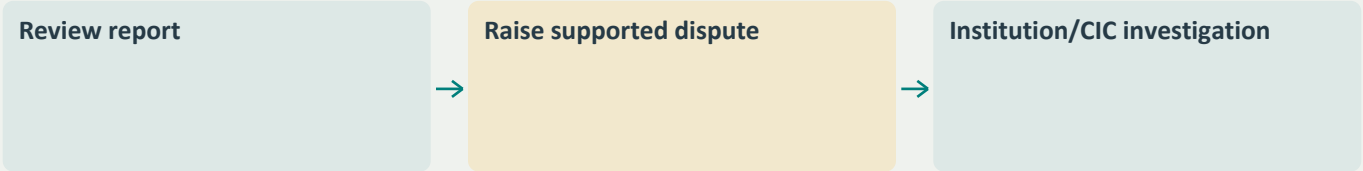
The listed six sections describe a typical report; exact layout, commercial/consumer fields and score treatment differ by bureau/product. Correctness and authorised use matter more than a fixed visual format.

Employment information

Account information

Enquiry information

Correct an error



Credit ratings and credit scores

Redrawn / Source ratings versus scores

Dimension	Rating	Score
Provider	CRA	CIC
Format	Alpha numeric; outlook positive/negative/stable	Three-digit 300-900
Subjects	Large corporates and Governments	Individuals and small businesses

Original practice / answers with reasons

Q 01. A credit rating guarantees repayment. True?

A. Yes | B. No | C. Only AAAalways | D. Only if issuer pays

Answer B. It is an opinion on relative credit risk, not a guarantee.

Q 02. Which regulator governs CICs in India?

A. RBI | B. Only IRDAI | C. Only PFRDA | D. No regulator

Answer A. CICs operate under the credit-information statutory/regulatory framework.

Q 03. Do all CICs use one identical score model?

A. Yes | B. No | C. Only for salaried people | D. Only at 900

Answer B. Scores are model/product-specific and may use different information and methods.

Q 04. Current cited CRA minimum net worth is?

A. Rs.5 crore | B. Rs.25 crore | C. Rs.1 lakh | D. Zero

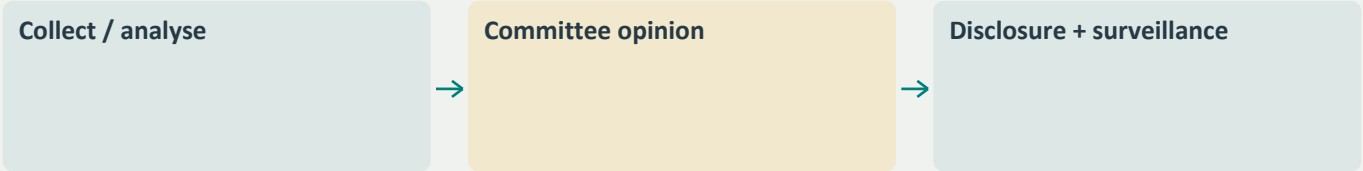
Answer B. The current cached SEBI Regulations requireRs.25 crore.

Q 05. Which is sound lending practice?

A. Use score alone | B. Combine bureau information with appraisal | C. Ignore repayment history | D. Guarantee every high-score loan

Answer B. Income, obligations, security, documents and policy also matter.

Rating workflow

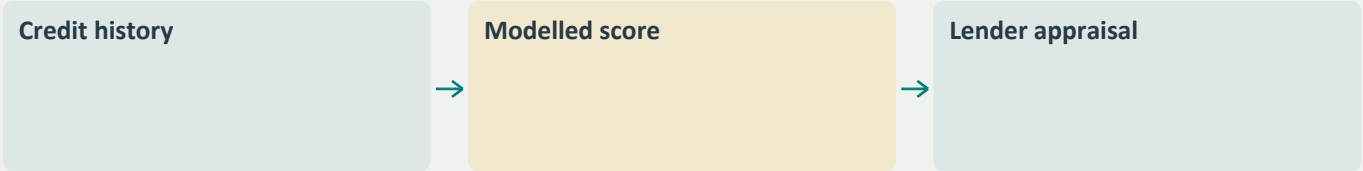


Credit ratings and credit scores

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. A rating is a relative credit-risk opinion.	15. Issuer-paid fees create potential conflicts.
02. A rating is not a repayment guarantee.	16. Independence controls are necessary.
03. A rating is not automatically investment advice.	17. SEBI governs CRAs in its securities framework.
04. An instrument rating has a defined scope.	18. Current cited CRA minimum net worth isRs.25 crore.
05. Issuer and instrument ratings can differ.	19. RBI governs the CIC framework.
06. Ratings may change after surveillance.	20. CICRA dates to 2005.
07. An upgrade is not a capital-gain guarantee.	21. CICs compile credit information.
08. A downgrade indicates revised credit assessment.	22. Credit information includes repayment history.
09. Long-term and short-term rating scales differ.	23. A report and a score are different outputs.
10. Side-by-side symbols are not automatic equivalents.	24. Consumer scores commonly use a 300-900 range.
11. Modifiers must be read with the published scale.	25. Score models need not be identical.
12. Credit analysis includes business risk.	26. A high score does not guarantee sanction.
13. Credit analysis includes financial risk.	27. Bureau errors should be disputed and corrected.
14. Management and governance matter.	28. Credit appraisal should use more than the score.

Score is one input



Mutual funds and alternative funds

D 13 / Mutual funds and alternative funds

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI / mutual funds and AIFs
Trustees, AMC, custodian, RTA and distributors have different duties. AMFI is the industry association; SEBI is the statutory securities regulator.

Chapter route	What to study
Pooled investing	Structure, participants, units, NAV, costs, return measures and processes.
Full source schemes	Every source category, asset condition and table retained.
Current framework	2026 MF rules and recategorisation; additional AIF and risk distinctions.

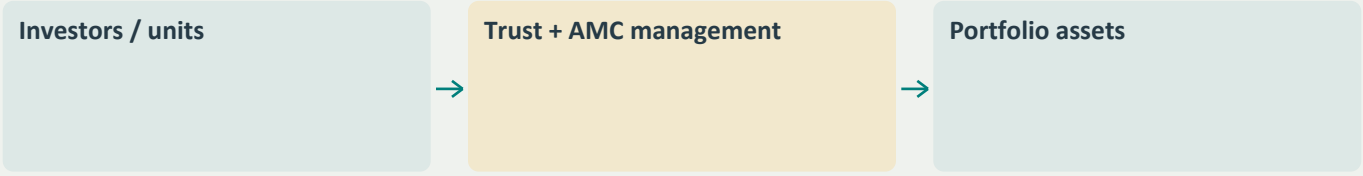


A lower NAV is not automatically cheaper
Learner: Fund A has NAV 10 and Fund B 100. Is A a better bargain? Mentor: NAV is per-unit net asset value. Compare portfolio, risks, costs and performance; unit price alone tells you no bargain.

Primary reference desk / 26 October 2026

- SEBI / MF Regulations 2026, amended October 2026
- SEBI / MF Master Circular 20 March 2026
- SEBI / scheme recategorisation 26 February 2026
- SEBI / AIF Regulations, amended October 2026

Mutual-fund structure



Mutual funds and alternative funds

Learn and verify / the examinable distinctions

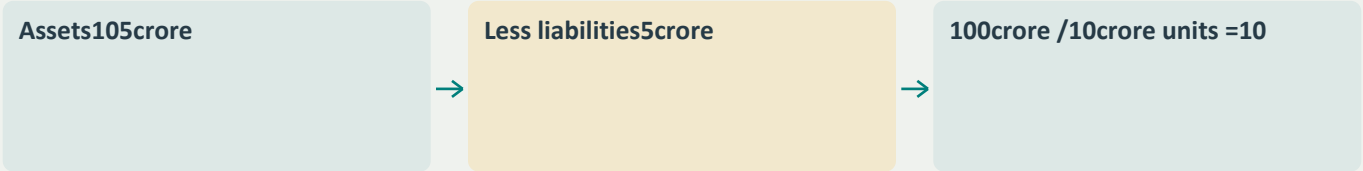
NAV and return / calculate the right measure

Anchor	Explanation
NAV	(Fair value of investments + other assets - liabilities/accruals) / units outstanding. Include applicable valuation/accounting rules.
Illustration	Assets 105 crore less liabilities 5 crore, divided by 10 crore units =Rs.10 NAV.
CAGR	For a single initial investment and final value: (final/initial)^(1/years)-1. Rs.100 to 121 in 2 years gives 10% p.a.
XIRR	Money-weighted annualised return for dated cash flows; not inter change able with CAGR when there are multiple investments/withdrawals.
Costs	Expense ratios, transaction costs and exit loads affect investors; current 2026 cost rules and scheme documents govern.

2026 equity categories / selected key conditions

Anchor	Explanation
Multi Cap	At least 75% equity: minimum 25% each in large, mid and small caps.
Large / Large&Mid	Large Cap 80% largecap; Large&Mid 35% each large and mid.
Mid / Small / Flexi	Mid Cap 65% midcap; Small Cap 65% smallcap; Flexi Cap 65% equity.
Dividend Yield / Value / Contra	Minimum 80% equity under the 26 February 2026 circular; not the source old 65%.
Focused / Sector / Theme	Focused: max 30 stocks,80% equity. Sectoral/thematic:80% in the specified sector/theme.
Value and Contra	Both can be offered subject to portfolio-overlap not exceeding 50% and applicable calculation rules.

NAV illustration



Mutual funds and alternative funds

Current scheme map / read duration carefully

Anchor	Explanation
Debt	2026 categories include overnight, liquid, ultra-short, ultra-short-to-short, money-market, short, medium, medium-to-long, long, dynamic-term and credit/issuer-focused categories.
Duration ladder	Macaulay duration:3-6 months;6-12 months;1-3 years;3-4 years;4-7 years; over 7 yearsfor the respective duration categories. Duration is not each security maturity.
Credit/issuer categories	Corporate Bond 80% AA+andabove; Credit Risk 65% AAandbelow; Banking/PSUDebt 80% specified instruments; Gilt 80% G-secs.
Hybrid	Conservative equity 10-25%; balanced 40-60% equity/debt with no arbitrage; aggressive equity 65-80%. Other hybrid allocations follow their category conditions.
Life Cycle and legacy solutions	Life Cycle is a current group. The 2026 circular discontinued solution-oriented category subscriptions and provides merger treatment with approval. The full old retirement/children tables remain below as historical source.
Other	Index/ETF and funds-of-funds have separate scheme conditions. Passive investing still has market/tracking risk.

AIF / additional syllabus bridge

Anchor	Explanation
What differs	AIFs privately pool capital under the applicable category framework; they are not ordinary retail mutual-fund schemes.
Categories	CategoryIincludes specified socially/economically desirable sectors; Category II covers funds not falling inIorIII; Category III can employ diverse/complex trading strategies subject to its rules.
Risk	Liquidity, valuation, leverage, concentration and investor eligibility differ by structure. Registration is not a return guarantee.
Riskometer	Read the scheme and benchmark risk indicators together with portfolio, credit/duration risk, investment horizon and disclosures.

How to read dated material

Return measures

CAGR: single start/end

XIRR: dated cash flows

Not interchangeable

Mutual funds and alternative funds

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 341

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JAIIB Paper 1 IE & IFS Module D Unit 13-Mutual Funds

Introduction

▪ Mutual funds perform an important role of financial intermediary, by mopping up savings from investors and channelling them towards productive investments.

▪ They also form a dependable avenue for those investors, who want to invest in the capital market, but keep away from it, due to lack of expertise.

▪ Mutual Funds are supervised by SEBI and there are various types by which, they can be classified.

Mutual Funds and Their Functions

▪ Mutual fund is a mechanism for pooling resources from the public

▪ by issuing units to them and investing the funds so collected, in securities,

▪ in accordance with objectives, as disclosed in an offer document.

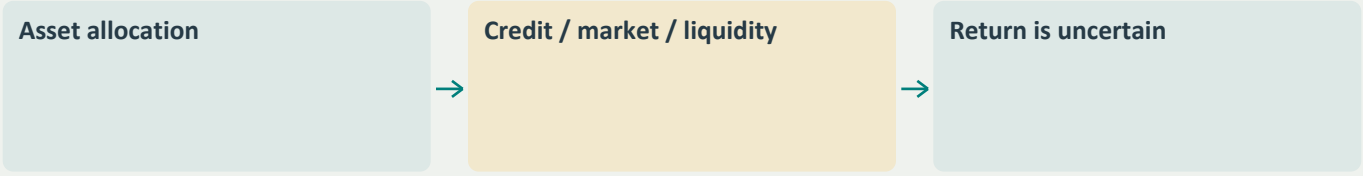
▪ Investors of mutual funds are known as unit holders.

▪ The profits or losses of fund/plan are shared by the investors in proportion to their investments.

▪ A mutual fund is required to be registered with SEBI, which regulates the securities markets, before it can collect funds from the public. SEBI formulates the policies and regulates the mutual funds to protect the interest of the investors.

Management Of Mutual Funds

Risk and reward



Mutual funds and alternative funds

Complete source section / source 342

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▪ A mutual fund is set up in the form of a trust, which has sponsors, trustees, Asset Management Companies (AMCs) and custodians.

▪ The trust is established by a sponsor or more than one sponsor.

▪ The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV).

▪ The NAV per unit is the market value of securities of a scheme - the expenses incurred on the scheme / by the total number of units of the scheme, on any particular date.

▪ Disclosed by on a regular basis – daily or weekly – depending upon the type of scheme.

Evolution Of Mutual Funds

▪ 1963: The mutual fund industry in India started,

▪ with the formation of Unit Trust of India, at the initiative of the Government of India and RBI.

▪ The evolution of mutual funds in India can be broadly divided into four distinct phases, as follows:

Phase-I

• 1963: Unit Trust of India (UTI) was established by an Act of Parliament.

• Set up by the RBI and functioned under the Regulatory and administrative control of the RBI.

• The first scheme launched by UTI: Unit Scheme, 1964 (US-64).

• 1978: UTI was de-linked from the RBI

Different pooled vehicles

Retail mutual fund	Privately pooled AIF	Different framework

Mutual funds and alternative funds

Redrawn / Mutual-fund organisation

Relationship	Source meaning
1	Sponsor: like company promoter; establishes trust.
2	Trustees hold property for unit-holders and supervise/direct AMC; monitor performance/SEBI compliance.
3	At least 2/3 trustees/directors independent.
4	Custodian registered with SEBI holds scheme securities.
5	AMC SEBI approved manages investments;50% AMC directors independent.

Complete source section / source 343

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• Industrial Development Bank of India (IDBI), took over the regulatory and administrative control of UTI

• At the end of the year 1988, UTI had Rs. 6,700 crores of assets, under its management.

Phase-II

• 1987: marked the entry of non-UTI, public sector mutual funds set up by PSU banks, LIC and GIC.

• 1st non-UTI Mutual Fund: SBI Mutual Fund in June 1987

Dec 1987: Canbank Mutual Fund

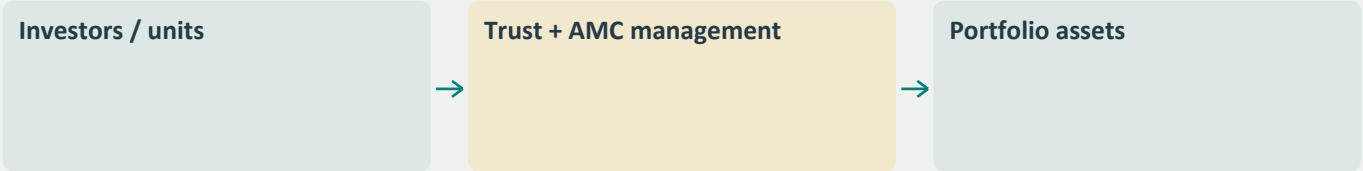
Aug 1989: Punjab National Bank Mutual Fund

Nov 1989: Indian Bank Mutual Fund

Jun 1990: Bank of India MF

Oct 1992: Bank of Baroda MF

Mutual-fund structure



Mutual funds and alternative funds

Jun 1989: LIC established its mutual fund

Dec 1990: GIC had set up its mutual fund

At the end of the year 1993, the mutual fund industry had about Rs. 47,000 crores of assets under their management.

Phase-III

• 1993: With the entry of private sector funds

• A new era started in the Indian MF industry, giving the Indian investors, a wider choice of funds.

• 1993: First Mutual Fund Regulations came into being, under which, all mutual funds, except UTI, were to be registered and governed.

• 1st private sector mutual fund registered in July 1993: Kothari Pioneer (now merged with Franklin Templeton)

• The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996, which is still in force.

• The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions.

Phase-IV

• February 2003: Repeal of the Unit Trust of India Act, 1963,

• UTI was bifurcated into two separate entities.

• With recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

Classification Of Mutual Funds

SEBI, which is the regulator of Mutual Funds has classified mutual funds in the following categories:

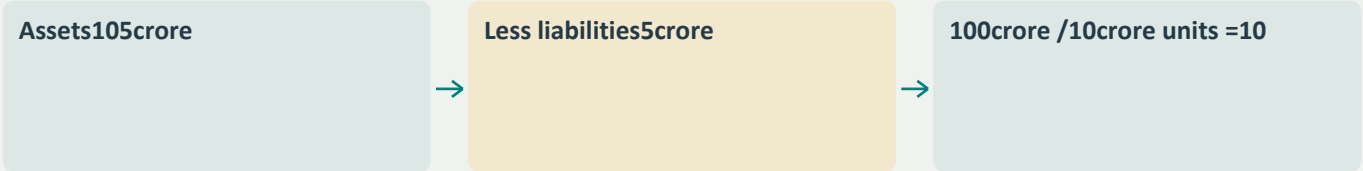
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NAV illustration



solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific exit loads and current cost rules must be read separately.

Equity Schemes

Redrawn / Source equity categories 1-6

Scheme	Source characteristics
Multi Cap	Open-ended diversified large/mid/small equity; minimum 65% equity/equity-related assets.
Large Cap	Open-ended, predominantly large-cap; minimum 80% large-cap equity/equity-related.
Large and Mid Cap	Open-ended; minimum 35% large-cap and 35% mid-cap equity/equity-related each.
Mid Cap	Open-ended; minimum 65% mid-cap equity/equity-related.
Small Cap	Open-ended; minimum 65% small-cap equity/equity-related.
Dividend Yield	Open-ended dividend-yielding stocks; predominantly dividend stocks; minimum 65% equity.

Complete source section / source 345

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Debt Schemes

Return measures

CAGR: single start/end

XIRR: dated cash flows

Not interchangeable

Mutual funds and alternative funds

Redrawn / Source equity categories 7-11

Scheme	Source characteristics
Value Fund*	Open-ended value investment strategy; minimum 65% equity/equity-related.
Contra Fund*	Open-ended contrarian investment strategy; minimum 65% equity/equity-related.
Focused Fund	Open-ended maximum 30 stocks; state focus multi/large/mid/small cap; minimum 65% equity/equity-related.
Sectoral/Thematic	Open-ended named sector/theme; minimum 80% sector/theme equity/equity-related.
ELSS	Open-ended Equity Linked Savings Scheme 2005; statutory 3 year lock-in; tax benefit; minimum 80% equity/equity-related.

Redrawn / Source debt categories 1-6

Scheme	Source characteristics
Overnight	Open-ended debt; overnight securities with 1 day maturity.
Liquid	Open-ended debt/money-market securities up to 91 days maturity.
Ultra-Short Duration	Open-ended debt/money-market; portfolio Macaulay duration 3-6 months.
Low Duration	Open-ended debt/money-market; Macaulay duration 6-12 months.
Money Market	Open-ended money-market instruments up to 1 year maturity.
Short Duration	Open-ended debt/money-market; Macaulay duration 1-3 years.

Risk and reward

Asset allocation → **Credit / market / liquidity** → **Return is uncertain**

Mutual funds and alternative funds

Complete source section / source 346

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Hybrid Schemes

Redrawn / Source debt categories 7-16

Scheme	Source characteristics
Medium Duration	Open-ended debt/money-market; Macaulay duration 3-4 years; adverse-situation range 1-4 years.
Medium to Long Duration	Open-ended debt/money-market; Macaulay duration 4-7 years; adverse-situation range 1-7 years.
Long Duration	Open-ended debt/money-market; Macaulay duration greater than 7 years.
Dynamic Bond	Open-ended debt across duration.
Corporate Bond	Open-ended predominantly highest-rated corporate bonds; minimum 80% corporate bonds.
Credit Risk	Open-ended below-highest-rated corporate bonds; minimum 65% corporate bonds.
Banking and PSU	Open-ended bank, PSU, PFI, municipal debt; minimum 80% these instruments.
Gilt	Open-ended G-Secs across maturity; minimum 80% G-Secs.

Different pooled vehicles

Retail mutual fund

Privately pooled AIF

Different framework

Mutual funds and alternative funds

Scheme	Source characteristics
Gilt 10-year constant duration	Open-ended G-Secs with 10 year constant maturity; minimum 80% G-Secs.
Floater	Open-ended predominantly floating-rate instruments; minimum 65% these instruments.

Complete source section / source 347

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Solution Oriented Scheme

Other Schemes

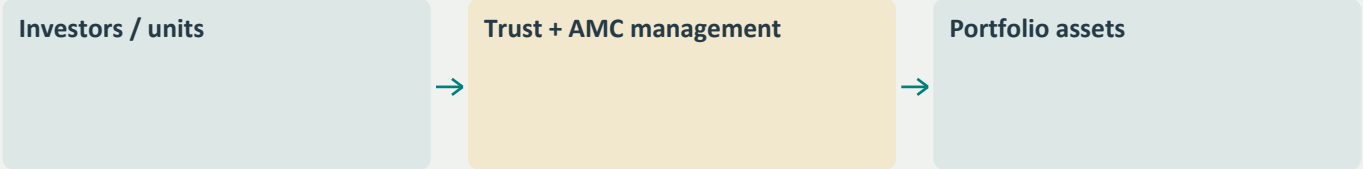
Role Of Mutual Funds

• MFs allow investors to invest their savings across a wide range of securities and diversify their portfolios, as per their objectives and goals.

Redrawn / Source hybrid schemes

Scheme	Source characteristics
Conservative Hybrid	Open-ended predominantly debt; equity 10%-25%; debt 75%-90%.
Balanced Hybrid@	Open-ended equity/debt 40%-60% each; no arbitrage.
Aggressive Hybrid@	Open-ended predominantly equity; equity 65%-80%; debt 20%-35%.

Mutual-fund structure



Mutual funds and alternative funds

Scheme	Source characteristics
Dynamic Asset Allocation/Balanced Advantage	Open-ended dynamically managed equity/debt allocation.
Multi Asset Allocation##	Open-ended minimum 3 asset classes; minimum 10% in each; name classes.
Arbitrage	Open-ended arbitrage strategy; minimum 65% equity/equity-related.
Equity Savings	Open-ended equity/arbitrage/debt; minimum 65% equity/equity-related; minimum 10% debt; state hedged/unhedged minimum in SID; defensive allocation may appear in offer document.

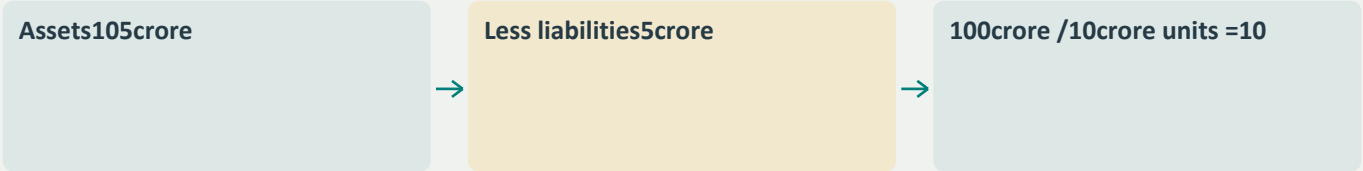
Redrawn / Source solution-oriented schemes

Scheme	Source characteristics
Retirement	Open-ended; lock-in 5 years or retirement age, whichever earlier as SOURCE says.
Children	Open-ended; lock-in at least 5 years or child majority, whichever earlier as SOURCE says.

Redrawn / Source other schemes

Scheme	Source characteristics
Index/ETF	Open-ended replicating/tracking index; minimum 95% index securities.
Fund of Funds(overseas/domestic)	Open-ended named underlying fund; minimum 95% underlying fund investment.

NAV illustration



Mutual funds and alternative funds

Complete source section / source 348

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• MFs are managed by professional fund managers, who are responsible for taking smart decisions, in order to maximise yields, while mitigating risks in the investing decisions.

• MFs offer relatively high liquidity.

• MFs provide investors the freedom to earn on their personal savings.

Investments can be as less as Rs. 500.

• Certain mutual fund investments are tax efficient and serve as income tax shields for the investors.

Supervision Of Mutual Funds

▪ There are two institutions that play the role of supervising or maintaining standards in the mutual fund's landscape.

These are:

• Securities and Exchange Board of India (SEBI), and,

• Association of Mutual Funds of India (AMFI).

While the role of SEBI is regulator of the MF industry, AMFI – Which is a Self- Regulatory Organisation (SRO) - plays the role of a facilitator and upholder of industry best practices.

SEBI:

• The objective of SEBI is to protect the interest of investors in securities and to promote the development of and to regulate the securities market.

• As far as mutual funds are concerned, SEBI formulates policies, regulates and supervises mutual funds to protect the interest of the investors.

• SEBI, first notified regulations for mutual funds in 1993.

• Fully revised in 1996

Return measures

CAGR: single start/end	XIRR: dated cash flows	Not interchangeable

Mutual funds and alternative funds

• SEBI has also issued guidelines through circulars to mutual funds from time to time, to protect the interests of investors.

• All mutual funds are governed by the same set of Regulations.

AMFI:

• Incorporated: On August 22, 1995 as a non-profit organisation.

Objectives

• To promote best business practices and code of conduct, in all areas of operation of Mutual Fund Industry.

• To maintain high professional and ethical standards in the Mutual Fund industry.

• To interact with the SEBI for betterment of the MF industry.

• To make representations to the Government, RBI and other regulatory bodies on matters relating to the Mutual Fund Industry.

• To develop a well-trained agent distributors network, for the Mutual Fund Industry.

Complete source section / source 349

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

2026 framework applies / source scheme conditions are historical where changed

SEBI MF Regulations 2026 commenced 1 April 2026. The 26 February 2026 category circular updates scheme groups, names and conditions. Use the current comparison tables above rather than learning superseded source percentages. NAV must include other assets/liabilities, and CAGR is not automatically XIRR. Retirement/children source lock-in wording saying whichever-earlier is not a reliable current rule; solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific exit loads and current cost rules must be read separately.

• To promote nationwide investor awareness programmes, in order to make the investors understand the concept and working of Mutual Funds.

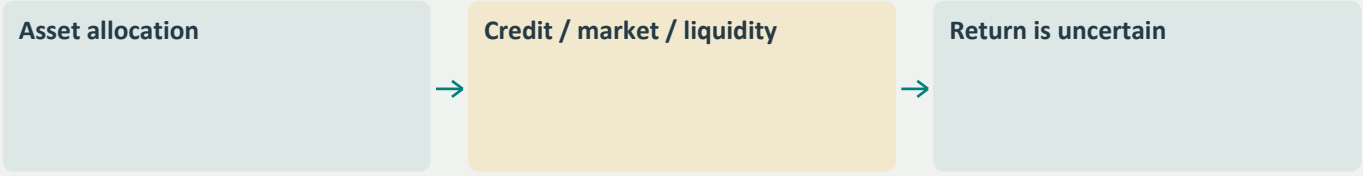
New Fund Offer

▪ The process through which a mutual fund scheme launches a new mutual fund is called a New Fund Offer or NFO.

▪ In case of open ended and close ended schemes (except ELSS schemes), the NFO should be open for 15 days

▪ The minimum subscription amount of debt oriented and balanced schemes at the time of new fund offer should be at least Rs 20 crores and that of other schemes shall be at least Rs 10 crores.

Risk and reward



Mutual funds and alternative funds

▪ An average Assets Under Management (AUM) of Rs 20 crore on half -yearly rolling basis should be maintained for open ended debt-oriented schemes.

▪ The scheme, for which there has been an NFO, should be available for ongoing re-purchase, sale or trading, within 5 business days of allotment.

▪ The NFO can make its investments only after the offer period closes and it must allot the units and send the account statements to the investors within 5 days of closure of the NFO.

Risks Associated With Mutual Funds

Investing in mutual funds involves entering the securities market – both equity and debt. There are a number of risks associated with investing in mutual funds.

Calculating Return on the Mutual Fund Units:

There are mainly two methods to calculate returns from Mutual Fund Investments:

• Absolute Return Method

Redrawn / Five fund risks

Relationship	Source meaning
1	Market-environment risk
2	Concentration risk
3	Interest-rate risk
4	Liquidity risk
5	Credit risk

Complete source section / source 350

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

2026 framework applies / source scheme conditions are historical where changed

SEBI MF Regulations 2026 commenced 1 April 2026. The 26 February 2026 category circular updates scheme groups, names and conditions. Use the current comparison tables above rather than learning superseded source percentages. NAV must include other assets/liabilities, and CAGR is not automatically XIRR. Retirement/children source lock-in wording saying whichever-earlier is not a reliable current rule; solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific

Different pooled vehicles

Retail mutual fund

Privately pooled AIF

Different framework

exit loads and current cost rules must be read separately.

• Annualised Return Method

Absolute Return method

It is about simple increase(decrease) in the investment in terms of percentage and does not consider the time taken for the change in values of investment.

Illustration Suppose the current Market Value of the investment is Rs 700,000 and the original amount invested was Rs. 500,000, then the absolute return will be:

[(700000-500000)/500000] =40% Here, date of investment or the date of redemption is not important. This method is ideal if the period of investment is less than one year. 2.

Annualised Return Method

This method is ideal for investment period exceeding one year. An investor needs to calculate the compound average growth rate (CAGR) over the investment period. It measures the growth of an investment as if it had grown at a steady rate on an annual compounded basis.

Formula CAGR = [(Current Value/Beginning Value) ^ (1/number of Years)]-1 It can also be measured using the XIRR function in Excel.

Net Asset Value (NAV)

▪ The Net Asset Value (NAV) of schemes need to be published on a daily basis, by the Mutual Funds, at least in two daily newspapers.

▪ NAV and sale/repurchase price of all Mutual Fund schemes, except for Fund of Fund Schemes, are updated on Association of Mutual Funds in India's (AMFI) website and the Mutual Funds' websites by 9 P.M. of the same day.

▪ Fund of Fund Schemes shall have an extended time up to 10 AM, the following business day in this regard and the NAVs are published in newspapers, with an asterisk to indicate the one-day time lag/or the actual time lag.

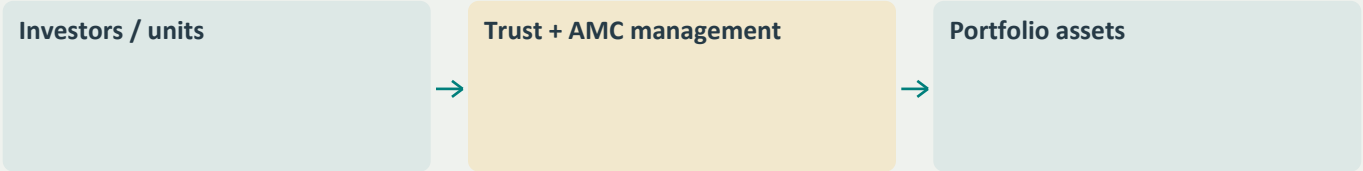
▪ To ensure uniformity, Mutual Funds have to round off NAV, up to four decimal places for index funds and all types of debt & liquid/money market schemes.

Total Expense Ratio

▪ The Expense Ratio of any Mutual Fund scheme is an important parameter that determines the yield that an investor will be able to derive from the scheme.

▪ Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets.

Mutual-fund structure



Mutual funds and alternative funds

Complete source section / source 351

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

2026 framework applies / source scheme conditions are historical where changed

SEBI MF Regulations 2026 commenced 1 April 2026. The 26 February 2026 category circular updates scheme groups, names and conditions. Use the current comparison tables above rather than learning superseded source percentages. NAV must include other assets/liabilities, and CAGR is not automatically XIRR. Retirement/children source lock-in wording saying whichever-earlier is not a reliable current rule; solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific exit loads and current cost rules must be read separately.

▪ Operating expenses of a scheme constitute of its administration, management, advertising related expenses, etc.

▪ An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses.

▪ Information on expense ratio that are applicable to a scheme is mentioned in the offer document.

▪ Currently, in India, the expense ratio is fungible, that is, there is no limit on any particular type of allowed expense as long as the total expense ratio is within the prescribed limits, laid down by SEBI.

LOAD/NO-Load Funds

▪ A Load Fund is one that charges a percentage of NAV for entry or exit.

▪ The load structure in a scheme has to be disclosed by the Fund house, in its offer documents.

▪ Suppose the NAV per unit is Rs 10 and if the entry as well as exit load charged is 1%, then the investors who buy would be required to pay Rs 10.10 (10 + 1% of 10) per unit and those who offer their units for repurchase to the mutual fund will get only INR 9.90 (10 – 1% of 10) per unit.

▪ A no-load fund is one that does not charge for entry or exit.

▪ It means the investors can enter the fund/ scheme at NAV and no additional charges are payable on purchase or sale of units. SEBI has mandated that no entry load can be charged for any mutual fund scheme in India.

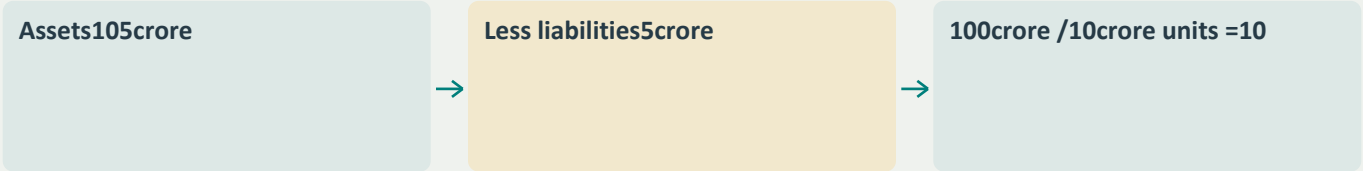
Strategies for Investment In Mutual Funds

▪ Mutual funds provide an alternate avenue for investments by small savers.

▪ Moreover, there is a proportion of the investing population which may not require the redemptions to be in lump-sum, but would prefer to have the repayment in instalments.

▪ Keeping in view the needs of the investors, there are 3 strategic methods of investment and redemption

NAV illustration



Mutual funds and alternative funds

Complete source section / source 352

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

2026 framework applies / source scheme conditions are historical where changed

SEBI MF Regulations 2026 commenced 1 April 2026. The 26 February 2026 category circular updates scheme groups, names and conditions. Use the current comparison tables above rather than learning superseded source percentages. NAV must include other assets/liabilities, and CAGR is not automatically XIRR. Retirement/children source lock-in wording saying whichever-earlier is not a reliable current rule; solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific exit loads and current cost rules must be read separately.

Systematic Investment Plan (SIP)

▪ SIP is a mode of investment in Mutual Funds, by which individuals invest small amounts at regular intervals in the Mutual Fund.

▪ SIP is also known as goal-based investment and

▪ SIP is generally referred in the context of Equity Funds.

▪ In SIPs, individual purchase Mutual Fund units at regular intervals in small quantities.

▪ Individuals can start investing in Mutual Funds through SIP mode with amounts as low as Rs 500.

▪ SIP has advantages such as the power of compounding, rupee cost averaging, and disciplined savings habit.

▪ The frequency of SIP can be fortnightly, monthly or quarterly.

Systematic Transfer Plan (STP)

▪ STP is a technique through which, an individual gives consent to the Mutual Fund company to transfer money from one scheme to another in a systematic and periodic manner.

▪ In STP, individuals can transfer their money only from one scheme to another of the same fund house and not of other fund houses.

▪ The STP is suitable for individuals who have excess idle money lying in their account and are reluctant to invest the entire amounts into equity funds.

▪ As a result, through STP, individuals can first invest the money in Liquid Funds and then, transfer it to equity funds of their choice.

Systematic Withdrawal Plan (SWP)

Return measures

CAGR: single start/end	XIRR: dated cash flows	Not interchangeable

Mutual funds and alternative funds

Redrawn / Systematic strategies

Relationship	Source meaning
1	SIP: investment
2	STP: transfer
3	SWP: withdrawal

Complete source section / source 353

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

2026 framework applies / source scheme conditions are historical where changed

SEBI MF Regulations 2026 commenced 1 April 2026. The 26 February 2026 category circular updates scheme groups, names and conditions. Use the current comparison tables above rather than learning superseded source percentages. NAV must include other assets/liabilities, and CAGR is not automatically XIRR. Retirement/children source lock-in wording saying whichever-earlier is not a reliable current rule; solution-oriented category treatment changed in 2026. Entry-load references are historical; scheme-specific exit loads and current cost rules must be read separately.

▪ SWP is the opposite of SIP.

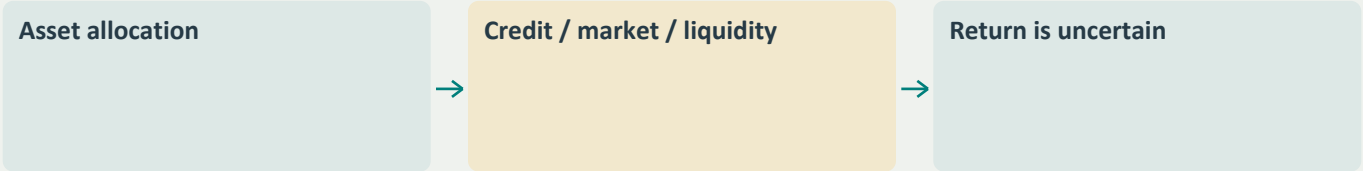
▪ In SWP, individuals redeem money from Mutual Fund schemes in small amounts.

▪ In this situation, individuals first deposit the money in a Mutual Fund scheme whose risk is generally low, such as liquid funds.

▪ Thereafter, the individuals can redeem the money from the Mutual Fund scheme at regular intervals, depending on their requirements. The frequency of SWP can be weekly, monthly, or quarterly, and the SWP can be used as a source of regular income for individuals, especially retirees.

JAIIB Paper

Risk and reward



Mutual funds and alternative funds

Original practice / answers with reasons

Q 01. Assets 105 crore, liabilities 5 crore, units 10 crore: NAV?

A. 10 | B. 10.5 | C. 100 | D. 1

Answer A. Net assets 100 crore divided by 10 crore units givesRs.10.

Q 02. Rs.100 becomes 121 in 2 years. CAGR?

A. 21% | B. 10% | C. 10.5% | D. 121%

Answer B. Square root of 1.21 minus 1 equals 10%.

Q 03. Which measure handles multiple dated cash flows?

A. XIRR | B. NAValone | C. Coupon | D. Face value

Answer A. CAGR assumes the simplified single-start/single-end case.

Q 04. Current Multi Cap minimum allocation to each large/mid/small group is?

A. 10% | B. 25% | C. 35% | D. 80%

Answer B. At least 25% each; total equity at least 75%.

Q 05. AMFI is which entity?

A. Statutory replacement for SEBI | B. Industry association | C. Central bank | D. Insurance ombudsman

Answer B. SEBI remains the statutory regulator.

Different pooled vehicles

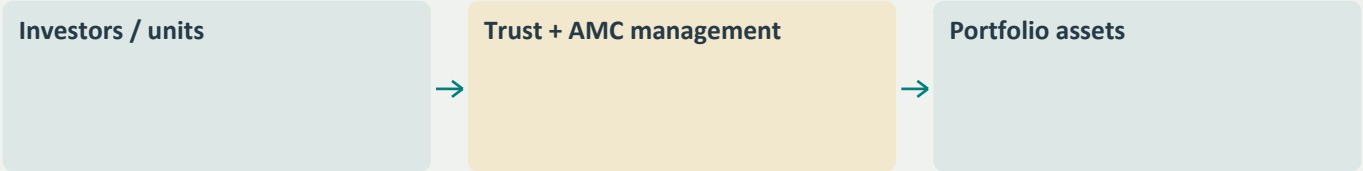
Retail mutual fund	Privately pooled AIF	Different framework

Mutual funds and alternative funds

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Mutual funds pool investor money.	15. Passive funds can have tracking error.
02. Units represent participation in a scheme.	16. Debt funds can face credit and duration risk.
03. Trustee and AMC roles differ.	17. Gilt funds still face market-price risk.
04. Custody differs from portfolio management.	18. Diversification does not eliminate all risk.
05. NAV means net asset value per unit.	19. SEBI is the statutory mutual-fund regulator.
06. NAV uses net assets divided by outstanding units.	20. AMFI is an industry association.
07. Liabilities reduce net assets.	21. SEBI MF Regulations 2026 commenced 1 April 2026.
08. A low NAV alone does not establish a bargain.	22. Current MultiCap equity minimum is 75%.
09. CAGR fits a single starting and ending investment value.	23. MultiCap has 25% minimum each large/mid/small.
10. XIRR uses dated cash flows.	24. LargeCap minimum large-cap allocation is 80%.
11. Past returns do not guarantee future performance.	25. MidCap minimum mid-cap allocation is 65%.
12. Expense costs affect investor returns.	26. SmallCap minimum small-cap allocation is 65%.
13. Exit loads depend on scheme terms.	27. AIFs and retail mutual funds have different frameworks.
14. Open-ended and closed-ended structures differ.	28. Registration is not a return guarantee.

Mutual-fund structure



Insurance products

D 14 / Insurance products

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय बीमा विनियामक और विकास प्राधिकरण
Insurance Regulatory and Development Authority of India

IRDAI / insurance regulation and policyholder protection
Insurance covers specified risks on contractual terms. A bank distributor and the insurer bear different responsibilities.

Chapter route	What to study
Principles	Risk pooling, insurable interest, disclosure, indemnity, contribution, subrogation and proximate cause.
Products	Life, annuity, health, motor, property, marine, group and micro insurance.
Access	PMJJBY/PMSBY, bancassurance and policyholder redress.



Sum insured is not every claim amount
Learner: I insured for8lakh, so every loss pays8lakh? Mentor: Check the loss, cover, deductible, valuation and any average clause. Life/fixed-benefit contracts work differently from indemnity cover.

Primary reference desk / 26 October 2026

- IRDAI / policyholder information
- JanSuraksha / PMJJBY rules
- JanSuraksha / PMSBY FAQ
- IRDAI / Insurance Ombudsman

Claim assessment

Covered event → **Policy terms + evidence** → **Benefit / indemnity due**

Insurance products

Learn and verify / the examinable distinctions

Match the principle to the policy

Anchor	Explanation
Indemnity	Restores a covered financial loss within policy terms; it does not permit profit from a loss. Not all insurance is indemnity.
Benefit cover	Life assurance and many fixed-benefit accident/health contracts pay agreed benefits on specified events.
Subrogation	After an indemnity claim, an insurer may pursue the insured rights against responsible third parties to the relevant extent.
Contribution	Applies to overlapping indemnity policies under their legal/contractual conditions, not automatically all life policies.
Proximate cause	Assess the effective cause against insured/excluded perils and policy wording.

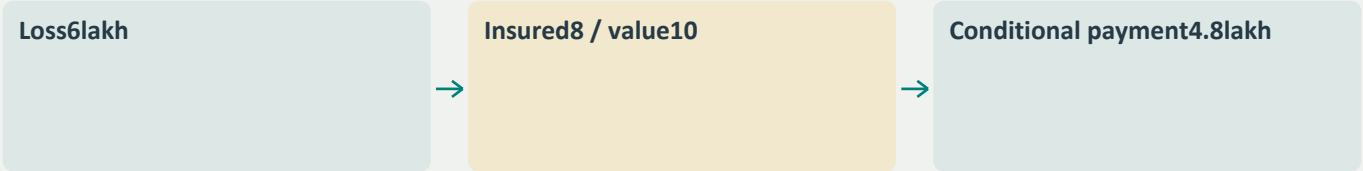
Under insurance / conditional worked example

Anchor	Explanation
Assume	Value at risk 10 lakh; sum insured 8 lakh; covered partial loss 6 lakh; an applicable average clause; no other adjustments.
Calculation	6 x 8/10=4.8 lakh, before any applicable deductible/other conditions.
Valuation caveat	The source purchase cost and written-down value do not alone prove which amount the policy treats as value at risk. Use its re in statement/market/agreed-value basis.

Social covers / compare purpose

Anchor	Explanation
PMJJBY	Life cover 2 lakh; entry 18-50; annual full premium 436 under the revised scheme. Renewal can continue to 55 subject to rules. New/re-entry lien conditions apply.

Average-clause illustration



Insurance products

Anchor	Explanation
PMSBY	Accidental death/defined total permanent disability 2 lakh; defined partial permanent disability 1 lakh; age 18-70; annual premium 20.
Not inter change able	PMJJBY is life cover; PMSBY is accident cover. Both require eligible account/consent and scheme conditions; duplicate accounts do not multiply permitted cover.
Redress	First raise a grievance with insurer; use applicable IRDAI/BimaBharosa and Insurance Ombudsman routes, with eligibility and time limits.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 353

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Risk transfer / specific coverage

Pooling does not make every risk insurable or every loss payable. Read insured events, exclusions, sum assured/insured, excess, waiting periods and duties.

IE & IFS Module D Unit 14: Insurance

Products

What Is Insurance

▪ Insurance can be defined as a contract between two parties, where one promises the other to indemnify or make good any financial loss suffered by the latter (the insured), in consideration for an amount received by way of ‘premium’.

▪ The contract of insurance is referred to as the ‘policy’.

Fundamental Principles Governing Insurance Products

▪ The business of insurance aims to protect the economic value of assets or life of a person.

▪ Apart from the above essentials of a valid contract, insurance contracts are subject to additional principles. These are:

Two social covers

PMJJBY: life

PMSBY: accident

Different triggers

Insurance products

Redrawn / Insurance split

Relationship	Source meaning
1	Source branches life and non-insurance; correct branch label is non-life insurance.

Complete source section / source 354

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Life versus indemnity

A human life is not indemnified by measuring an exact economic replacement cost; life policies generally pay agreed benefits. Insurable-interest timing and contribution/subrogation differ by class.

The Principle of Utmost Good Faith (Principle of Uberrimae fidei)

▪ It is a positive duty voluntarily to disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not.

▪ Non-disclosure of any material fact may be unintentional on the part of the insured.

▪ Even so, such a contract is rendered voidable, at the insurer’s option and it can refuse any compensation.

▪ An application for life and health insurance is the applicant’s proposal to the insurer for protection and is the beginning of the policy contract.

▪ The proposed insured is required to give accurate answers to questions in the application, relating to his personal and family history, habits, employment, insurance already in force and other applications for insurance that either are pending or have been postponed or refused, etc.

▪ Any concealment of material facts is considered ‘intentional’.

Principle of Insurable Interest

▪ The legal right to insure arising out of a financial relationship recognised under the law, between the insured and the subject matter of insurance.

▪ Insurable interest simply means “right to insure”.

▪ The policyholder must have a pecuniary or monetary interest in the property, which he has insured.

▪ For example, the subject matter of insurance under a fire policy can be a building, stocks, machinery, under a liability policy, it can be a person’s legal liability for injury or damage, a ship in a marine policy, etc.

▪ Any damage to the property must result in financial loss to the policyholder.

▪ Only then, an insurable interest is said to exist.

Annuity options

Life-only

Joint-life / guaranteed term

Purchase-price return option

Insurance products

Redrawn / Six insurance principles

Relationship	Source meaning
1	Utmost good faith
2	Insurable interest
3	Indemnity
4	Subrogation
5	Contribution
6	Proximate cause

Complete source section / source 355

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Disclosure and contestability

Disclosure duties do not establish an unlimited right to repudiate any life policy at any time. Insurance Actsection 45 provides a three-year contestability framework for life policies with its statutory conditions.

▪ Insurable interest normally arises out of ownership where the insured is the owner of the subject matter of insurance, such as a car or a house.

Principle of Indemnity

▪ The meaning of ‘indemnity’ is ‘the protection or security against damage or loss or security against legal responsibility’.

▪ Indemnity may be referred to as a mechanism by which, insurers provide financial compensation in an attempt to place the insured in the same pecuniary position, after the loss, as enjoyed just before it.

▪ The literal meaning of the term “indemnity” is making good the loss.

▪ On the happening of the insured event, for which, the insurance policy is taken up, the insured should be replenished, the amount of loss.

▪ Life insurance is not a contract of indemnity.

▪ However, property insurance or personnel accident insurance contracts are contracts of ‘indemnity’.

Distribution versus risk

Bank: permitted distributor

Insurer: underwrites policy

Customer: insured interest

Insurance products

▪ Indemnity merely means to make good any financial loss suffered by the insured and to put him or her back in the same financial position, as he or she was, before the occurrence of the loss.

The principle of indemnity also aims to control moral hazard. It is possible that the insured may try to secure the maximum amount through dubious and unfair means. For example, he may:

• Deliberately inflict loss upon the property, in order to seek compensation

• Resort to exaggerating the loss

• Make false claims, etc.

Example Mr. Rajesh owns a restaurant, which he had bought three years ago, for Rs.10 lakhs. He had bought fire insurance worth Rs.8 lakhs (which is the written down value of his insured property). His restaurant caught fire and he suffered a loss of Rs.6.00 lakhs. The amount of compensation to be paid by the insurance company = `(sum insured/value of insured asset) * actual loss = `(8 lakhs/10 lakhs) * 6,00,000 = Rs.4,80,000

Principle of Subrogation

• Subrogation means the restitution of the rights of an assured in favour of the insurer.

• In accordance with the principle of subrogation, the insurance company acquires the right of the insured to sue the third-party to compensate for his negligence

Complete source section / source 356

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Average clause / conditional arithmetic

The source restaurant example produces 4.8 lakhonly if 10 lakhis the applicable value at risk and the average clause applies. Do not infer under insurance solely by comparing purchase cost and depreciation. All source numbers and wording remain below.

and loss inflicted upon, when it indemnifies the insured for the losses suffered by him.

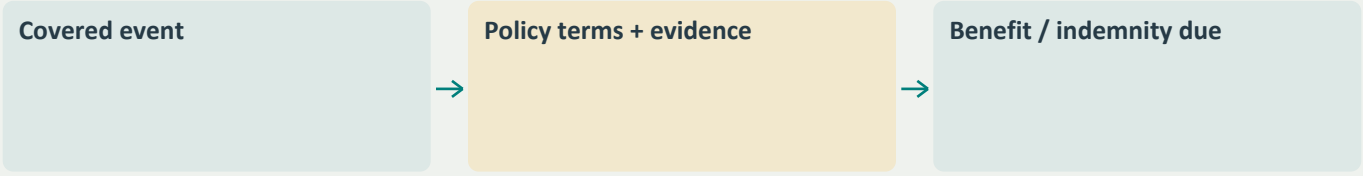
Principle of Contribution

• Contribution is the right of an insurer to call upon others similarly, but not necessarily equally liable to the same insured to share the cost of an indemnity payment. This principle of contribution enables the total claim to be shared in a fair way.

• The amount of total compensation or indemnity provided to the insured by all the insurers should not exceed the amount of loss. In case, one insurer indemnifies the insured in full, the insurance company concerned can claim the share of compensation from other insurance companies.

Principle of Proximate Cause

Claim assessment



Insurance products

• It is not the latest, but the direct, dominant, operative and efficient cause that must be regarded as proximate. The term “Proximate Cause” literally means the nearest cause or direct cause.

• In insurance parlance, it relates to the immediate cause of the mishap, which resulted in the loss. If a person has bought fire insurance for his house the protection will be from the loss caused by fire, which may have resulted from the sources mentioned in the policy.

• In case the fire occurs from any source other than that mentioned in the policy, the insurer is not liable to compensate the insured.

Classification Of Insurance

Complete source section / source 357

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Life products / guarantees depend on contract

Term, endowment, whole-life, money-back and linked policies allocate death/maturity/investment benefits differently. A linked-policy fund value is not automatically a guaranteed maturity amount.

Types Of Insurance Business

The various types of insurance are

Life Insurance Products

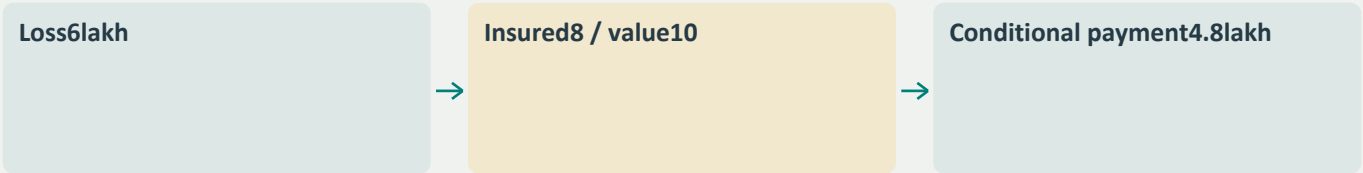
Redrawn / Insurance classification

Relationship	Source meaning
1	Life: individuals, group, pension; deathcover; healthsickness/disability; annuity financial assistance in old age.
2	Source non-insurance branch: property, liability, miscellaneous; correct non-lifelabel.

Redrawn / Eight source insurance types

Relationship	Source meaning
1	Life
2	Health

Average-clause illustration



Insurance products

Relationship	Source meaning
3	Travel
4	Motor
5	Property
6	Burglary
7	Fire
8	Marine cargo

Complete source section / source 358

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Annuity and pension / payment option matters

A life-only annuity can cease at death. Joint-life, guaranteed-period and return-of-purchase-price options have different survivor payments. Do not learn a universal rule that every nominee receives an unpaid balance. Old commutation/tax fractions are not a universal current tax rule.

Life insurance benefit patterns fit into one or a combination of the following three classes:

Term life insurance

Whole life insurance

Endowment insurance

Term Insurance Plans

• This type of insurance furnishes protection for a limited number of years.

• Terminates with no maturity value.

• The face amount of the policy is payable only if the insured’s death occurs, during the stipulated term.

• Nothing is paid in case of survival.

• Issued for a short period but customarily provides protection for at least a set number of years, such as 10 or 20 years, or to a stipulated age, such as 65 or 70 years.

• It is more comparable to property and liability insurance contracts than to any other life insurance contract.

• Initial premium rates are low compared to other life products, because the period of protection is limited.

Two social covers

PMJJBY: life

PMSBY: accident

Different triggers

Insurance products

Whole Life Insurance Policies:

• Whole life insurance is intended to provide insurance protection over one’s entire lifetime.

• It provides for the payment of the face amount upon the insured’s death regardless of when death occurs.

• Universal life policies can function as whole life insurance, if they have sufficient cash value.

• The face amounts payable under whole life policies typically remain at the same level, throughout the policy duration, although dividends are often used to increase the total amount paid on death.

Endowment Insurance Policies

• Unlike term policies, endowment policies promise not only to pay the policy face amount on the death of the insured during a fixed term of years, but also to pay the full-face amount, at the end of the term, if the insured survives the term.

An endowment policy has the following features:

• Endowment plans promise protection from risk in the event of death of the insured during the policy term as well as an assured sum, upon the maturity of the policy. In this type of policy, the maturity of the policy is usually chosen to coincide with the retirement of the person.

• These policies are issued for specific terms chosen by the proposer, who can choose the duration of the policy, which may be 10, 15, 20 or 30 years.

Complete source section / source 359

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Health cover / indemnity versus benefit

Hospital-cost indemnity, fixed hospital cash, critical illness and personal accident can use different triggers and payment measures. Waiting periods, pre-existing-condition rules, sublimits and exclusions follow the applicable current policy/regulatory framework.

• Where the duration is short the premium involved is higher. It is to be noted that whether the assured meets a premature death or not, the full amount of the policy has to be paid by the insurance company, provided the premiums have been paid, as stipulated in the policy.

Money Back Plans or Cash Back Plans

• Under this plan, certain percentage of the sum assured is returned to the insured person periodically as survival benefit. On the expiry of the term, the balance amount is paid as maturity value.

• The life risk may be covered for the full sum assured during the term of the policy irrespective of the survival benefits paid.

Annuity options

Life-only

Joint-life / guaranteed term

Purchase-price return option

Insurance products

Annuity (Pension) Plans

• When an employee retires, he/she no longer gets his/her salary, while his/her need for a regular income continues. Retirement benefits like Provident Fund and gratuity are paid in lump sum, which are often spent too quickly or not invested prudently with the result that the employee finds himself without regular income in his post - retirement days.

Immediate Annuity

• In case of immediate annuity, the annuity payment from the Insurance Company starts immediately. Purchase price (premium) for immediate annuity is to be paid in lump sum, in one installment only.

Deferred Annuity

• Under deferred annuity policy, the person pays regular contributions to the Insurance Company, till the vesting age/vesting date. The policy holder has the option to pay as single premium also.

• The fund will accumulate with interest and fund will be available on the vesting date. The insurance company will take care of the investment of funds and the policyholder has the option to encash 1/3rd of this corpus fund on the vesting age/vesting date tax free. The balance 2/3rd amount of the fund will be utilised for purchase of annuity (pension) to the annuitant.

Unit Linked Insurance Policy

• Unit Linked Insurance Policies (ULIPs) offer a combination of investment and protection and allow insured the flexibility and choice on how his/her premiums are invested.

• Typically, the policy will provide the insured with a choice of funds in which, he/she may invest. One also has the flexibility to switch between different funds, during the tenure of the policy.

Paid-up Value

Complete source section / source 360

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Accident and group cover

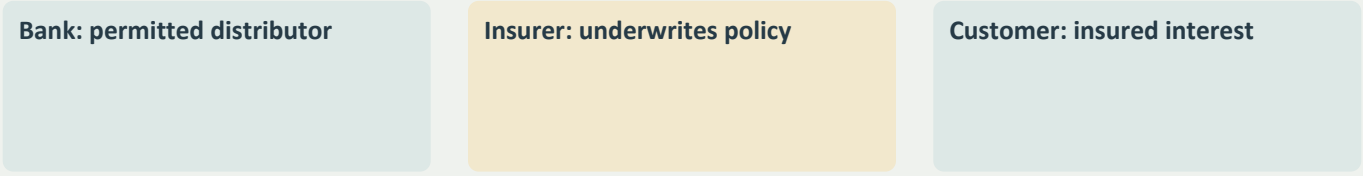
Not every accident policy indemnifies medical costs: fixed disability/death benefits are common. Group pricing does not eliminate eligibility, underwriting and disclosure requirements.

• After premiums are paid for a certain defined period or beyond and if subsequent premiums are not paid, the sum assured is reduced to a proportionate sum, which bears the same ratio to the full sum assured

Health Insurance

▪ The term ‘Health Insurance’ relates to a type of insurance that essentially covers medical expenses.

Distribution versus risk



Insurance products

▪ A health insurance policy, like other types of policies, is a contract between an insurer and an individual/group in which, the insurer agrees to provide specified health insurance cover at a particular “premium”, subject to terms and conditions specified in the policy.

Coverage of Health Insurance Policy

Expenses reasonably and necessarily incurred under the following heads in respect of the insured person, subject to the overall ceiling of sum insured (for all claims during one policy period) are covered.

• Room, Boarding expenses

• Nursing expenses

• Fees of surgeon, anesthetist, physician, consultants, specialists

• Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost of pace maker, Artificial limbs, cost or organs and similar expenses.

There are some exclusions under health policies which can vary from product to product and from insurance company to company.

The sum insured may be on an individual basis or on a floater basis, for the family as a whole.

Health insurance comes with attractive tax benefits as added incentive. There is an exclusive “ Section 80 D, and which is unlike the section 80 C applicable to Life Insurance, wherein, other form of investments/ expenditure also qualify for the deduction.

Travel Insurance

▪ Travel Insurance offers insurance protection to the policy holder, while on travel.

▪ It is important for a person to check and understand whether the policy covers domestic travel or overseas travel or both.

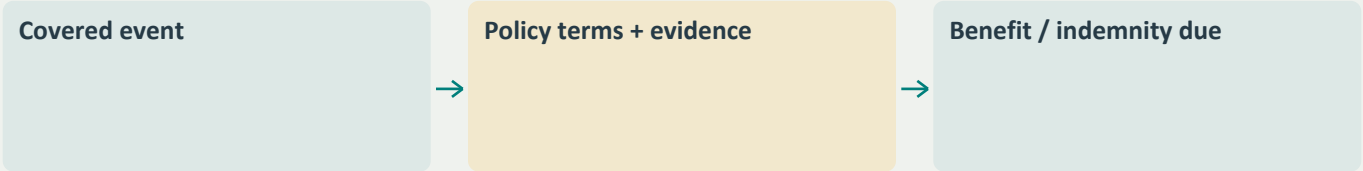
▪ Travel Insurance protects self and/ or family against travel related accidents, unexpected medical expenditure during travel, losses such as baggage loss, loss of passport, etc., and interruption or delays in flights or delayed arrival of baggage, etc.

Motor Insurance

Complete source section / source 361

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Claim assessment



Insurance products

Motor cover

Compulsory third-party liability and optional own-damage cover are distinct. A comprehensive label does not cover every peril without exclusions. Statutory exemptions and applicable vehicle requirements must be checked.

Motor insurance gives protection to the vehicle owner against

Damages to his/her vehicle and

Pays for any Third-Party Liability, determined as per law, against the owner of the vehicle.

▪ Third Party Insurance is a statutory requirement.

▪ The owner of the vehicle is legally liable for any injury or damage to third-party life or property, caused by or arising out of the use of the vehicle in a public place.

▪ Driving a motor vehicle in a public place, without insurance, is a punishable offence, in terms of the Motor Vehicles Act, 1988.

Broadly, there are two types of insurance policies that offer motor insurance cover:

Liability Only Policy (Statutory requirement)

Comprehensive Policy (Liability Only Policy + Damage to owner's Vehicle usually

called O.D. Cover)

▪ If a person takes only a Liability Only Policy, damage to his/her vehicle will not be covered.

▪ Hence, it would be prudent to take a Comprehensive Policy, which would give a wider cover, including cover for the vehicle.

Motor Insurance Inclusions:

Fire, explosion, self-ignition, lightning

Burglary/house-breaking/theft

Riot & strike

Earthquake

Flood, storm, cyclone, hurricane, tempest, inundation, hailstorm, frost

Accidental external means

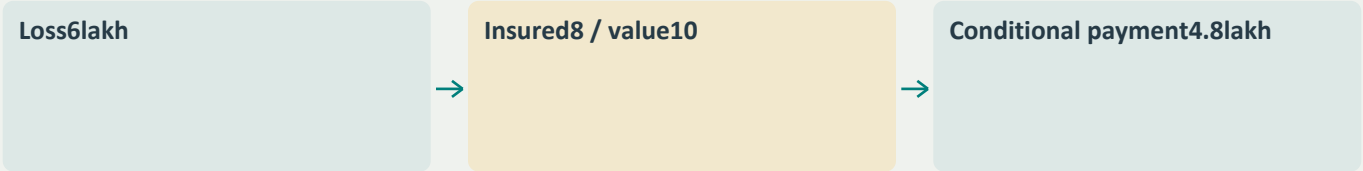
Malicious act

Terrorism acts

While in transit by rail/road, inland waterways, lift, elevator or air

Land slide/rock slide Motor Insurance Third-Party Liability Insurance:

Average-clause illustration



Insurance products

▪ Mandatory for all vehicles plying on public roads in India.

▪ This covers liability for injuries and damages to others that a person is responsible for.

▪ In addition, it is prudent to cover loss or damages to the vehicle itself by way of Comprehensive/ Package policy, which covers both “Liability” as well as “Own damage” to Insured vehicle.

Complete source section / source 362

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Property and transit

Policy wording and valuation govern fire/burglary/marine claims. A broad list of property types is not proof that every peril affecting that property is insured.

Certificate of Insurance under Motor Vehicle Act: As per Rule 141 of Central Motor Vehicle Rules 1989, a certificate of Insurance is to be issued only in Form 51.

It is only in Motor Vehicle Insurance, apart from policy, a separate certificate of insurance

Property Insurance

▪ Insurance of buildings, machinery, stocks, etc., against fire and allied perils, burglary and so on.

▪ Goods in transit via sea, air, railways, roads and courier can be insured under Marine Cargo Insurance.

▪ Hulls of ship and boats can be insured under Marine Hull Insurance.

▪ Further, there are specialised policies available such as Aviation Insurance Policy, for insurance of planes and helicopters.

▪ Thus, Property Insurance is a very vast category of General Insurance and the type of cover that a person needs depends upon the type of property a person is seeking to cover.

Fire Insurance

▪ The most popular property insurance is the standard fire insurance policy. The fire insurance policy offers protection against any unforeseen loss or damage to/destruction of property, due to fire or other perils covered under the policy.

▪ The different types of property that could be covered under a fire insurance policy are dwellings, offices, shops, hospitals, places of worship, etc., industrial/manufacturing risks and contents such as machinery, plants, equipment and accessories;

▪ Goods including raw material, material in process, semi-finished goods, finished goods, packing materials, etc., in factories, godowns and in the open.

Two social covers

PMJJBY: life

PMSBY: accident

Different triggers

Insurance products

Burglary Insurance

▪ For a business enterprise or for a residential house.

Covers:

Property contained in the premises including stocks/goods owned or held in trust, if specifically covered.

Cash, valuables, securities kept in a locked safe or cash box in locked steel cupboard, if a person specifically requests for it.

Damage to the house or premises caused by burglars during burglary or attempts at burglary.

▪ The Policy pays actual loss/damage to the insured property caused by burglary/ house breaking subject to the limit of sum insured.

Complete source section / source 363

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Micro insurance /2005 ceiling is historical

The source 2005 Rs.50,000 definition is not the full current product framework. Later micro-insurance/product regulations changed requirements. A current product must meet its operative approved terms; do not apply the old ceiling to all micro covers.

▪ If sum insured is not adequate, policy pays only proportionate loss. Hence, one must ensure that the value the property is covered correctly to ensure that there is no under insurance.

Marine Cargo Insurance

Covers

Transits by water, air, road or rail, registered post parcel, courier or a combination of two or more of these.

The interest in the cargo and also extend to cover the interests of any third party who has acquired interest upon transfer of ownership, as determined by the Terms of Sale.

▪ Meaning of Salvage: In case of claims under various types of insurance policies, the partly damaged goods or the wreck of a car or any machinery or any other property settled on Total Loss Basis is known as “Salvage”.

Group Insurance Schemes

▪ Group insurance is a plan of insurance which provides life cover to a number of persons, under a single policy called the ‘Master Policy’.

▪ It becomes possible to issue a cover to the group at a low cost, on account of savings in the administrative and medical examination expenses.

Annuity options

Life-only	Joint-life / guaranteed term	Purchase-price return option

Insurance products

▪ One important feature is with regard to selection and underwriting of lives.

Micro Insurance

▪ To provide a hedge against these unforeseen risks, micro insurance is widely accepted as one of the essential ingredients of financial inclusion packages.

▪ Micro insurance regulations issued by IRDA have provided a fillip in propagating micro insurance as a conceptual issue.

▪ Effective from 2005.

▪ These regulations are in addition to the obligations for rural and social sector business to be done by all insurers, on an annual basis.

▪ The IRDAI Micro-Insurance Regulations, 2005 defines a micro-insurance policy, as a general or life insurance policy, with a sum assured of Rs. 50,000 or less.

A general micro-insurance product could be:

Health insurance contract

Any contract covering belongings such as huts, livestock, etc.

Tools or instruments or Any personal accident contracts

Insurance Based Social Security Schemes

In its drive to achieve a high degree of financial inclusion, including banking and insurance, the Government has introduced two insurance schemes, viz.,

Complete source section / source 364

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Scheme exclusions / use the actual rules

PMJJBY and PMSBY premiums 436/20 are annual full premiums under the revised scheme, subject to permitted pro-rata rules where applicable. PMSBY excludes suicide; the officialFAQstates murder and natural-calamity accidents are covered subject to terms. The source broad alcohol/drug exclusion must not be treated as a complete stand-alone official exclusion list; read the applicable master policy and scheme rules.

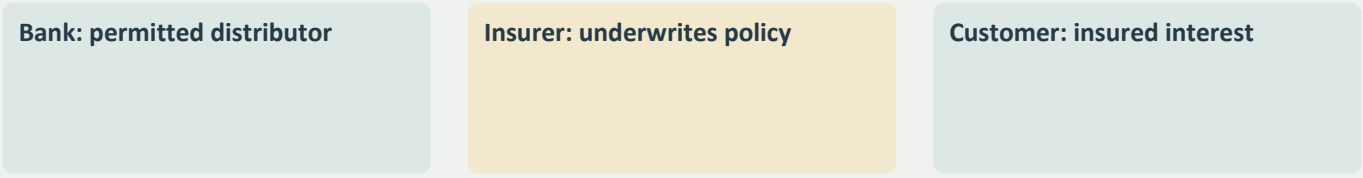
• Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY) and

• Prime Minister Suraksha Bima Yojana (PMSBY)

Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY)

▪ Life insurance scheme.

Distribution versus risk



Insurance products

▪ Age group: 18 to 50 years having a bank/post office account – who give their consent to join/enable auto-debit.

▪ Primary KYC: Aadhaar (bank account)

▪ Life cover, which is for Rs. 2 lakhs, is available for a 1-year period, stretching from 1st June to 31st May of each year and is renewable every year.

▪ Risk coverage under this scheme is for Rs 2 lakhs in case of death of the insured, due to any reason.

▪ Premium: Rs. 436 per annum

▪ Offered through LIC and all other life insurers, who are offering the product on similar terms, with necessary approvals and tie up with banks and Post Offices, for this purpose.

▪ Payment of pro-rata premium is permitted.

▪ The premium is Rs. 436 per annum as per the option given by him on or before 31st May of each annual coverage period under the scheme.

Prime Minister Suraksha Bima Yojana (PMSBY)

▪ An accident insurance scheme.

▪ Age group 18 to 70 years, with a bank/post office account, who give their consent to join/enable auto-debit on or before 31st May, for the coverage period 1st June to 31st May, on an annual renewal basis.

▪ Aadhaar is the primary KYC for the bank account.

▪ Risk coverage: Rs. 2 lakhs for accidental death and full disability and Rs. 1 lakh for partial disability.

▪ While full disability has been defined as loss of use in both eyes, hands or feet, partial disability has been defined as loss of use in one eye, hand or foot.

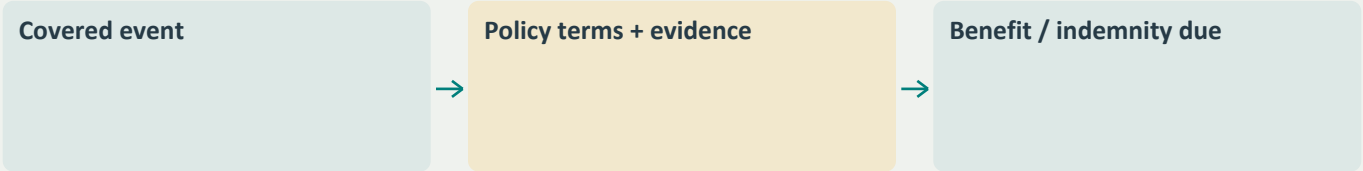
▪ Further, death due to suicide, alcohol, drug abuse, etc., are not covered.

▪ Premium: Rs. 20 per annum

▪ The scheme is offered by Public Sector General Insurance Companies or any other General Insurance Company who are offering the product on similar terms, with necessary approvals and tie up with Banks and Post Offices for this purpose.

Bancassurance

Claim assessment



Insurance products

Complete source section / source 365

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Bancassurance / distribution is not underwriting

A bank distributing a policy does not itself become the risk-carrying insurer. Sale must be suitable, consented and properly disclosed; a deposit or loan must not be mis represented as an insurance guarantee. International model labels do not replace Indian licensing requirements.

• Bancassurance is defined as selling of insurance products through banks.

However, it is not just about selling insurance products to bank customers but exploiting the true synergies between the bank and insurer and optimally utilising their respective strengths.

• The concept of Bancassurance has roots in France in 1980s, and has spread across different parts of Continental Europe since then. It has also spread its wings in Asia, particularly in India. It commenced in India in the year 2000, when the Government issued a notification under the Banking Regulation Act, which allowed Indian Banks to undertake insurance distribution business.

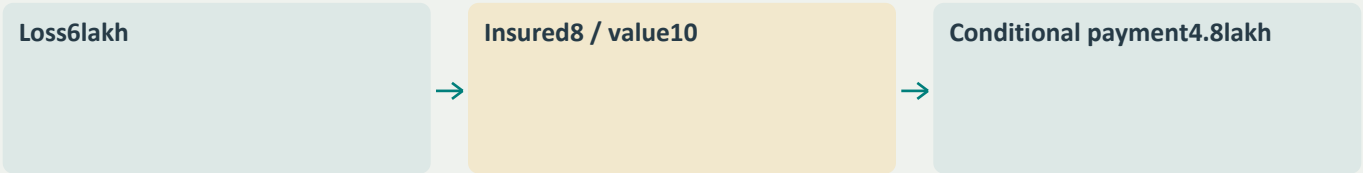
Bancassurance Models

Internationally, 4 models of Bancassurance are in vogue

Redrawn / Four bancassurance models

Relationship	Source meaning
1	Corporate agency/distribution alliance
2	Joint venture: bank/insurer equity participation subject local regulation
3	Merger of bank and insurer
4	Build/buy own insurance operation

Average-clause illustration



Insurance products

Original practice / answers with reasons

Q 01. Is every insurance policy an indemnity contract?

A. Yes | B. No | C. Only life policies | D. Only fixed death benefits

Answer B. Life and fixed-benefit policies pay defined benefits rather than measured indemnity.

Q 02. With applicable average clause, loss 6, insured 8, value 10 lakh gives?

A. 6 | B. 8 | C. 4.8 | D. 10

Answer C. 6 x 8/10=4.8 lakh before other adjustments.

Q 03. Which scheme is accident cover?

A. PMSBY | B. PPF | C. NPS | D. ASBA

Answer A. PMJJBY is the separate life-cover scheme.

Q 04. A life-only annuity must return purchase price at death. True?

A. Always | B. No; the option terms matter | C. Only if NAVfalls | D. Only underASBA

Answer B. Return-of-purchase-price and survivor options differ from life-only cover.

Q 05. A bank selling a policy automatically becomes the insurer. True?

A. Yes | B. No | C. Only for loans | D. Only at renewal

Answer B. Distribution is distinct from underwriting risk.

Two social covers

PMJJBY: life

PMSBY: accident

Different triggers

Insurance products

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Insurance pools specified risks.	15. Term and endowment policies have different benefits.
02. Premium is the price for agreed cover.	16. Linked-policy market value is not automatically guaranteed.
03. Policy exclusions limit coverage.	17. Annuity payments depend on the selected option.
04. Sum assured and sum insured need context.	18. Health indemnity and fixed-benefit cover differ.
05. Life cover generally pays agreed benefits.	19. Motor third-party and own-damage covers differ.
06. Not all insurance is indemnity.	20. Marine cargo can cover eligible inland transit.
07. Indemnity does not permit profit from a covered loss.	21. Group cover uses a master-policy structure.
08. Insurable interest is a core principle.	22. Micro-insurance 2005 source limits are historical.
09. Disclosure duties matter.	23. PMJJBY provides life cover.
10. Proximate cause concerns the effective cause.	24. PMJJBY full annual premium is 436 under the revised scheme.
11. Subrogation concerns relevant third-party recovery rights.	25. PMSBY provides accident cover.
12. Contribution concerns overlapping indemnity covers.	26. PMSBY full annual premium is 20 under the revised scheme.
13. Average-clause calculations need the policy valuation basis.	27. Bancassurance concerns insurance distribution through banks.
14. A deductible can reduce a payable claim.	28. An insurer and a bank distributor have distinct roles.

Annuity options

Life-only

Joint-life / guaranteed term

Purchase-price return option

Pension and retirement products

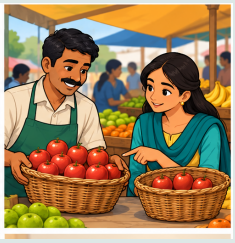
D 15 / Pension and retirement products

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

PFRDA / pension-system regulation
NPS, APY, EPF/EPS, PPF and insurance annuities are different products/frameworks. Exit permission and income-tax exemption are separate questions.

Chapter route	What to study
Retirement need	Longevity, inflation, accumulation and vesting; pension-system design.
Products	EPF/EPS/EDLI, PPF, annuities, NPS and APY.
Dated rules	Full source percentages/tax references retained with 2026 exit and eligibility corrections.



Withdrawable is not the same as tax-exempt
Learner: The pension rules allow a larger lump sum. Is all of it tax-free? Mentor: Exit regulations and tax law are separate. Check subscriber category, exit event and the relevant tax year.

Primary reference desk / 26 October 2026

- PFRDA / NPS Exit Regulations, amended 20 July 2026
- PFRDA / APY taxpayer exclusion notification
- NSI / PPF Scheme 2019
- EPFO / official scheme information

Retirement lifecycle

Contribute / accumulate → **Vesting / exit choice** → **Periodic retirement income**

Pension and retirement products

Learn and verify / the examinable distinctions

Compare the retirement instruments

Anchor	Explanation
EPF / EPS / EDLI	Provident accumulation, pension and deposit-linked insurance are separate EPFO schemes with their own membership/benefit rules.
PPF	A government small-savings account with prescribed contributions, maturity and withdrawal/loan conditions; not a market-linked mutual fund.
NPS	A defined-contribution market-linked pension system under PFRDA. Accumulated wealth depends on contributions, returns and costs.
APY	A contributory scheme with specified guaranteed pension slabs, eligibility and contribution schedule.
Annuity	Converts premium/purchase consideration into contractual periodic payments under the selected option.

PPF / correct the source loan window

Anchor	Explanation
Contribution	Minimum 500 and maximum 1.5 lakhper financial year under the 2019 scheme, subject to applicable account aggregation rules.
Maturity	15-yearterm under the scheme calculation, with permitted 5-year extension blocks.
Loans	Generally 3 rdthrough 6 th financial years under the scheme timing rules, not 3 rdthrough 15 thyears.
Instalments	The 2019 scheme does not retain the old 12-instalment annual cap. Loan, withdrawal and premature closure are distinct facilities.

Three EPFO schemes

EPF: provident balance

EPS: pension

EDLI: insurance

Pension and retirement products

NPS / current category distinction

Anchor	Explanation
Government normal exit	Ordinary government-sector normal exit retains at least 40% annuitisation, with prescribed small-corpus alternatives and other conditions.
Non-government specified normal exit	The amended framework permits up to 80% lump sum/approved payout, with at least 20% annuity in the standard specified case. Category, service/age and corpus conditions matter.
Small corpus	Up to 8 lakhcan have full withdrawal/approved payouts in the specified normal-exit provisions;8-12 lakhhas a separate 6 lakh/remaining-payout route. Do not apply one rule to every exit event.
July 2026 addition	Specific-purpose scheme provisions permit pension funds to engage capable service entities; the pension fund remains responsible for their acts/omissions to subscribers.
Tax	Regulatory withdrawal permission does not determine tax exemption. The source 1961 Actsection labels and deductions are tax-year/regime dependent.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 365

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Retirement planning / inflation and longevity

The purpose is sustainable post-retirement income, not merely maximising one headline return. Accumulation and decumulation/vesting risks differ.

JAIIB Paper 1 IE & IFS Module D Unit 15: Pension Products

Pension System and Its Aspects

A Pension provides a monthly income to the people during their unproductive years. Pension is necessary for the following reasons:

• Decreased income earning potential, with increase in age,

NPS normal-exit distinction



Pension and retirement products

• The rise of nuclear family,

• Migration of earning members,

• Rise in cost of living,

• Increased longevity, and

• Dignified life in the old age due to less financial dependence.

Pension Products

Complete source section / source 366

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

EPFO coverage / correct threshold

The source more-than 20 employees wording should ordinarily be 20 or more for the relevant statutory establishment coverage, subject to the Act provisions. EPF, EPS and EDLI are different schemes; membership and exclusions are not identical for every worker.

▪ While both pension and life insurance products help individual to take care of one's future and the future of one's family members, there are a few differences between life insurance plans and pension plans.

▪ While life insurance protects the individual from the financial consequences of premature death, pension products address the risk of living too long so that one's resources are adequate to support one's standard of living during the old age.

They generally have two stages of operation of pension products:

Accumulation stage When one pays a specific amount regularly until the person's retirement.

Vesting stage Once the individual retires, he gets a steady flow of income for the rest of his life. Any pension product must perform the following five core functions with a reasonable degree of competence and efficiency.

• Reliable collection of contributions, taxes and other receipts (including any loan payments in the security systems);

• Payment of benefits for each of the schemes, in a timely and correct way;

• Securing financial management and productive investment of pension fund assets;

Different Types Of Pension Schemes

Some of the different types of Pension schemes that are prevalent

PPF facilities

Contribution / maturity	Loan:3rd-6thFYwindow	Withdrawal: separate rule

Pension and retirement products

Redrawn / Pension stages

Relationship	Source meaning
1	Accumulation
2	Vesting

Complete source section / source 367

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Interest and tax / date the claims

The 8.10% figure is explicitly FY 2021-22 history, not a current rate. EPF interest is declared for a particular year. Tax exemption depends on statutory conditions and tax regime; not every withdrawal before 5 yearsis treated identically, and specified employer/employee contribution-interest rules can matter.

Employees Provident Funds Scheme

▪ This mandatory pension scheme for the private sector is managed by the Employees' Provident Fund Organisation (EPFO).

▪ Set up :1952

▪ Covers employees in specified economic sectors at firms with more than 20 employees.

▪ It is a statutory body under the Ministry of Labour, GOI,

▪ Responsible for regulation and management of provident funds in India.

▪ The EPFO administers the mandatory provident fund, while outsourcing the management of the scheme's assets to fund managers. Traditionally, assets have been managed by PSU banks. Employers can be exempted from participation, if their pension plans provide at least the same level of benefits (see Exempted Funds).

▪ Taking into account the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, the schemes of EPFO are administered by a tri-partite board called the Central Board of Trustees.

The board comprises representatives of the

▪ Government (both Central and State),

▪ employers, and employees.

▪ Chaired by the Ministry of Labour and Employment, Government of India.

The EPFO operates the following three major schemes:

Two legal tests

PFRDA exit permission

Tax statute exemption

Check both

Pension and retirement products

- Employees' Pension Scheme (EPS),
- Employees' Deposit Linked Insurance Scheme (EDLIS) and

Redrawn / Five pension products

Relationship	Source meaning
1	EPF
2	PPF
3	Insurance annuity
4	NPS
5	APY

Complete source section / source 368

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

PPF loan and instalment correction

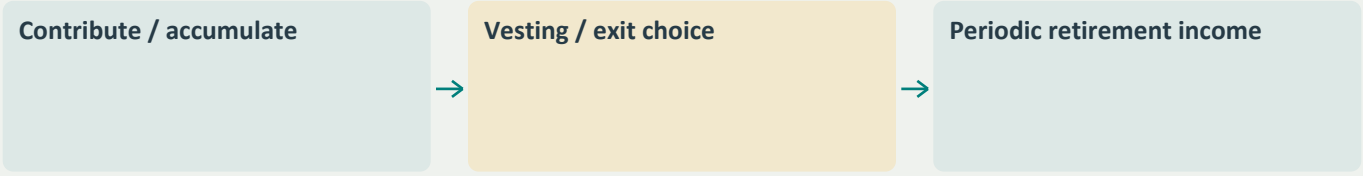
The source 3rd-15 thloan window is wrong: the 2019 scheme loan facility generally falls in 3rd-6 th financial years. The old 12-instalment cap is not in the 2019 scheme. Apply scheme contribution/maturity/extension conditions; tax deduction availability depends on the taxpayer regime and applicable tax law.

- Employees' Provident Fund Scheme (EPF).
- All the three schemes are mandatory for employees.
- EPFO assists the Central Board of Trustees (EPF) in the administration of a provident fund scheme, pension scheme and an insurance scheme for the registered establishments in India and includes employees of such establishments and international workers who are covered.

EPFO's functioning includes:

- Enforcement of the Act across the country
- Maintenance of individual accounts
- Settlement of claims
- Investment of funds
- Ensuring prompt pension payment

Retirement lifecycle



Pension and retirement products

• Updating records

Benefits of EPF

• High Interest – An individual gets an interest rate of 8-9 per cent on the EPF balance held in the account. Currently, the interest rate in India is 8.10 per cent for the financial year 2021-22. This high rate of interest facilitates retirement planning.

• Exemption from Tax – EPF falls under the EEE (Exempt Exempt Exempt) category. That is, the money invested in EPF, the interest that is earned, and the money that is withdrawn – are all exempted from payment of income tax. (Note – If one withdraws money in case of emergencies before a specified period of 5 years, there will not be any exemption from tax).

• Low Risk – EPF is an extremely low-risk investment. Hence, it gives the individual a safe option to invest his money with the added advantage of government backing.

• Life Insurance– EPF also acts as life insurance. In case of death of the employee, the corpus goes to the family of the deceased.

• Hassle-free – Owing to the UAN, an employee needs to open an EPF account only once and then, it can be transferred to his subsequent employers.

Public Provident Fund (PPF) Scheme

▪ Launched by the National Savings Institute and is one of the post office savings schemes.

▪ PPF is one of the popular government investment instruments.

▪ The lock-in period is 15 years for a PPF, and one can extend their investment in PPF for another five years.

▪ Eligible for a tax deduction.

Complete source section / source 369

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Annuity and NPS / selected option and category

Annuity survivor benefits depend on the selected option. The source 60% NPS lump-sum statement is no longer the universal normal-exit rule: specified non-government exits permit up to 80% with 20% minimum annuity, while government-sector rules differ. The current consolidation is amended 20 July 2026; premature, death and small-corpus exits have distinct treatment.

▪ Investments up to Rs 1,50,000, can be claimed for tax deduction under Section 80 C of the Income Tax Act.

▪ Moreover, returns from PPF are completely tax exempted.

▪ Minimum investment each year: Rs 500

Three EPFO schemes

EPF: provident balance	EPS: pension	EDLI: insurance

Pension and retirement products

▪ Maximum investment is: Rs. 1,50,000.

▪ Investors cannot open multiple accounts.

▪ The interest is compounded annually.

▪ Can be deposited in the form of a lump sum amount or in instalments, up to 12 instalments, per financial year.

▪ Any Indian citizen can avail the benefits of this savings plan.

▪ NRIs and HUFs are not eligible to open a PPF account.

▪ Additionally, investors can avail a loan against PPF investments, and such loans can be availed between the 3 and the 15 year.

▪ As PPF has a lock-in period of 15 years, their benefits can be reaped during retirement, by the investors.

Insurance Annuity Schemes

▪ The term annuity simply means a regular and periodic payment.

▪ Insurance companies pay pension annuities to individuals (annuitants) or their dependents after their death, over a number of years (term), in return for money paid earlier to the insurance company, either in a lump sum or in instalments.

▪ Annuities start where life insurance ends. It is called as the reverse of life insurance.

▪ Annuity stops upon death of a person, whereas theoretically, life insurance starts on the death of the assured.

Annuities are of two broad types

Immediate Annuity

• Immediate Annuity begins at once.

• Immediate annuity is purchased with a single premium called purchase price.

• This type of annuity is typically purchased, when a person reaches retirement age and has a lump sum to invest.

• In the event of unfortunate death of the person buying annuity during the term, his/her legal heirs or nominees shall get the remaining instalments of the annuity.

Deferred Annuity

NPS normal-exit distinction

Government:40%annuity ordinary case	**Specified non-government:20%annuity**	**Small-corpus/event rules differ**

Pension and retirement products

Complete source section / source 370

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Tax versus regulatory percentage

Do not equate the larger regulatory lump-sum limit with an equal tax exemption. NPS deductions/employer contribution limits depend on sector, tax regime and relevant year; the source 10%/14% and old section references are not a complete current tax table. Partial withdrawal uses eligible subscriber contributions and conditions, not an automatic quarter of the entire corpus.

• Under a deferred annuity plan, the annuity payments to the annuitant commence at some specified time or specified age of the annuitant. This type of annuity can be funded either by a single payment or a series of regular payments.

National Pension Scheme (NPS)

▪ The National Pension Scheme is a social security initiative by the Central Government.

▪ This pension programme is open to employees from the public, private and even the unorganised sectors.

▪ Employees of the armed forces are, however, excluded.

▪ The scheme encourages people to invest in a pension account, at regular intervals, during the course of their employment.

▪ After retirement, the subscribers can take out a certain percentage (up to 60%) of the corpus.

▪ As an NPS account holder, the subscriber will receive the remaining amount, as a monthly pension, during the post-retirement period.

▪ Now, as per PFRDA guidelines, it is open to all the Indian citizens, on a voluntary basis

▪ The scheme is portable across jobs and locations, with tax benefits, under Section 80 C and Section 80 CCD of the Income Tax Act.

▪ Administered and regulated by Pension Fund Regulatory and Development Authority (PFRDA), set up under the PFRDA Act, 2013.

▪ NPS is a market linked, defined contribution product.

▪ Under NPS, a unique Permanent Retirement Account Number (PRAN) is generated and maintained by the Central Recordkeeping Agency (CRA), for individual subscriber.

▪ NPS offers two types of accounts, namely Tier-I and Tier-II.

▪ Tier-I account is the pension account having restricted withdrawals.

▪ Tier-II account is a voluntary account, which offers liquidity of investments and withdrawals.

PPF facilities

Contribution / maturity	Loan:3rd-6thFYwindow	Withdrawal: separate rule

Pension and retirement products

▪ It is allowed only when there is an active Tier-I account in the name of the subscriber.

▪ The contributions accumulate over a period of time; till retirement the contributions made to the fund grow with market linked returns.

▪ NPS platform offers different models to suit the different segments of users.

Tax Benefits available under NPS

Complete source section / source 371

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

APY / taxpayer entry restriction

From 1 October 2022, any citizen who is or has been an income-tax payer under the notified definition is ineligible to join APY. The source 18-40 entry and pension-from 60 account must be read with that restriction. Tax deductions are subject to the applicable tax regime/year; they are not unconditional for every participant.

• Own Contribution towards NPS Tier-I is eligible for tax deduction, under section 80 CCD (1) of the Income Tax Act, within the overall ceiling of Rs. 1.50 lakhs, under section 80 C of the Income Tax Act. From FY 2015-16, the subscriber is also allowed an additional tax deduction of Rs 50,000 maximum, under section 80 CCD 1(B) of the IT Act

• Employer's contribution towards NPS Tier-I is eligible for tax deduction under Section 80 CCD (2) (14% of salary for Central Government employees and 10% for others). This rebate is over and above the limit prescribed under Section 80 C

• Interim/Partial withdrawal up to 25% of the contributions made by the subscriber from NPS Tier-I is tax free.

• With effect from 1 April, 2019, lump sum withdrawal up to 60% of total pension wealth from NPS Tier-I at the time of superannuation is tax exempt.

Atal Pension Yojana (APY)

▪ Focus: Unorganised sector workers

▪ Minimum guaranteed pension of Rs. 1,000 or Rs. 2,000 or Rs. 3,000 or Rs.

4,000 or Rs. 5,000 per month will start after attaining the age of 60 years, depending on the contributions made by the subscribers for their chosen pension amount.

▪ Any citizen of India, including an NRI, is eligible to join the APY scheme.

Eligibility criteria:

• Age: between 18 - 40 years.

Two legal tests

PFRDA exit permission	Tax statute exemption	Check both

Pension and retirement products

• He/ She should have a savings bank account/ post office savings bank account. In case, the person does not have a savings account, he/she should approach a bank branch/post office to open a savings account.

Taxation Benefits

▪ Under APY Under Section 80 CCD (1) of the Income Tax Act, investment in APY up to Rs 1.5 lakhs, qualifies for income tax deduction.

▪ It should, however, be noted that the total amount of deductions under sections 80 C, 80 CCC and 80 CCD under the Income Tax Act, cannot exceed Rs 1.5 lakhs.

▪ In addition, an investment up to Rs 50,000 in the APY is deductible from taxable income, under Section 80 CCD (1 B) of the Income Tax Act, 1961.

Original practice / answers with reasons

Q 01. Is NPS a guaranteed-return savings deposit?

A. Yes | B. No, it is market-linked defined contribution | C. Only TierII | D. Only with equity

Answer B. Returns and accumulated wealth depend on the portfolio and contributions.

Q 02. PPF loan window under the cited 2019 scheme is generally?

A. 3rd-15 thFY | B. 3rd-6 thFY | C. Any day forever | D. Only after 20 years

Answer B. The source 15th-year statement is corrected.

Q 03. Which is the pension scheme among the EPFO trio?

A. EPS | B. EDLI | C. ASBA | D. TReDS

Answer A. EPF is provident accumulation and EDLI is insurance.

Q 04. An 80% regulatory withdrawal permission automatically means 80% tax exemption?

A. Yes | B. No | C. Only on Monday | D. Only if equity rose

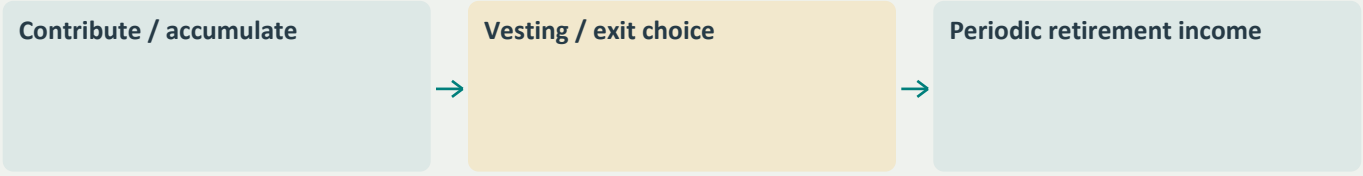
Answer B. Tax law independently determines exemption.

Q 05. FromOctober 2022, an existing/past income-tax payer can newly join APYunder the notified definition?

A. Yes | B. No | C. Only through two accounts | D. Only throughASBA

Answer B. The notification restricts new entry by such taxpayers.

Retirement lifecycle



Pension and retirement products

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Longevity creates retirement-income needs.	15. Permitted extension blocks are 5 years.
02. Inflation can erode retirement purchasing power.	16. PPF loans generally fall in 3rd-6 thFYwindow.
03. Accumulation builds retirement wealth.	17. Loan and withdrawal rules are different.
04. Vesting/decumulation converts wealth into benefits.	18. Annuity options determine survivor benefits.
05. EPF and EPS are different schemes.	19. NPS is market-linked.
06. EDLI is deposit-linked insurance.	20. NPS is defined contribution.
07. EPFO operates under its statutory framework.	21. PFRDA regulates the NPS framework.
08. The relevant establishment threshold is ordinarily 20 or more workers.	22. NPS exit rules vary by subscriber and event.
09. EPF interest rates are financial-year specific.	23. Government and non-government normal exits differ.
10. The source 8.10% rate isFY 2021-22 history.	24. Regulatory withdrawal permission is not tax exemption.
11. PPF is a small-savings scheme.	25. APY offers specified pension slabs.
12. PPF minimum annual contribution is 500.	26. APY entry age is 18-40 subject to conditions.
13. PPF maximum annual contribution is 1.5 lakhunder scheme rules.	27. APY pension begins at 60 under its rules.
14. PPF has a prescribed 15-year maturity calculation.	28. New APY entry excludes notified taxpayers from 1 October 2022.

Three EPFO schemes

EPF: provident balance

EPS: pension

EDLI: insurance

Para-banking and financial services

D 16 / Para-banking and financial services

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

RBI / financial services undertaken by banks
The applicable bank-category Directions, financial activity and organisational route determine permission. The full2015/2016source account is preserved as historical context.

Chapter route	What to study
Scope and permissions	All source services, definitions, investment limits and group/subsidiary routes.
Activities	Leasing, factoring, PD, underwriting, funds, insurance, pensions, advice, agency and broking.
Current update	2025 commercial-bank Directions, updated 5 October 2026; AIF, group governance and customer protection.



A bank counter does not make every product a deposit
Learner: I bought this fund at my bank; is principal guaranteed? Mentor: Distribution does not change the issuer or product risk. Read whose product it is and who carries the obligation.

Primary reference desk / 26 October 2026

RBI / Commercial Banks Financial Services Directions 2025, updated October 2026

RBI / historical Financial Services Directions 2016

Permission test

Identify bank category → **Identify activity + route** → **Apply approvals / conditions**

Para-banking and financial services

Learn and verify / the examinable distinctions

Choose the route before offering the activity

Anchor	Explanation
Departmental	Only activities permitted under the applicable bank framework and conditions may be offered inside the bank.
Subsidiary/group	Separate entity status does not remove group governance, exposure, approval and conflict requirements.
Third-party distribution	Agency/referral activities differ from underwriting or principal risk participation. Product authorisation, consent and disclosure remain necessary.
Regulator map	RBI bank permissions coexist with SEBI, IRDAI, PFRDA or IFSCArequirements for the activity/jurisdiction.

Current investment limits / distinguish denominators

Anchor	Explanation
Bank own capital base	Individual equity investment ceiling 10% and aggregate 20% of bank paid-up capital/reserves under the cited current Direction calculation, with specified exclusions/conditions.
Investee capital	Bank-group investment below 20% of investee equity can follow the no-prior-approval route subject to conditions;20% or more requires prior RBIapproval. This is a different denominator.
AIF scheme	Bank individual contribution not above 10% of aCategoryI/IIAIF scheme corpus; aggregate regulated-entity contribution not above 20%, subject to stated exemptions/transitions.
Downstream debt exposure	A bank contribution above 5% in an AIF with relevant downstream non-equity investment in its debtor company triggers proportionate 100% provisioning under the specified cap/conditions.
CategoryIII	No bank investment in Category III AIF corpus under the cited Direction; subsidiary investment is separately restricted.

Different denominators

Bank capital base

Investee equity capital

AIF scheme corpus

Para-banking and financial services

2026 additional coverage

Anchor	Explanation
Governance	Board policies must address permissions, risks, conflicts, group relationships and appropriate controls.
IIBX	Current Directions include eligible Indian-bank participation on IndiaInternationalBullionExchange, subject to prescribed conditions.
Overseas/IFSC	Applicable home/host law, approvals and group conditions apply; location does not create an unrestricted exemption.
Customer protection	Make issuer/product risk clear; do not imply assured returns on a mutual fund or coerce third-party purchases through banking access.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Complete source section / source 371

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Current framework / apply the 2025 Directions, not historical permission alone

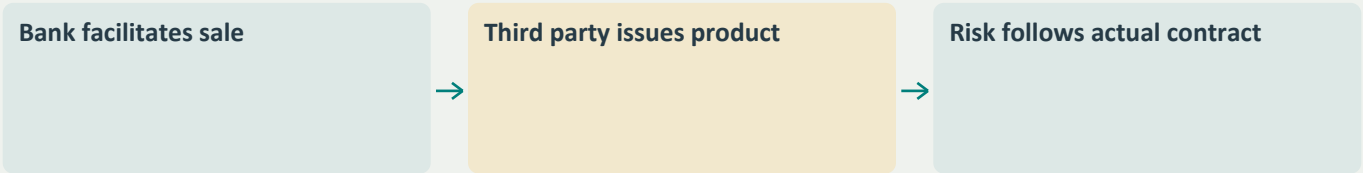
The cached RBI Commercial Banks-Undertaking of Financial Services Directions 2025 are updated 5 October 2026. They supersede earlier applicable instructions and contain revised group/investment/AIF/activity conditions. Their commercial-bank scope excludes SFBs, payments banks and LABs, which have separate applicable frameworks. Source 2015/2016 approval and prudential figures below remain historical wording: use the current comparison and the exact operative paragraph for the bank/activity. A reference incorporating a Hire-PurchaseAct 1972 definition does not revive that repealed/non-commenced Act as a generally operative code. MF 1996 references in cross-referenced wording also require reading with the 2026 MFframework.

JAIIB Paper 1 IE & IFS Module D Unit 16: Para Banking and

Financial Services Provided By Banks

Introduction

Third-party distribution



Para-banking and financial services

Complete source section / source 372

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▪ Banks are permitted to conduct a number of other activities, which are called para banking and Financial Services activities.

Types Of Para Banking And Financial Services Activities

▪ These services were earlier named as Para Banking Services (RBI Master Circular dated 1st July 2015).

▪ Subsequently, RBI has come out with Master Direction, 2016, wherein, Prudential Regulations for Investment by a bank in a subsidiary or in a financial services company (not being a subsidiary) or a non-financial services company have been provided. RBI, in its Master Direction (2016) has further expanded the scope of these services by adding the following financial activities:

▪ Investment advisory services

▪ Agency Business by Banks

▪ Broking services for commodity trading segment Activities of banks which come under para banking and Financial Services, as per the RBI Master Circular dated 1st July 2015 and the Master Directions (2016) on “Financial Services provided by Banks” dated 26th May 2016 (updated 10th August 2021) are as follows:

• Sponsoring of an Infrastructure Debt Fund

• Equipment Leasing and Hire Purchase Business

• Factoring Services

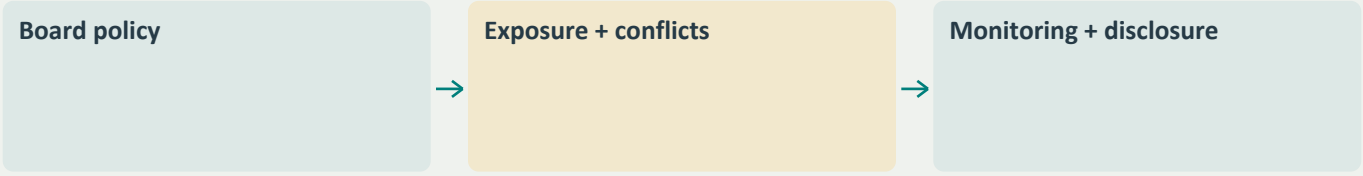
• Primary Dealership Business

• Underwriting Activities

• Mutual Fund Business

• Insurance Business

Control framework



Para-banking and financial services

- Pension Fund Management by Banks
- Investment Advisory Services
- Portfolio Management Services
- Agency Business by Banks
- Referral Services
- Retailing of Government Securities
- Membership of SEBI approved Stock Exchanges
- Broking services for Commodity Derivatives Segment
- Banks' investment in Venture Capital funds
- Cheque writing facility for investors of money market mutual funds
- Safety net Services

Organisation Of Para Banking and Financial Services Activities By A

Bank

▪ Banks can undertake certain eligible financial services or para-banking activities, either departmentally or by setting up subsidiaries for the purpose.

Complete source section / source 373

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

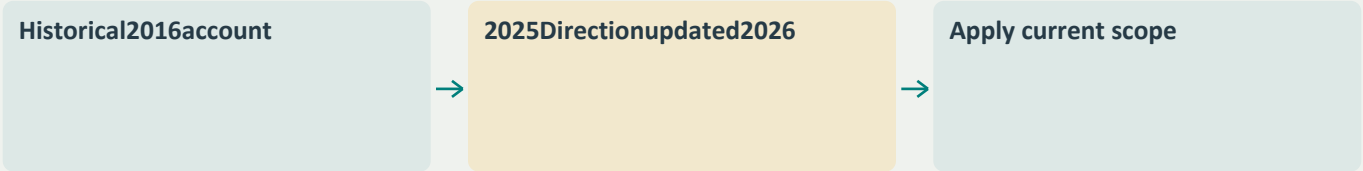
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▪ Banks may form a subsidiary company, for undertaking the types of businesses, which a banking company is otherwise permitted to undertake, with prior approval of Reserve Bank of India.

General Guidelines

Current source comparison



Para-banking and financial services

Bank desirous of undertaking the businesses permitted under Section 6(1) of the Banking Regulation Act, 1949 may do so, either departmentally or through a separate subsidiary set up for the purpose, under the provisions of Section 19(1) of the Banking Regulation Act, 1949.

An activity undertaken departmentally shall follow RBI guidelines on KYC compliance and Charter of Customer Rights issued. In addition, all the instructions/regulations of respective regulators such as SEBI, IRDA and PFRDA, as applicable, shall also be complied with. Master Directions on 'Prudential Norms for Banks Exposures' wherever applicable, shall also be complied with.

Banks are also allowed to hold equity in both financial services companies as well as companies not engaged in financial services activities, within the limits specified under the provisions of Section 19(2) of the Banking Regulation Act, 1949, and subject to the prudential limits, as enumerated in this chapter.

• Factoring: Means factoring as defined in the Factoring Regulation Act, 2011.

• Financial Services Company: Means a company engaged in the 'business of financial services'

• Hire Purchase: Means hire purchase as defined in the Hire Purchase Act, 1972.

• Infrastructure Debt Fund: means an infrastructure debt fund as defined in the Notification no. DNBS.233/CGM (US)-2011 dated November 21, 2011, as amended from time to time.

• Investment Advisory Service: Means the service offered by an investment advisor, as defined in the SEBI (Investment Advisors) Regulations, 2013.

• Mutual Fund: means a fund as defined in SEBI (Mutual Funds) Regulations, 1996.

• Non-Financial Services Company: Means a company not engaged in any of the business mentioned in Section 3(vi) of these Directions.

• Pension Fund Management: Means management of a pension fund, as defined in the Pension Fund Regulatory Development Authority (Exit and Withdrawals under National Pension System) Regulations, 2014.

• Portfolio Management Services: Means the service offered by a portfolio manager, as defined in the SEBI (Portfolio Managers) Regulations, 1993.

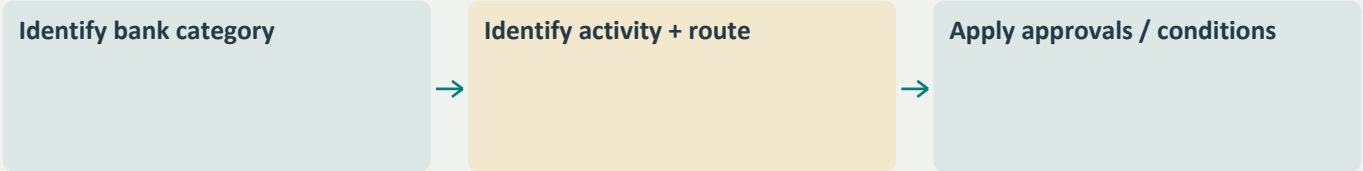
• Referral Services: Means the arrangement between a bank and a third-party financial product provider, for referring the customers of the bank to the third- party financial product provider.

Prudential Regulation for Banks' Investments in a subsidiary or in a financial services company

Complete source section / source 374

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Permission test



Para-banking and financial services

Current framework / apply the 2025 Directions, not historical permission alone

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Limits on investments:

• Equity investment in a subsidiary company, or a financial services company, not being a subsidiary, individually, shall not exceed: 10% of the bank's paid-up share capital and reserves, as per the last audited balance sheet or a subsequent balance sheet, whichever is lower.

• The aggregate of equity investment in factoring subsidiaries and factoring companies shall not exceed 10% of the bank's paid- up capital and reserves

• Bank shall not contribute more than 49% of the equity of Infrastructure Debt Fund, set up as a Non-Banking Finance Company (IDF-NBFC

• A bank contributing less than 30% of the equity of IDF-NBFC shall not be a sponsor.

• Restrictions on Exposure:

Banks are not allowed to hold more than 10% in the equity of a deposit taking NBFC (other than a housing finance company).

Further, Banks should not invest more than 10% of the unit capital of a Real Estate Investment Trust/Infrastructure Investment Trust, subject to overall ceiling of 20% of its net worth permitted for direct investments in shares, convertible bonds/debentures, units of equity oriented mutual funds and exposures to Alternative Investment Funds Besides, Banks should not hold more than 10% of the paid-up capital of a company, not being its subsidiary engaged in non-financial services or 10% of the bank's paid-up capital and reserve, whichever is lower.

However, investments in excess of 10% but not exceeding 30% of the paid-up share capital of such investee company shall be permissible, if the investee company is engaged in nonfinancial activities permitted for banks in terms of Section 6(1) of the Banking Regulation Act, 1949; or the additional acquisition is through restructuring of debt or to protect the banks' interest on loans/investments made to a company.

Banks should not hold along with their subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and mutual funds managed by Asset Management Companies (AMCs) controlled by the bank, more than 20% of the investee

Different denominators

Bank capital base	Investee equity capital	AIF scheme corpus

Para-banking and financial services

company's paid-up share capital engaged in non-financial services. However, this cap doesn't apply to the investee company engaged in non-financial activities permitted for banks or in case the additional acquisition is through restructuring of debt or to protect the banks' interest on loans/investments made to a company.

Any investment by a bank's subsidiary in a Category III Alternative Investment Fund (AIF) shall be governed by the SEBI Regulations. Hence, Banks are not allowed to invest in AIF (category –III) Banks' aggregate equity investments made in all subsidiaries and other entities engaged in financial services and non-financial services, including overseas investments shall not exceed 20% of the bank's paid-up share capital and reserves (not applicable for investments held under 'Held for Trading' category [90-day defeasance

Complete source section / source 375

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Current framework / apply the 2025 Directions, not historical permission alone

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period]) and investments in excess of 10% in non-financial companies acquired through restructuring of debt or to protect the banks' interest on loans/investments.

Banks are required to take prior approval of RBI Before making investment in a subsidiary and a financial services company that is not a subsidiary. However, in following cases, such prior approval shall not be necessary:

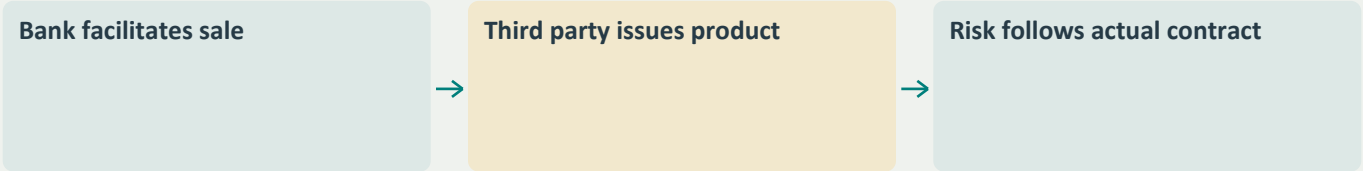
The investment is in a company engaged in financial services; and

The bank has the minimum prescribed capital (including Capital Conservation Buffer) and has also made a net profit in the immediately preceding financial year; and

The shareholding of the bank including the proposed investment is less than 10% of the investee company's paid-up capital; and

The aggregate shareholding of the bank along with shareholdings, if any, by its subsidiaries or joint ventures or other entities directly or indirectly controlled by the bank, is less than 20% of the investee company's paid-up capital.

Third-party distribution



Para-banking and financial services

It may be explained that prior approval of RBI shall not be required, if the investments in the financial services companies are held under the 'Held for Trading' category and are not held beyond 90 days.

As directed by the RBI, prior permission of the RBI is required for making investment in a nonfinancial services company in excess of 10% of such investee company's paid-up share capital, where the investee company is engaged in non-financial activities permitted for banks in terms of Section 6(1) of the Banking Regulation Act, 1949.

Besides, prior permission of the RBI is also needed before making investment of more than 10% of the paid-up capital/ unit capital in a Category I/ Category II Alternative Investment Fund (AIF).

Para-Banking and Financial Services Undertaken By A Bank

Sponsoring of an Infrastructure Debt Fund

▪ Infrastructure Debt Funds (IDFs) can be set up either as a Mutual Fund (IDF-MF) or a Non-Banking Finance Company (IDF-NBFC), subject to Board approval and after making proper disclosure in the prospectus/offer document that the sponsoring bank's liability is limited to the extent of its contribution to the paid- up capital.

Equipment Leasing and Hire Purchase Business

▪ Banks can form subsidiary companies for undertaking equipment leasing and hire purchase, with prior approval of RBI.

The following guidelines should govern the conduct of such business by the banking companies:

Complete source section / source 376

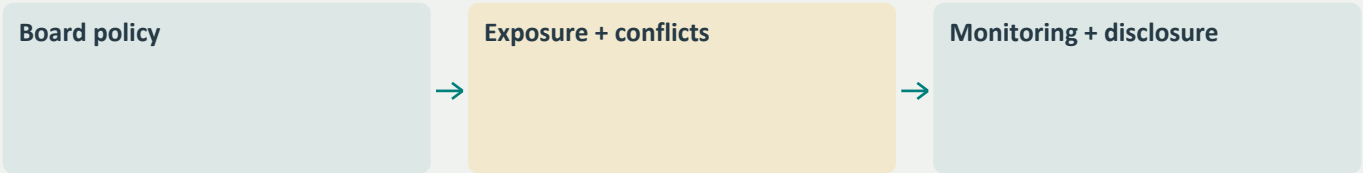
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The subsidiaries/joint ventures formed should primarily be engaged in any of the above-mentioned activities and such other activities as are incidental to equipment leasing, hire purchase business and factoring services.

Control framework



Para-banking and financial services

While banks may invest in other equipment leasing/hire purchase/factoring companies, within the limits specified in Section 19(2) of Banking Regulation Act, 1949, with the Reserve Bank's prior approval, they shall not act as promoters of such companies.

They should be undertaken only by certain select branches of banks having such facilities/arrangements.

The facilities extended by way of equipment leasing, hire purchase finance and factoring services would be covered within the extant exposure ceilings. Banks should maintain a balanced portfolio of equipment leasing, hire purchase and factoring services vis-à-vis the aggregate credit.

Banks are required to frame an appropriate policy on leasing business with the approval of their Boards and evolve safeguards to avoid possible asset liability mismatch.

Any changes brought about in respect of guidelines in asset classification, income recognition and provisioning for loans/advances and other credit facilities would also be applicable to leased assets of banks, undertaking leasing activity departmentally.

Equipment Leasing and Hire Purchase business through a subsidiary shall be subject to compliance with all Prudential Regulations for Banks' Investments.

Factoring Services

The following aspects to be kept in view by banks in relation to the factoring of receivables by factors vis-a-vis borrowings of the clients from banks:

Banks and factors should share information about common borrowers.

Banks are required to issue letters of disclaimer to the factor/s on book debts factored, to facilitate assignment of debt and factors in turn, should route the proceeds of repayment and final adjustment through the borrowers' bank.

Borrowers should declare separately the extent of book debts proposed to be factored and those against which, bank finance is to be obtained in their projection for assessment of bank credit. Banks may also take into account, the finance availed under factoring, while sanctioning loans to the borrower.

The borrower's bank may also obtain from the borrower, periodical certificates regarding factored receivables, to avoid double financing.

i)Factor may intimate the limits sanctioned to the borrower to the concerned bank/s and details of debts factored to avoid double financing. This could be cross checked with the certificate obtained by banks from borrowers.

ii)All Prudential Regulation for Banks' Investments have to be complied with, while undertaking business through a subsidiary.

Current source comparison

Historical2016account → **2025Directionupdated2026** → **Apply current scope**

Para-banking and financial services

Complete source section / source 377

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Current framework / apply the 2025 Directions, not historical permission alone

The cached RBI Commercial Banks-Undertaking of Financial Services Directions 2025 are updated 5 October 2026. They supersede earlier applicable instructions and contain revised group/investment/AIF/activity conditions. Their commercial-bank scope excludes SFBs, payments banks and LABs, which have separate applicable frameworks. Source 2015/2016 approval and prudential figures below remain historical wording: use the current comparison and the exact operative paragraph for the bank/activity. A reference incorporating a Hire-PurchaseAct 1972 definition does not revive that repealed/non-commenced Act as a generally operative code. MF 1996 references in cross-referenced wording also require reading with the 2026 MFframework.

Factoring services shall be subject to extant prudential norms on loans and advances.

Credit information of any default on dues by the person on whom exposure was booked shall be furnished to the Credit Information Companies authorised by RBI, subject to the guidelines under Credit Information Companies (Regulation) Act, 2005.

Primary Dealership (PD) Business

• For undertaking the PD business through a subsidiary, a bank should be registered as an NBFC with RBI (DNBR)

• For undertaking the PD business departmentally the bank is required to be registered with RBI(IDMD) for the same.

• A primary dealer (PD) is an RBI registered entity that is authorised in buying and selling government securities.

• There are two types of primary dealers in India Standalone primary dealers: Either subsidiaries of scheduled commercial banks, Indian subsidiaries of entities incorporated abroad or companies incorporated under Companies Act and are registered as Non-Banking Financial Companies (NBFCs).

Banks fulfilling the following minimum eligibility criteria may apply to RBI for approval, for undertaking primary dealership business, provided they fulfil the following criteria:

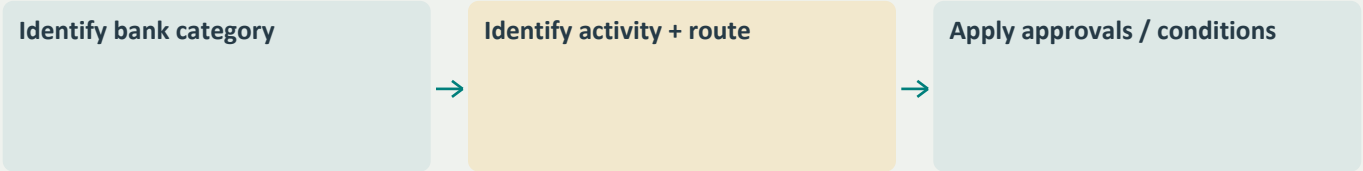
Minimum Net Owned Fund of Rs 1,000 crores

Minimum CRAR of 9 %

Net NPAs of less than 3% and a profit-making record for the last 3 years

Underwriting Activities

Permission test



Para-banking and financial services

• Underwriting of issues of shares, debentures and bonds may be undertaken, either departmentally or through a merchant banking subsidiary.

• Underwriting business undertaken departmentally and through subsidiary, shall be subjected to Prudential Regulation for Banks' Investments Banks are

Redrawn / Primary dealers

Relationship	Source meaning
1	Standalone PD
2	Bank PD

Complete source section / source 378

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permitted to extend underwriting activities for corporate shares and debentures and PSU bonds, as part of para banking activities.

• While underwriting issues, as a part of their merchant banking activities, banks should ensure the prudential exposure norms, prescribed by RBI from time to time, as well as the statutory limits contained in Sections 19(2) & (3) of the Banking Regulation Act, 1949 are strictly adhered to. Further, while undertaking such activities, banks as well as their merchant banking subsidiaries would also be required to comply with relevant SEBI regulations.

Mutual Fund Business

Banks desirous of undertaking mutual fund business should obtain prior approval of RBI, for setting up such funds, subject to the following:

Different denominators

Bank capital base

Investee equity capital

AIF scheme corpus

Para-banking and financial services

• Bank-sponsored mutual funds should comply with the guidelines issued by SEBI, from time to time.

• Where a bank's name has been associated with the mutual Fund, a suitable disclaimer clause should be inserted, while publicising new schemes that the bank is not liable or responsible for any loss or shortfall resulting from the operations of the scheme.

Insurance Business

No bank shall undertake insurance business with risk participation except through a subsidiary/joint venture set up for the purpose, subject to fulfilment of the eligibility criteria (as on March 31 of the previous year) as under:

• It has a net worth of `1000 crore and its minimum net worth shall not be less than `500 crore after investing in the equity of such company;

• It has the minimum prescribed capital (including Capital Conservation Buffer) after investment

• Its level of net non-performing assets is not more than 3 per cent;

• It has made a net profit in the preceding three financial years; and

• The track record of the performance of its subsidiaries, if any, is satisfactory.

Undertaking of insurance broking/corporate agency by a subsidiary/joint venture:

No bank shall set up a subsidiary/joint venture company for undertaking insurance broking and corporate agency, until it fulfils the eligibility criteria (as on March 31 of the previous year) as under:

• Its net worth shall not be less than `500 crore after investing in the equity of such company;

• It complies with conditions stated at 7(a) ii, iii, iv and v.

Pension Fund Management by Banks

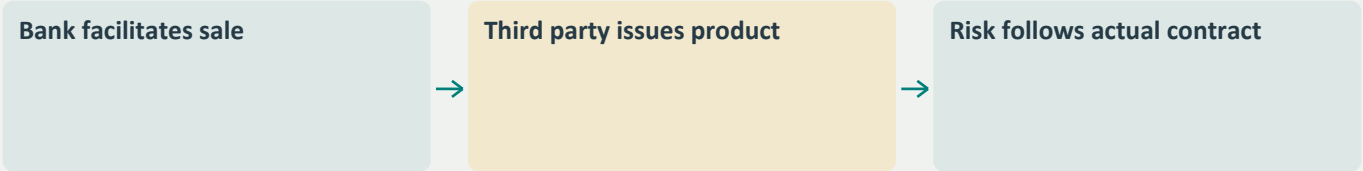
Complete source section / source 379

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Third-party distribution



MFframework.

Banks may undertake the business of pension fund management only through a subsidiary set up for the purpose, subject to the fulfilment of the eligibility criteria (as on March 31 of the previous year) listed below:

• Banks shall not undertake the business of pension fund management departmentally.

• Its net worth shall not be less than `500 crore after investing in the equity of such company;

• It has the minimum prescribed capital (including Capital Conservation Buffer) after investment;

• Its level of net non-performing assets is not more than 3 per cent;

• It has made a net profit in the preceding three financial years; and

• The track record of the performance of its subsidiaries, if any, is satisfactory.

Investment Advisory Services (IAS)

• Banks may undertake the business of investment advisory services (IAS), through a separate subsidiary, set up for the purpose or one of its existing subsidiaries and after taking specific prior approval.

• IAS shall be provided only for products and services in which banks are permitted to deal in as per the Banking Regulation Act, 1949.

Agency Business by Banks

• Agency business shall be undertaken only for the products and services, in which, a bank is permitted to deal in, as per Banking Regulation Act, 1949.

• The service shall be provided on fee basis, without any risk participation.

• Agency business of mutual fund companies undertaken departmentally shall be subject to the following additional conditions:

The investors' applications for purchase/sale of mutual fund units shall be forwarded to the mutual funds/registrars/transfer agents.

The purchase of units shall be at the customers' risk without the bank guaranteeing any assured return.

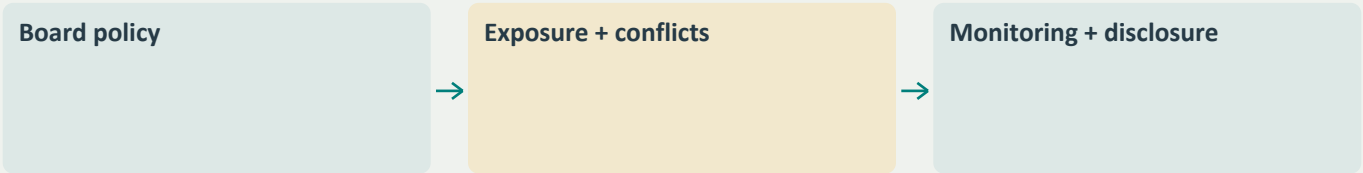
No mutual fund units shall be acquired from the secondary market or bought back from a customer for selling it to other customers.

Extension of credit facility to individuals against the security of mutual fund units shall be in accordance with the Master Directions on Credit Management issued by the RBI.

A bank holding custody of mutual fund units on behalf of its customers shall keep the investments of the customers distinct from its own investments.

Referral Services

Control framework



Para-banking and financial services

• Banks offering referral services shall do so only for financial products other than insurance, on a nonrisk participation basis.

Complete source section / source 380

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• Referral Services means the arrangement between a bank and a third-party financial product provider, for referring the customers of the bank to the third- party financial product provider. Banks are permitted to offer referral services to their customers for financial products, subject to the following conditions:

The bank/third-party issuers of the financial products should strictly adhere to the Know Your Customer (KYC)/Anti-Money Laundering (AML) guidelines in respect of the customers, who are being referred to the third-party issuers of the products.

The bank should ensure that the selection of third-party issuers of the financial products is done in such a manner so as to take care of the reputational risks to which the bank may be exposed to, in dealing with the third-party issuers of the products.

The bank should make it explicitly clear upfront to the customer that it is providing purely a referral service strictly on a non-risk participation basis.

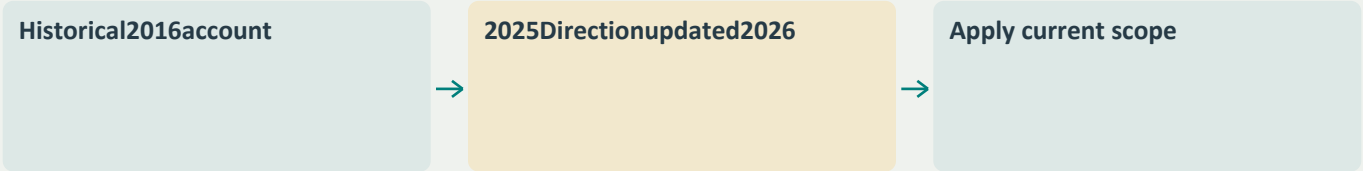
The third-party issuers should adhere to the relevant regulatory guidelines applicable to them, and while offering referral services, the bank should strictly adhere to the relevant RBI guidelines.

Retailing of Government Securities

As part of para banking and financial activities, banks are permitted to undertake the business of retailing of Government Securities with non-bank clients, in terms of the guidelines issued by RBI from time to time, as applicable. They also need to adhere to the following conditions:

• Banks are free to buy and sell Government Securities, on an outright basis, at prevailing market prices, without any restriction on the period between sale and purchase.

Current source comparison



Para-banking and financial services

• Banks shall not undertake ready forward transactions in Government Securities, with non-bank clients.

• The retailing of Government Securities should be on the basis of ongoing market rates/yields.

• No sale of Government Securities should be effected by banks, unless they hold the securities in their portfolio either in the form of physical scrips or in their SGL Account maintained with RBI.

• Immediately upon sale, the corresponding amount should be deducted by the bank from its investment account and also from its SLR assets.

• Banks should put in place adequate internal control checks/mechanism in this regard.

• These transactions should be subjected to concurrent audit, as per RBI's extant instructions and should also be looked into by the auditors, at the time of bank's statutory audit.

Membership of SEBI approved Stock Exchanges

Complete source section / source 381

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The AD Category- I scheduled commercial bank shall not become a trading/clearing member of the currency derivatives segment of the SEBI recognised stock exchanges unless –

• It has a minimum net worth of `500 crore;

• It has the minimum prescribed capital (including Capital Conservation Buffer);

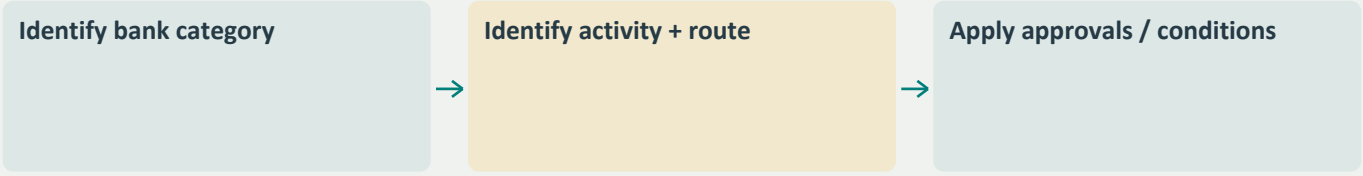
• Its net NPA does not exceed 3 per cent and

• It has made a net profit in the preceding three financial years.

Broking services for Commodity Derivatives Segment

No bank shall offer broking services for the commodity derivatives segment of SEBI recognised stock exchanges except through a separate subsidiary set up for the purpose or one of its existing subsidiaries and

Permission test



shall do so subject to the following conditions:

• The subsidiary shall, with the approval of its Board, put in place effective risk control measures including prudential norms on risk exposure in respect of each of its clients, taking into account their net worth, business turnover, etc.

• The subsidiary shall not undertake proprietary positions in the commodity derivatives segments.

• The subsidiary shall ensure strict compliance with various margin requirements as may be prescribed by SEBI, its own board or the "Commodity Exchanges."

Investment in Venture Capital Funds

• Various aspects of venture capital funds have been dealt with in a separate chapter covered earlier in this Module. In view of the significance of venture capital activities and the need for banks' involvement in financing of Venture Capital Funds (VCFs), it is important to address the relatively higher risks inherent in such exposures.

• As such, banks should obtain prior approval of RBI, for making strategic investment in VCFs, i.e., investments equivalent to more than 10 per cent of the equity/unit. All exposures to VCFs (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure).

Money Market Mutual Funds (MMMFs)

▪ Money Market Mutual Funds (MMMFs) come under the purview of SEBI regulations.

▪ However, banks desirous of setting up MMMFs would have to, initially, seek necessary clearance from RBI for undertaking this additional activity before approaching SEBI for registration.

Cheque Writing Facility for Investors of Mutual Funds/Money Market

Mutual Funds

Complete source section / source 382

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Different denominators

Bank capital base	Investee equity capital	AIF scheme corpus

incorporating a Hire-PurchaseAct 1972 definition does not revive that repealed/non-commenced Act as a generally operative code. MF 1996 references in cross-referenced wording also require reading with the 2026 MFframework.

Banks are permitted to tie-up with MMMFs as also with MFs, in respect of Gilt Funds and Liquid Income Schemes, which predominantly invest in money market instruments (not less than 80% of the corpus) to offer cheque writing facilities to investors, subject to the following safeguards:

• In the case of a MMMF set up by a bank, the tie-up arrangement should be with the sponsor bank. In other cases, the tie-up should be with a designated bank.

The name of the bank should be clearly indicated in the Offer Document of the Scheme.

• The Offer Document should clearly indicate that the tie-up to offer cheque writing facility is purely a commercial arrangement between the MMMF/MF and the designated bank

• The facility to any single investor in the MMMF/MF can be permitted at the investor's option, in only one of the branches of the designated bank.

• This should be in the nature of a drawing account, distinct from any other account, with clear limits or drawals, the number of cheques that can be drawn, etc., as prescribed by the MMMF/MF. No deposits can be made in the account.

Each drawal made by the investor under the facility should be consistent with the terms prescribed by the MMMF/MF and treated as redemption of the holdings in the MMMF/MF to that extent.

• The facility can be availed of by investors only after the minimum lock-in period of 15 days for investments in MMMFs (not applicable in the case of eligible Gilt Funds and Liquid Income Schemes of mutual funds and any prescription of lock-in-period in such cases will be governed by SEBI Regulations).

• The bank should ensure pre-funding of the drawing account by the MMMF/MF at all times and review the funds position on a daily basis.

Safety Net Schemes

▪ Safety Net is a scheme where the company's promoters assure that they will buy back shares from the retail applicants at the IPO price, if its stock falls sharply during the first six months after listing.

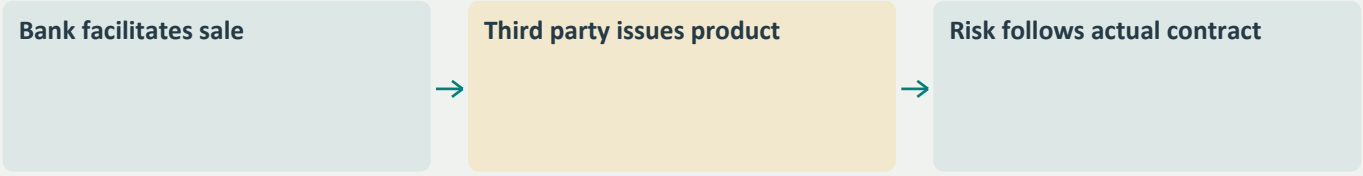
▪ It was proposed by the market regulator SEBI in 2012.

▪ SEBI had formulated draft norms for safety net after its study showed that 62% of 117 companies listed between 2008 and 2011 fell below IPO price within the first six months of listing.

▪ SEBI, however, could not make it mandatory after the proposal

▪ RBI had observed that some banks/their subsidiaries were providing buy back facilities under Safety Net Schemes in respect of certain public issues as part of their merchant banking activities.

Third-party distribution



Para-banking and financial services

▪ Under such schemes, large exposures are assumed by way of commitments to buy the relative securities from the original investors at any time during a

Complete source section / source 383

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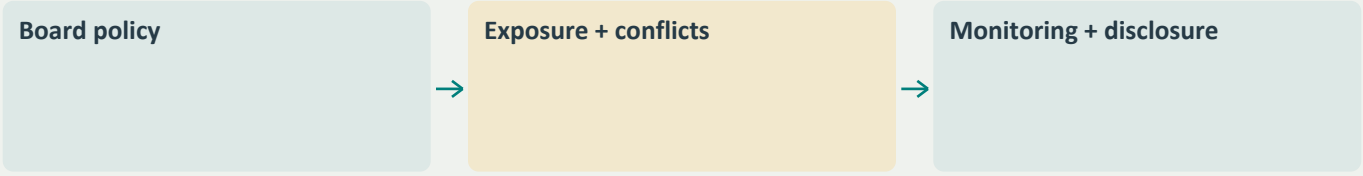
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stipulated period at a price determined at the time of issue, irrespective of the prevailing market price.

▪ Apparently, there was no undertaking in such cases from the issuers to buy the securities. There is also no income commensurate with the risk of loss built into these schemes.

Control framework



Para-banking and financial services

Original practice / answers with reasons

Q 01. A 20% limit is meaningful only after checking what?

A. Font colour | B. Denominator and scope | C. Branch floor | D. Only product name

Answer B. Bank capital, investee equity and scheme corpus are different bases.

Q 02. Can an agency sale automatically make a mutual fund a guaranteed bank deposit?

A. Yes | B. No | C. Only with cheque facility | D. Only at renewal

Answer B. The underlying product and issuer obligation remain distinct.

Q 03. A separate subsidiary removes all bank-group obligations. True?

A. Yes | B. No | C. Only overseas | D. Only inIFSC

Answer B. Group governance, exposure and activity requirements still apply.

Q 04. Current individual bank contribution ceiling to aCategoryI/IIAIF scheme under the cited rule is?

A. 10% ofscheme corpus | B. 20% ofbank loans | C. 100% always | D. No limit

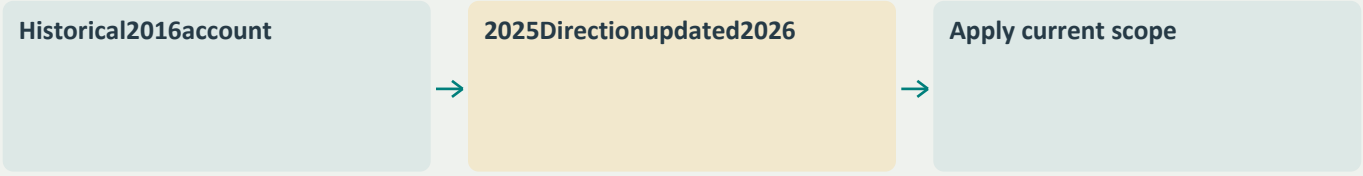
Answer A. Other aggregate, provisioning, exemption and approval conditions also apply.

Q 05. Does the cited commercial-bank Direction apply identically to every bank category?

A. Yes | B. No | C. Only by branch size | D. Only by name

Answer B. SFBs, payments banks and LABs have separate applicable frameworks.

Current source comparison

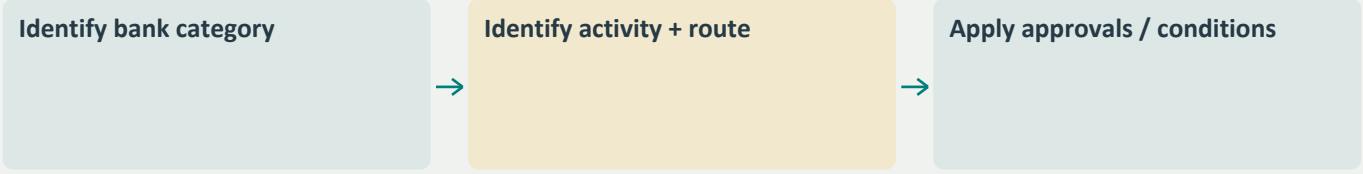


Para-banking and financial services

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. Para-banking covers specified permitted financial activities.	15. Investment advice differs from execution-only distribution.
02. A bank activity requires the applicable permission.	16. Portfolio management needs applicable authorisation.
03. Departmental and subsidiary routes differ.	17. G-sec retailing remains subject to settlement controls.
04. A separate subsidiary does not eliminate group risk.	18. Commodity broking has specific conditions.
05. Board-approved policies support control.	19. Overseas/IFSC operations remain regulated.
06. Bank permissions coexist with activity-regulator requirements.	20. Current cited financial-services Directions date to 2025.
07. Agency business differs from principal risk-taking.	21. The cached version is updated 5 October 2026.
08. Referral differs from underwriting.	22. Its commercial-bank scope has category exclusions.
09. Factoring concerns eligible receivables.	23. Bank capital and investee capital are different denominators.
10. Primary dealers support government-securities markets.	24. AIF scheme corpus is another denominator.
11. Underwriting involves subscription-related commitments.	25. BankCategoryI/II AIF contribution limit is 10% under the cited rule.
12. Mutual-fund units are not bank deposits.	26. Aggregate regulated-entity AIFlimit is 20% subject to conditions.
13. Insurance distribution differs from insurance underwriting.	27. Category III AIF bank investment is prohibited under the cited rule.
14. Pension fund management has its own framework.	28. Third-party distribution must disclose actual product risk.

Permission test



REITs and InvITs

D 17 / REITs and InvITs

Complete source material • illustrated explanations • dated corrections

Read the teaching notes and correction panels before using any dated rule. The source wording is preserved in full so no original educational point is silently removed. Modern notes are additional; source-era statements are not automatically current rules.

SEBI / REITs and InvITs
Income-generating assets, trust governance and cash distributions are distinct from guaranteed yields. Current Regulations differ from the source-era thresholds.

Chapter route	What to study
REITs	Trust/sponsor/manager/trustee/SPV structure; source types, comparisons, benefits and limitations.
InvITs	Infrastructure assets, sponsor and manager roles, public/private structures and revenue risks.
Cash and tax	Every source example/table retained; NDCF arithmetic and dated tax corrections added.



Distribution is not the same as profit or a fixed coupon
Learner: The trust must distribute cash. Is my return guaranteed? Mentor: The rule applies to distributable cash under its definition. Cash generation, unit prices and the composition/tax of distributions can change.

Primary reference desk / 26 October 2026

- SEBI / REIT Regulations, amended 15 October 2026
- SEBI / InvIT Regulations, amended 16 October 2026
- Income Tax Department / capital gains
- NISM / investor education
- PIB / historical infrastructure pipeline task force 2019

Real-estate cash chain

Tenants pay rent → **Costs / financing + NDCF** → **Eligible trust distribution**

REITs and InvITs

Learn and verify / the examinable distinctions

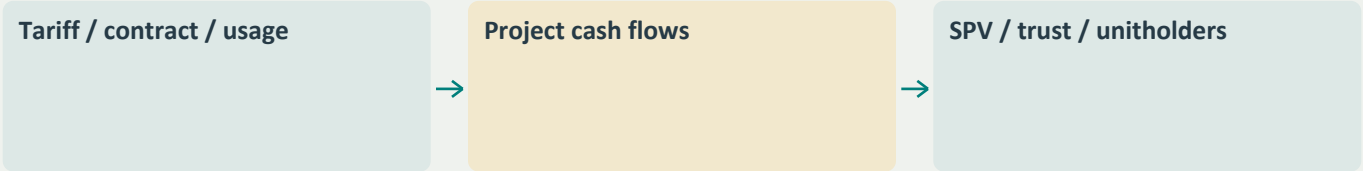
Follow the economic asset

Anchor	Explanation
REIT	A regulated trust structure investing in permitted real-estate assets; unitholders hold trust units rather than directly owning a particular office.
InvIT	A trust structure investing in permitted infrastructure assets/projects. Revenue can depend on contracts, tariffs, usage and counterparties.
Sponsor / manager / trustee	Formation/contribution, investment/operational management and independent oversight are different roles. InvIT project managers have additional operating responsibilities.
SPV / holdco	Intermediate entities hold assets/rights; controlling interest, ownership, leverage and distribution rules must be applied to the structure.

Current quantitative anchors / scope matters

Anchor	Explanation
Ordinary REITassets	At least 80% completed and rent/income-generating real estate under the relevant ordinary-REIT framework; the residual bucket has specified permitted investments and conditions. SMREITshave a separate scheme framework.
REIT sponsor holding	Collective sponsor/group holding:15% first 3 years;5% years 4-5;3% years 6-10;2% years 11-20;1% thereafter, with specified caps/transitions/other conditions.
Public InvITassets	The relevant publicly offered framework uses at least 80% completed/revenue-generating infrastructure; its residual bucket and under-construction sublimit have separate conditions. Private structures differ.
Distribution	At least 90% of defined NDCF is the key trust-level rule, subject to the current framework. It is not 90% ofgross revenue or accounting profit.

Infrastructure cash chain



REITs and InvITs

Source NDCF example / check the sum

Anchor	Explanation
Inflows	51,122.81+446.14+21,911.71=73,480.66. Retain the source period and unspecified unit context.
Outflows	7,546.97+389.50=7,936.47.
Net	73,480.66-7,936.47=65,544.19. This verifies arithmetic, not a current market forecast or modern universal NDCFtemplate.
Simple 90% illustration	If eligible NDCF were 100 under the applicable rule,90 would be the minimum distribution before considering detailed structure/other conditions.

Distribution tax versus unit-sale tax

Anchor	Explanation
Distribution	Interest, dividend, rent and debt-repayment components can have different tax treatment. SPVtax option, investor residency and applicable law matter.
Unit sale	Under the post 23 July 2024 listed/STT-qualified framework, the relevant holding period is 12 months;20% STCGand 12.5% qualifyingLTCGrules apply with statutory conditions.
Threshold	The qualifyingLTCGannual threshold is 1.25 lakhunder the relevant provisions, not the source 1 lakh. Apply current tax-year law and aggregation, not a promise that every REIT/InvIT payment is tax-free.
Separate tests	Regulatory distribution percentage, taxable income, TDSand investor final tax liability are different calculations.

How to read dated material

Evergreen concepts are taught alongside dated source statements. IIBF ordinarily applies the preceding 31 December cutoff to March-August exams and 30 June to September-February exams; check the relevant examination notice. Later changes are supplements. This book is an independent Clerk 2 Officer learning resource.

Four governance roles

Sponsor

Manager / project manager

Trustee oversight

REITs and InvITs

Complete source section / source 383

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Structure / not a guaranteed property return

REITunits give an interest in a regulated trust structure. Rental and capital appreciation are uncertain; a real-estate market trend is not a guarantee.

JAIIB Paper 1 IE & IFS Module D Unit 17: Real Estate

Investment Trusts (REITs) and Infrastructure Investment

Trusts (INVITs) Introduction

▪ REITs are stock market listed investments that allow investors exposure to real estate, without having to purchase or manage properties by themselves.

▪ REITs are like Mutual Funds, as they permit the investors to pool in their resources and the assets are managed by a designated person in charge.

▪ But, while the underlying asset of Mutual Funds is usually equity, debt, gold or a combination of these, the underlying assets in the case of REITs is primarily real estate holdings or loans secured by real estate.

▪ Similarly, InvITs are listed investments that allow investors to become stake holders in the infrastructure development activities of the nation.

▪ When a company agrees to formulate the Trust, it become sponsor for the Trust and appoints a Trustee.

▪ The Trustees hold the underlying assets of such established trust in trusteeship and such assets are no longer controlled by the Sponsor. Companies owning or financing such assets must meet a number of organisational, operational, distribution and compliance requirement to qualify as a REIT/InvITs

Redrawn / REIT funding map

Relationship	Source meaning
1	Companies, institutions, individuals → REIT → hotel, offices, retailmall.

Not the same measure

Gross revenue

Accounting profit

Net distributable cash flow

REITs and InvITs

Complete source section / source 384

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Investment conditions / current ordinaryREITversusSMREIT

Ordinary REITandSMREITscheme rules differ. The source 80% description needs its asset, completion/income and valuation conditions; it does not mean 80% ofevery possible trust product must follow one generic global rule.

What are REITs?

▪ Real Estate investment often features large ticket sizes of Rs 1 crore or more, especially in Metro and Tier-1 cities.

▪ There is another way to get exposure to real estate, i.e., investment in equity stock of listed Real Estate companies.

▪ However, these investments are prone to market risk and though real estate is the underlying asset, these investments can be more appropriately termed as mid or small-cap equity investments, with a high degree of volatility.

▪ A viable solution to this situation is the Real Estate Investment Trusts, or REITs.

▪ REITs are investment vehicles that pool investor money like mutual funds and use them to buy a portfolio of real estate assets. They manage these assets to generate a regular income and capital appreciation.

▪ In order to ensure that the REIT is able to generate income, 80% of the portfolio of a REIT should be invested in completed and rent-generating properties.

▪ While REITs can invest in all kinds of income generating properties, such as residences, offices, hotels, malls, warehouses, etc., in India, the listed REITs are focused mainly on office space.

Organisation Of REITs

▪ REITs are similar to Mutual Funds, as they allow multiple investors to pool their investments.

▪ Fund Manager: Assets are professionally managed by a designated Fund Manager.

▪ Underlying asset in the case of REITs, is primarily Real Estate Holdings or loans secured by Real Estate

Two investor returns

Cash distributions	Unit-price movement	Both can vary

REITs and InvITs

Redrawn / InvIT funding map

Relationship	Source meaning
1	Companies, institutions, individuals → InvIT → power, road, solar/wind.

Complete source section / source 385

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Roles, SPVs and sponsor rules

Use the current SEBI definitions of sponsor/group, manager, trustee, holdco andSPV. Current controlling-interest and ownership conditions are not fully expressed by the source bare 50% sentence. Sponsor minimum holdings now decline across stated periods; a source 25%/3-yeargeneralisation is obsolete.

▪ SPONSOR: When a Real Estate Company decides to form a Real Estate Investment Trust, it becomes the Sponsor for the REIT and appoints a Trustee.

▪ The Trustee holds the Real Estate Assets of the Trust in its Trusteeship and these assets are no longer directly controlled by the Sponsor.

▪ SPVs: A REIT may control its Real Estate Holdings either directly or through the formation of one or more Special Purpose Vehicles (SPVs).

▪ In the case of REITs, the SPV is a domestic company that holds the Real Estate Assets on behalf of the REIT, and as per regulations, the Trust must hold at least 50% of the equity in the SPV.

▪ Manager: The Trustee appoints a Manager, to manage the Real Estate Assets on behalf of the Trust and also make investment decisions.

▪ After the Manager is appointed, the REIT can be registered.

▪ Once registered, a REIT can raise money through the sale of units either publicly on stock markets or through private investors.

Benefits to the Sponsor

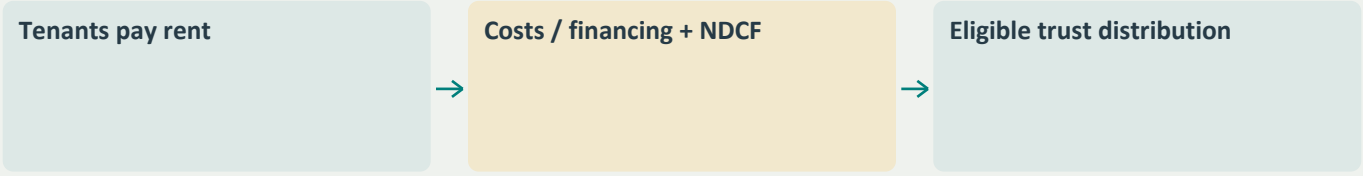
• Monetise revenue-generating real estate and infrastructure assets

• Lower the cost of capital, by tapping the right set of long-term investors (pension funds)

• Enjoy favourable tax treatment, including exemption from dividend distribution tax and relaxation of capital gains tax

• Have diverse sources of funding

Real-estate cash chain



REITs and InvITs

• Once listed, provide regular source of capital to the sector Edition.

Benefits to the Investor

Redrawn / Indicative REIT structure

Relationship	Source meaning
1	Investors 75%; sponsor 25% as source illustrative split.
2	Trustee ↔ REIT ↔ investment manager(asset-management fee).
3	REIT ≥50% equityinSPV 1/SPV 2; SPVs own assets; REIT may directly own asset.
4	Property/project manager operates assets.

Complete source section / source 386

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Source type percentages and tax benefits / correct the claims

The retailREIT 24% andmortgage 10% statements are not universal Indian statutory allocation requirements. Mortgage/equity/hybrid labels are global explanatory categories and do not override Indian permitted-asset rules. Source tax-free-capital-gains and blanket exempt-dividend claims are obsolete or conditional; use the separate current tax notes.

• Invest in real estate or infrastructure, without actually owning the asset

• Benefit from favourable tax norms (tax-exempt dividend income; no capital gains tax, if units are held for more than three years and sold through stock exchange;

and withholding tax at 5 per cent for interest income to non-residential unit holders).

Types of REITs

Five Different types of REITs.

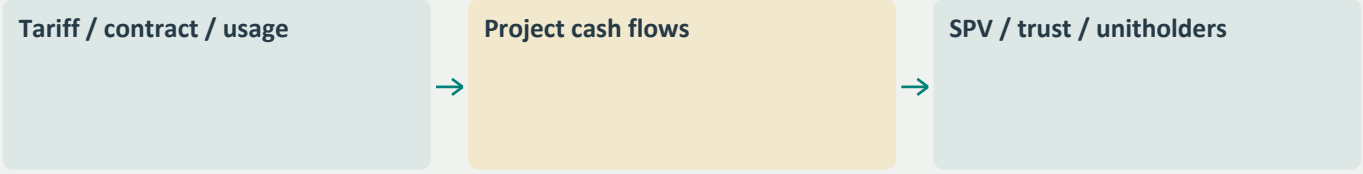
Retail REITs

▪ These REITs are required to invest at least 24% of their assets into commercial retail such as shopping malls and freestanding retail stores.

Residential REITs:

▪ Own and operate manufactured housing as well as rental apartment buildings and gated communities.

Infrastructure cash chain



REITs and InvITs

▪ Considering the never-ending demand for residential property in India, this is one of the most promising areas of growth.

Healthcare REITs:

▪ These trusts primarily invest in and operate healthcare-focused Real Estates such as hospitals, nursing facilities, retirement homes, and medical centres.

Office REITs:

▪ These primarily invest in and operate office space.

▪ Their main source of income for this type of REIT is thus, rental received from tenants under long-term lease arrangements.

Mortgage REITs:

▪ In the case of these REITs, an estimated 10% of investments are made into mortgages instead of physical real estate.

▪ Based on the types of funding that they provide, REITs can be of three different types, viz.,

Redrawn / Five property segments

Relationship	Source meaning
1	Retail
2	Residential
3	Healthcare
4	Office
5	Mortgage

Complete source section / source 387

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Four governance roles

Sponsor

Manager / project manager

Trustee oversight

REITs and InvITs

Professional management and inflation

REITs also have professional managers; the source unlike-REITs comparison is wrong. Inflation does not guarantee higher rents, occupancy, valuations or unit returns. REIT distributions are not always dividends, and are not invariably greater than every real-estate fund distribution.

Equity REITs: They are owners of real estate properties and lease them to companies or individuals to make money. The income is then distributed among the REIT investors as dividends.

Mortgage REITs: They are not the owners, but earn through EMIs against the property from the owners and builders. The earnings are via Net Interest Margin (difference of interest earned on mortgage and cost of funding the loan), which they distribute among the REIT investors, as a dividend.

Hybrid REITs: These REITs invest in both Equity and Mortgage REITs.

Difference Between REITs And Real Estate Mutual Funds

▪ REITs and real estate mutual funds are similar, as they both offer liquidity and a cheap way to get exposure to diversified and substantial capital real estate assets.

▪ Long-term investors have the potential to reap the rewards of dividend income and capital appreciation over a long period.

▪ For retail or short term investors with a low investible surplus, these real estate funds present an opportunity to invest in properties that otherwise may not be feasible to invest in the sector.

▪ A real estate fund can invest in a real estate investment trust to offer benefits to investors, making REIT, a part of their investment portfolio. However, there are some differences, as well. Real Estate mutual funds offer wider diversification than the REITs, based on the investment strategy and have the benefit of experts and professionals managing their portfolio, unlike the REITs.

▪ The value of the real estate tends to increase during times of inflation as property prices and rent goes up, thus giving a better return to the REIT investors.

▪ As such, REITs distribute a higher amount of dividend every year to shareholders or investors than the real estate mutual funds.

Advantages And Disadvantages Of Investing In REITs

The following are the advantages of investing in REITs:

• Diversification: REITs allow an investor to diversify the investment portfolio through exposure to real estate, without the hassles related to owning and managing commercial properties. This diversification allows an investor to go beyond the usual asset classes of Equity, Debt, and Gold, as part of the overall Asset Allocation Strategy.

• Small Initial Investment: One of the key problems associated with making Real Estate investments is the large ticket size especially in the case of commercial properties. REITs require a much smaller initial

Not the same measure

Gross revenue

Accounting profit

Net distributable cash flow

investment of around Rs. 15,000 to provide similar portfolio diversification benefits.

Complete source section / source 388

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Advantages / benefits are potential

Diversification, liquidity and lower ticket size can improve access, but concentration, leverage, vacancy, valuation and market liquidity risks remain. Listing does not guarantee an exit price or eliminate fraud.

• Professional Management: Properties owned by a REIT are managed professionally. This ensures smooth operations and with no effort on the part of the investor towards managing Commercial Real Estate.

• Regular Income Generation: REITs generate income from rental collections and are required to mandatorily distribute 90 per cent of this income to investors, as dividends and interest payments. In this way, REITs provide regular income to investors.

• Capital Gains: REITs are listed and traded on Stock Markets and their prices depend on their performance. An REIT that performs well can thus potentially increase in value over time and be sold at a profit. This provides capital gains to the investors.

There are also some disadvantages in investing in REITs:

• Limited Options: Currently, there are only few REITs in India. This significantly limits the choices for investors.

• Low Liquidity: While REITs are listed and traded on stock markets, the number of market participants is currently low, especially, with respect to retail investors. As a result, selling REIT investments profitably might be a challenge, especially in an emergency. This results in lower liquidity of the investment.

Advantages of Investing in REITs compared to Directly Investing in Real Estate

▪ Investing in REITs is not as capital intensive as a direct investment in properties.

▪ It is easier to invest in REITs, than in real estate.

▪ Compared to direct investment in real estate, REITs have lower liquidity risk.

▪ REITs are regulated by SEBI and, hence, the chances of fraud are low.

▪ REITs are transparent as they disclose their capital portfolio semi-annually.

Comparison Of Various Modes Of Investment In Real Estate

Two investor returns

Cash distributions	Unit-price movement	Both can vary

REITs and InvITs

Complete source section / source 389

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Source table / no return guarantee

All cells of the source advantages/disadvantages table remain below. Regulatory oversight is a safeguard, not proof that fraud is impossible or returns are ensured. Compare REITandfund structures on actual mandate, fees, liquidity and risk.

Taxation Guidelines For Investors Of REITs

Taxation of Dividends:

• Taxable in the hands of investors

• Included in the annual income of the investors and taxed according to investor's tax slab.

Taxation & Capital Gains:

• Capital Gains from sale of REITs units are covered by Short term capital gains or long term capital gains

• STCG: If holding period is 1 year or less from the date of date of allocation [15% of capital gains]

• LTCG: If holding period is more than 1 year from the date of date of allocation [10% of capital gains in excess of Rs.1 lakh]

Regulatory Guidelines For REITs

▪ Governed by SEBI (Real Estate Investment Trusts) Regulations, 2014, and amendments to the same, issued thereafter.

Some of the important regulations governing functioning of REITs are as follows:

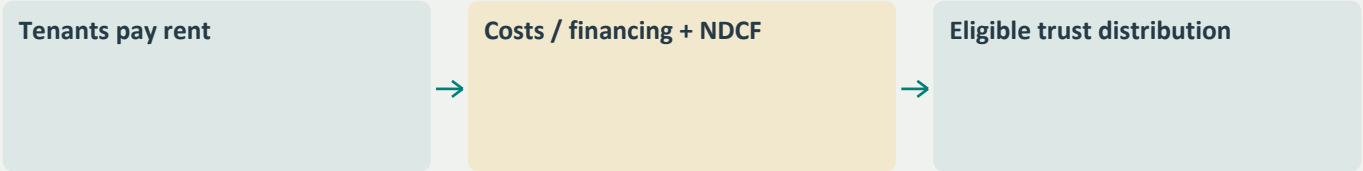
Structure of investment trust

▪ Sponsor to hold atleast 25% of the total units of the investment trust after initial offer, on a post-issue basis, for at least 3 years, from the date of listing of such units (unless such holding is disallowed by government or regulatory provisions)

▪ Invest atleast 80% of the value in completed and revenue-generating projects,

▪ Maximum 10% in 'under-construction' projects.

Real-estate cash chain



REITs and InvITs

Redrawn / Source real-estate investment comparison

Dimension	REIT	Direct property	Real-estate company equity	Corporate property bonds
Investment	Listed trust unit/corporation real estate claim	Physical property	Listed company shares real estate and other business	Real estate company debt
Payout	Majority taxable income to unit-holders	Majority income to owner	Discretionary dividend	Fixed payout
Strategy	Focused activity	Focused activity	Company Board choices	Company Board choices
Liquidity	Liquid	Illiquid	Liquid	Low liquidity
Diversity	Diversified	Concentration risk	Diversified	Concentration risk
Risk	Perceived low	Perceived high	Perceived high	Perceived low
Gearing	Regulatory limited	70%-80%	60%-70%	Moderate

Complete source section / source 390

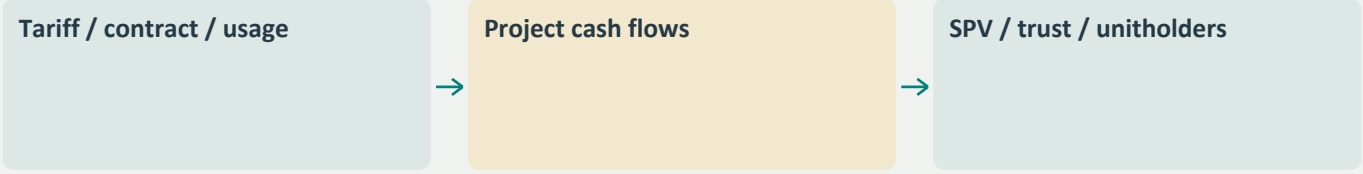
Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

REIT leverage and minimum subscription / match the rule

Ordinary REIT consolidated borrowings/deferred payments, net of cash and cash equivalents, are capped at 49% ofREITasset value under the cited current Regulations, with detailed calculation/approval conditions. Initial/follow-on public-offer minimum subscription falls in theRs.10,000-15,000 range, rather than a universal flatRs.15,000 rule. Secondary-market unit prices, trading lots and public-offer minimum subscription are different measures. Do not apply ordinary REIT limits automatically to everyInvITorSMREITscheme.

- Investment trusts to hold assets either directly or through special purpose vehicles (SPV)
- Investment trusts to hold controlling interest and min 50% equity share capital or interest in the SPVs (except in the case of public-private partnership projects, where such holding is disallowed, by the government or regulatory provisions)
- SPVs to hold not less than 80% of assets directly in properties and not invest in other SPVs

Infrastructure cash chain



▪ SPVs not to engage in any activity other than those pertaining and incidental to the underlying projects.

Stipulations to ensure transparency

▪ Trustee to hold assets for the benefit of unit holders, oversee activities, and ensure compliance with respect to reporting and disclosure requirements

▪ A full valuation to be conducted by an independent valuer, at least once in a year All related-party transactions to be on an arm's length basis.

Distribution requirements

▪ Not less than 90% of net distributable cash flow of the SPV to be disbursed to the investment trust, in proportion to its holding in the SPV, subject to applicable provisions in the Companies Act, 2013, or the Limited Liability Partnership Act, 2008

▪ Not less than 90% of net distributable cash flow of the investment trust to be distributed to unit holders. Such distributions to be declared and made at least once, every six months.

▪ If any asset is sold by the investment trust or SPV, it can reinvest the proceeds into another property or infrastructure asset and will not be required to distribute the sale proceeds. However, if no such reinvestment is made, it will be required to distribute not less than 90% of the sales proceeds.

Leverage restrictions

▪ The aggregate consolidated borrowing and deferred payment of the investment trust net of cash and cash equivalents should never exceed 49% of the value of the investment trust assets

▪ If the aggregate consolidated borrowing and deferred payment of the investment trust, net of cash and cash equivalents, exceeds 25% of the value of the assets, for any further borrowing, credit rating to be obtained, from a registered credit rating agency.

Investment regulations

▪ To improve liquidity in REITs and bring in more listings, SEBI recently announced that the minimum investment amount in a REIT be brought down to Rs 15,000, with the revised trading lot at one unit; the earlier investment amount was Rs 50,000, and the trading lot 200 units in the secondary market.

Infrastructure Investment Trusts (InvITs)

Complete source section / source 391

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Four governance roles

Sponsor

Manager / project manager

Trustee oversight

REITs and InvITs

Infrastructure targets / retain the 2019 date

TheRs.100 lakh crore infrastructure announcement is verified as a 2019 Independence Day statement; PIBsubsequently described the task-force horizon asFY 2019-20 toFY 2024-25. It is not a new rolling five-year promise starting in 2026. TheUSD 4.5 trillion/2040 estimate remains a source-era planning estimate; it is not presented as a freshly verified 2026 forecast. Infrastructure eligibility follows the operative definition/list.

What are InvITs

▪ According to recent reports of the Finance Ministry, India needs to spend USD 4.5 trillion on infrastructure till the year 2040, to improve the economic growth and community well-being.

▪ Every country needs a defined infrastructure that can provide adequate facilities for each individual and which paves the way for capital mobilisation.

▪ While addressing the public on the occasion of the Independence Day of 2019, the Hon'ble Prime Minister announced that Rs 100 lakh crores would be invested in infrastructure over the next 5 years.

▪ An initiative called the National Infrastructure Pipeline was launched to enable this investment.

While there is no hard and fast rule to define infrastructure, the sectors that are included in infrastructure are:

▪ Roads

▪ Ports

▪ Power

▪ Railways

▪ Airports

▪ Telecommunication

▪ Energy

▪ Coal, petroleum and cement production

Organisation Of InvITs

InvITs have a 3-tier management structure, consisting of Sponsor, Manager and Trustee.

Complete source section / source 392

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Not the same measure

Gross revenue	Accounting profit	Net distributable cash flow

REITs and InvITs

Sponsor and manager / current rules

The source maximum 3 sponsorsand 15% for 3 years account is historical/incomplete. Current sponsor/group holdings have ongoing tiered conditions, and investment/project managers have separate responsibilities. Do not apply a source formation date as the current listing-based lock-in trigger.

Public/private structures

Privately placed InvITscan have listed or unlisted structures under their applicable requirements; public-listed versus privately-held is not the complete regulatory classification. Asset composition, investor eligibility, valuation and distribution frequency depend on the structure.

Sponsor

▪ An InvIT can have a maximum of 3 sponsors.

▪ Usually, a sponsor is an infrastructure development company that originally built, owned, and/or operated the infrastructure assets of the trust.

▪ The primary responsibility of the sponsor is to set up the Infrastructure Investment Trust and appoint a SEBI-approved Trustee.

▪ As per current regulations, InvIT Sponsors are mandatorily required to hold a minimum 15% stake in the Trust for at least 3 years, after the formation of the trust.

Manager Usually, an InvIT has two types of managers –

▪ An investment manage

▪ A project manager.

▪ The investment manager is responsible

For ensuring that existing investments of the InvIT are providing returns, as per expectations.

Responsible for making new investment decisions on behalf of the Trust to ensure further growth of InvIT assets.

▪ The project manager is usually a company that specialises in developing and operating infrastructure projects.

Responsibilities: ensuring smooth operations in the case of completed projects of the Trust as well as timely delivery of under-construction projects.

Two investor returns

Cash distributions	Unit-price movement	Both can vary

REITs and InvITs

Redrawn / InvIT organisation

Relationship	Source meaning
1	Sponsor sets upInvIT, lock-in restrictions; investor units freely tradeable from listing, no investor lock-inshown.
2	Trustee holds assets for unit-holders; receives trusteeship fee.
3	Investment manager makes asset investment decisions; receives asset-management fee.
4	Illustrated 100% equity through SPV 1/2/3 toassets; project manager handle sO&Mcontractsandassetoperations.

Complete source section / source 393

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

NDCF / correct denominator

The 90% rule concerns defined net distributable cash flow, not 90% ofall income or guaranteed interest. Publicly offered InvIT distribution frequency and current timelines follow the Regulations. A source 1 lakhminimum subscription is historical; current public issue/trading lot and private placement minimums differ.

Trustee A SEBI-approved Trustee is a company that has a proven track record of providing Trusteeship services.

▪ Key responsibilities: Holding the assets of an InvIT in trusteeship to safeguard the interests of the unitholders.

▪ Other responsibilities of an InvIT trustee include ensuring timely distribution of dividends to unit holders and overseeing the activity of the InvIT managers.

Types Of InvITs

InvITs can be divided into 5 types depending on the types of infrastructure they own or operate:

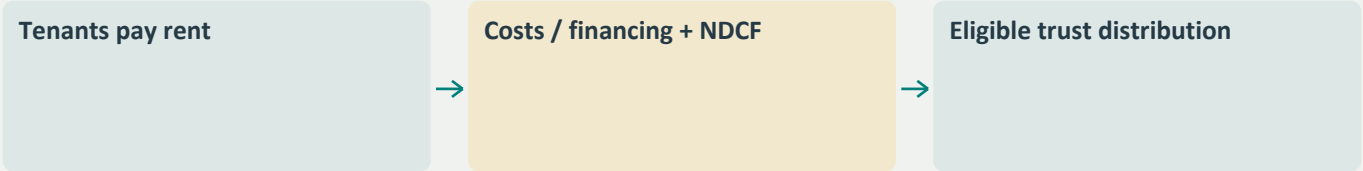
▪ Energy such a power generation and distribution

▪ Transport & Logistics, such as roads and highways

▪ Communications, such as optical fibre networks and telecom towers

▪ Social and Commercial Infrastructure, such as parks

Real-estate cash chain



REITs and InvITs

▪ Water and Sanitation such as irrigation networks From the viewpoint of source of funds, InvITs can be categorised into two types, viz.,

▪ Public listed InvITs

▪ Privately held InvITs

Public-Listed InvITs

▪ After an Infrastructure Trust lists itself for trading on the stock exchange, it is known as a public-listed InvIT.

▪ Units of a public-listed InvIT can be bought and sold on stock exchanges by retail as well as institutional investors.

Privately-Held InvITs

▪ This type of InvIT is not listed on the stock exchange and units of this type of infrastructure trust cannot be bought or sold on a stock exchange.

▪ All units of this type of unit are held privately, by a very limited number of individuals or institutions.

▪ Under SEBI guidelines, at least 80% of an InvIT's assets should be generating operational income.

▪ Moreover, 90% of the net distributable cash flow is required to be distributed to the unit holders.

Advantages And Disadvantages Of InvITs

Diversification:

▪ Investors seeking to diversify their investments can choose to invest in listed InvITs.

Complete source section / source 394

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Revenue risk

Tariff, traffic/usage, counterparty performance, concession terms, operating expenses, refinancing and regulation can affect cash flow. An infrastructure asset does not guarantee stable distributions through every shock.

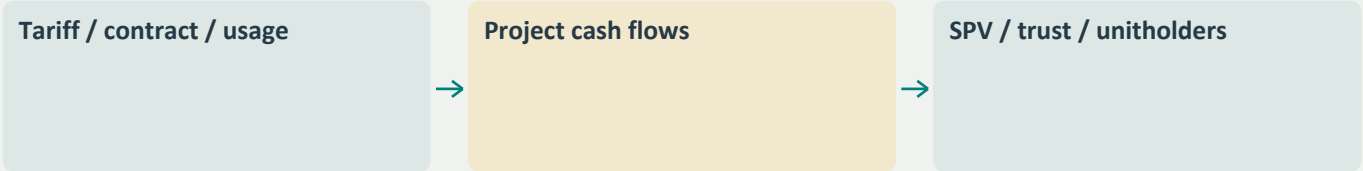
▪ Through this route, InvITs allow investors to assume part ownership in infrastructure projects and this helps them to diversify their investments to a new asset class, viz., infrastructure projects.

Regular Income

▪ InvITs have to mandatorily distribute at least 90% of the income through dividends and interest pay-outs, on a bi-annual basis.

▪ Thus, the investments can provide investors, with regular income.

Infrastructure cash chain



REITs and InvITs

Professional Management

▪ While the investors assume part ownership of an infrastructure asset by purchasing InvITs units, the project is professionally managed by designated managers.

▪ This ensures optimal performance of the infrastructure project, with minimal hassles to the investors.

Capital Gains

▪ Units of an InvIT can be traded on stock exchanges similar to shares.

▪ Therefore, if the InvIT performs well, the price of units will increase, leading to capital gains.

Reduction in minimum subscription

▪ In 2019, capital market regulator SEBI reduced the minimum investment limits on InvITs, thereby, making them more easily accessible.

▪ Reduced from Rs 10 lakhs to 1 lakh.

Limitations:

▪ Income generated by infrastructure projects such as roads/highways, electrical distribution networks, and even telecommunications networks are dependent on two key factors –

Tariffs and

Usage.

▪ A change in either of these two variables can lead to an increase or decrease in the income generated by the project.

▪ Tariffs can change, as a result of Government regulations or interventions.

▪ Infrastructure usage levels can also change in certain cases.

▪ For example, a significant decrease in usage of roads and highways occurred during the COVID-19 lockdown of 2020. This had contributed to reduction in toll booth collections, i.e., income for highway projects, even though the tariffs had remained unchanged during that period.

InvIT's Revenue Model

Complete source section / source 395

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Four governance roles

Sponsor

Manager / project manager

Trustee oversight

REITs and InvITs

NDCF example / period and arithmetic

The sourceFY 2018 illustration is retained with all figures. The calculated net is 65,544.19 in the source unspecified table units. Modern NDCF standardisation and the actual SPV/holdco/trust structure can differ from this historical illustration.

▪ Under an InvIT transaction, infrastructure asset owners, transfer multiple revenue generating assets' special purpose vehicles (SPVs), through holding company or otherwise to a trust, which then issues units to investors for raising money.

▪ The upfront money so raised is utilised by the developers, for creation of new greenfield assets as also for repayment of debt, which enables availability of capital with lenders for investment/lending to new projects.

▪ The investors, in lieu of invested money, receive a share of Net Distributable Cash Flows (NDCF – similar to the dividend pay-outs) on a periodic basis, commensurate with their unit holding in the Trust.

▪ 90% of the net distributable cash flow is required to be distributed to the unit holders.

Improved yields for the unit holders can be insured, by adding revenue- generating projects and expanding its portfolio.

Taxation On Investments In InvITs

There are two aspects of taxation on income received from investment in InvITs.

These are as follows:

Tax on Dividend and Interest Income

Any dividend or interest income from an InvIT is taxable as per the investor's Income Tax Slab rate.

Hence, if the investor is, otherwise in the 30% tax bracket, the dividend/interest income from the InvIT will also be taxed at 30 per cent.

Redrawn / Source NDCF illustration / year ended 31 March 2018 / units unspecified

Particular	Source amount
Interest cash received from project SPVs	51,122.81
Dividend cash received from project SPVs	-
Other trust-level income including surplus-cash interest/return	446.14
Net project-SPV debt repayment received	21,911.71

Not the same measure

Gross revenue

Accounting profit

Net distributable cash flow

REITs and InvITs

Particular	Source amount
Total cash inflow A	73,480.66
Trust fees, interest, expenses including investment manager	(7,546.97)
Standalone trust income tax if applicable	-
External debt repayment	(389.50)
Total cash outflow/retention B	(7,936.47)
NDCF C=A+B	65,544.19

Complete source section / source 396

Original educational wording retained below. Read the adjacent correction/update notes before treating dates, limits or legal descriptions as applicable today.

Tax / major source-era corrections

The source 3-yearholding period,15% STCGand 10% LTCG above 1 lakhare historical. The applicable post 23 July 2024 listed/STT-qualified unit-sale framework uses 12 months,20% STCGand 12.5% qualifyingLTCGwith 1.25 lakhthreshold, subject to law/conditions. Distributions are component-specific, not universally all taxable at one slab rate or all exempt. Check current tax-year legislation, investor residency and SPVtax regime. Source statements remain below for full preservation.

Tax on Capital Gains

Capital Gains taxation rules are applicable only when the InvIT units are sold.

If the investor has stayed invested in InvITs for a period up to 3 years - Short- Term Capital Gains (STCG) taxation rules are applicable. [15% on profits made by the sale of InvITs units]

On the other hand, if the investor has held the InvITs units for over 3 years before selling them, Long-Term Capital Gains (LTCG) taxation rules are applicable[10% of long-term gains exceeding Rs. 1 lakh.]

Two investor returns

Cash distributions

Unit-price movement

Both can vary

REITs and InvITs

Original practice / answers with reasons

Q 01. The 90% distribution rule primarily refers to?

A. Gross rental billings | B. DefinedNDCF | C. Guaranteed coupon | D. Every capital gain

Answer B. The relevant denominator is net distributable cash flow under the applicable framework.

Q 02. A listed REIT is professionally managed. True?

A. Yes | B. No | C. Only by each tenant | D. Only through a savings account

Answer A. The source suggestion that professional management exists only in mutual funds is corrected.

Q 03. 73,480.66 minus 7,936.47 equals?

A. 65,544.19 | B. 81,417.13 | C. 73,480.66 | D. 7,936.47

Answer A. Subtract the two source totals using consistent units.

Q 04. An InvIT revenue risk can arise from?

A. Traffic/usage below projections | B. Only its logo | C. Only unit numbering | D. No source of risk

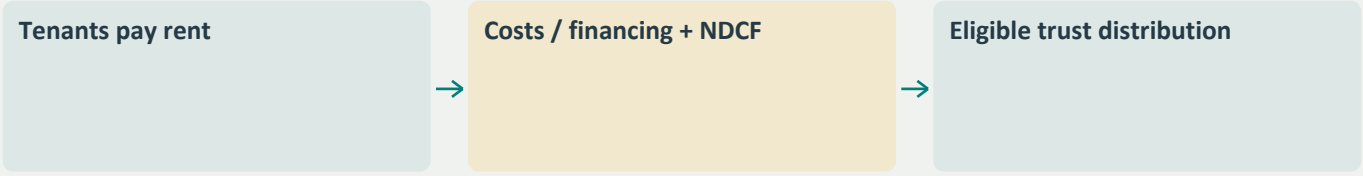
Answer A. Tariffs, counterparties, operating costs and financing also matter.

Q 05. REIT distributions and gains on selling units have identical tax treatment. True?

A. Yes | B. No | C. Only atNAV | D. Only for office assets

Answer B. Tax depends on component, event, investor and applicable law.

Real-estate cash chain

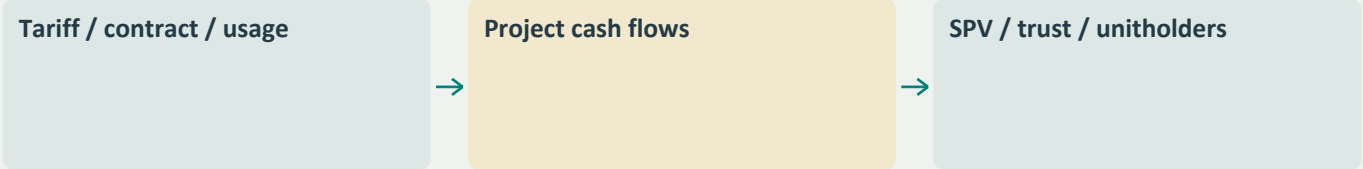


REITs and InvITs

28 facts / final recall

01-14 / retrieve	15-28 / retrieve
01. REIT means Real Estate Investment Trust.	15. InvITcash flow can depend on tariffs.
02. InvIT means Infrastructure Investment Trust.	16. InvITcash flow can depend on usage.
03. Unitholders own units rather than a particular building.	17. Concession and counterparty terms matter.
04. Sponsors and managers have different roles.	18. Public and private structures have distinct conditions.
05. Trustees provide prescribed oversight.	19. Privately placed does not always mean unlisted.
06. SPVs can hold underlying assets/rights.	20. Gross revenue andNDCFare different.
07. Holdcos can sit between trust andSPVs.	21. Accounting profit andNDCFare different.
08. REITs have professional managers.	22. The 90% distribution anchor concerns definedNDCF.
09. OrdinaryREITandSMREITframeworks differ.	23. Distributions can contain different components.
10. REITreturns are not guaranteed.	24. A distribution is not necessarily all dividend.
11. Listed-unit liquidity can vary.	25. Unit-price returns can differ from cash yield.
12. Rental growth is not certain under inflation.	26. Tax on distributions differs from unit-sale capital gains.
13. Vacancy can reduce real-estate cash flow.	27. Regulation does not eliminate every risk.
14. Leverage creates refinancing and rate risk.	28. The source historical tax thresholds need dated correction.

Infrastructure cash chain



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