

NEWSLETTER

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From Director's Desk

'No Planet B', but 'Plan B' for Financing Climate Vulnerabilities?

The 27th meeting of the [Conference of Parties \(COP27\)](#) currently underway at Sharm El-Sheikh, Egypt is debating how to save planet Earth from climate change-induced calamities. While the debates and discussions will cover the entire spectrum of climate change issues, the core of the discussion is slated to be climate finance.

The financial market would be jumping with joy on the prospects of [financing trillions of dollars](#) on mitigation, adaptation, risk management, insurance and reinsurance etc. New forms of financial products and processes will be unveiled; many of them will be exotic products in financialising various 'green' activities. The financial sector is ready with "Plan B" fully imbibing the spirit that planet Earth has to be saved from climate-induced calamities since there is no "Planet B".

The estimates on climate change financing vary widely though a trillion dollar a year is a generally agreed minimum. Most of this has to come from private financing since even the \$100 billion commitment made by advanced countries could not be honoured yet. Therefore, going forward, it will be mainly play of the financial markets in finding mechanisms and instruments in providing at least 90% of the total fund requirement to the countries in need of financing pro-planet activities. At the same time, there are already concerns of 'greenwashing' as the financial markets are focussed on their own business model sustainability. Instruments such as carbon trading which promotes a laid-back approach to emission and carbonisation is again back on the table as solutions for the rich polluters like fossil fuel companies.

Climate change is also about heightened uncertainties. Tools of economics and finance may be reasonably good in predicting and managing risk but the tools for predicting and managing uncertainty are still evasive. Given such uncertainties and the penchant for private financial sector to grow fast at any cost could also add to the risks of nations and people.

Appropriate policies and regulations are to be in place in nudging climate finance into really sustainable models rather than accelerated greenwashing. The role and ability of the regulators will also be tested in promoting responsible financing and sustainability efforts by various players.

CKG Nair

•Financial Markets... Page 2 •Corporate World... Page 3 •Regulatory Developments... Page 3 •Development in related areas... Page 4
•Global Financial Developments... Page 5 •NISM Announcements... Page 6 •NISM News... Page 8
•Food for thought – from NISM Brains...Page 10

Digital Indian Rupee

[Reserve Bank of India](#) (RBI) & Central Bank Digital Currency (CBDC) is going to be a major transformation in the way business is done – the way transactions are conducted. RBI is among the few central banks which have taken this initiative.

Use of e₹-W is expected to make the inter-bank market more efficient. Settlement in central bank money would reduce transaction costs by pre-empting the need for settlement guarantee infrastructure or for collateral to mitigate settlement risk. Going forward, other wholesale transactions, and [cross-border](#) payments will be the focus of future pilots, based on the learnings from this pilot. [Digital Rupee](#) - Retail segment (e₹-R) is planned for [launch](#) within a month in select locations in closed user groups comprising customers and merchants.

RBI's digital currency or CBDC is the legal tender issued by a central bank in a digital form. It is the same as [fiat currency](#) and is exchangeable one-to-one with the fiat currency. Only its form is different. [Cryptocurrencies](#) like Bitcoin, Ethereum or Dogecoin are not considered as equivalent to legal tenders. In fact, private cryptocurrencies have a lot of risks associated with them and volatility in their prices making it a dicey option for investors. Indian government has time and again reiterated that cryptocurrencies are not legal in India.

1. Liquidity adjustment facility borrowings see sharp rise with tightening liquidity

Bank borrowings from the central bank's liquidity adjustment facility (LAF) window have climbed sharply, indicating that Mint Road has moderated the supply of money to restrain inflation. Latest data from the Reserve Bank of India (RBI) showed banks borrowed ₹73,297 cr. from the central banks through different LAF windows in a drastic change from the situation just five months ago when as much as ₹3.10 lakh cr. was kept with the central bank in excess liquidity.

2. India's external debt is just about a fourth of median 'BBB' rated sovereigns

India still is on a strong footing when it comes to external sector metrics despite a drawdown of over \$100 billion of the country's forex reserves in less than a year. "Gross external debt stood at 18.6 per cent of GDP in 2022, which is low compared with the median of 72 per cent for 'BBB' rated sovereigns in 2021" said global ratings firm Fitch. Sovereign exposures are small, with only about 4 per cent of GDP in primarily multilateral financing.

3. Reform to boost FDI opportunities to \$475 bn. in 5 years: EY-CII report

India's focus on reforms and economic growth will give rise to foreign direct investment (FDI) opportunities of USD 475 billion in the next five years. As per the vision 'Developed India' Opportunities and Expectations of MNCs' survey conducted jointly by EY and CII, 71 per cent of MNCs considered India to be an attractive investment destination for their global expansion, while an overwhelming 96 per cent of the respondents were positive about the Indian economy in the long run.

4. GST collection in October 2022 second-highest ever

Gross Goods and Services Tax (GST) collections rose to Rs 1,51,718 cr. for October 2022 (for sales in September 2022), the second highest level since the roll-out of the indirect tax regime in July 2017, data released by the Finance Ministry. Even though domestic transactions recorded the second highest growth after April 2022, the share of collections from imports fell to 25 per cent from 28 per cent in September and 30 per cent in August 2022.

5. Everything you want to know about tokenization

For consumers, nothing has changed as token is just replacing the card details. Merchants do not have card details anymore and hence, if their sites are hacked, at best the hacker gets only the token.

6. Inflation prediction is hard and quelling it even harder

In 2016, the Government of India signed a contract with the Reserve Bank of India (RBI), making the latter responsible for a numerical inflation target within a band. This was our transition to a flexible inflation targeting regime, hailed as a major reform, and a step toward strengthening central bank independence. It wasn't as if RBI's mandate was not clearly understood prior to this reform, but the numerical target and explicit responsibility was new.

CORPORATE WORLD

1. Two-thirds of Indian technology enterprises hiring gig workers

Focus on requirement for specialised skills, employee demand and cost optimization enabled organisations to use the gig model for technology roles traditionally restricted to HR and support functions. Software development, UI/UX design, and data analytics were the top three gig skills the technology sector needed. Two-thirds of organisations in the Indian technology sector are hiring gig workers as they respond to a changing business landscape.

2. Women representation on Indian boards has risen to 18 per cent in 2022

The representation of women on boards of companies in India during 2013 – 2022 rose from 6 per cent in 2013 to 18 per cent in 2022. But we are still far behind France, Sweden, the US and the UK, according to a report.

3. Did Indian debt markets miss a game changer opportunity again?

Indian G-Sec were expected to be listed on the JP Morgan GBI-EM (Global Bond Index – Emerging Markets) by 2023. However, according to the latest news, index providers have decided not to include Indian Sovereign bonds in the Index and keep them under review. Concern over Indian market's lack of adequate trading infrastructure has been cited as the reason behind the decision. Investors were looking forward to India's inclusion in the Index. The Street view was that the anticipation of India to soon be included in the JP Morgan GBI-EM had put pressure on the yields.

4. RBI to chart own rate path despite 75-bps hike by US Fed

The RBI will likely increase its policy repo rate by 35-50 basis points (bps) in the upcoming monetary policy after the US Federal Reserve raised its benchmark interest rate by a three-quarter point.

REGULATORY DEVELOPMENTS

1. SEBI issues rules on standardization of rating scales

The SEBI issued a circular pertaining to the standardization of rating scales used by credit rating agencies (CRAs). This follows deliberations of the regulator with various stakeholders, including the credit rating firms. The circular will come into effect on 1 January 2023. CRAs will have to

report to SEBI their compliance with the norms, as ratified by their boards of directors, within one quarter from date of applicability.

2. SEBI reduces face value for debt securities to boost corp bond market liquidity

To enhance liquidity in the corporate bond market, SEBI reduced the face value of debt security and non-convertible redeemable preference share issued on private placement basis to Rs. 1 lakh from the current Rs 10 lakh. The move came after the regulator received representations from various market participants, including issuers, requesting for review of the denominations.

3. SEBI caps ISIN to boost liquidity in bond market

The capping of ISINs is expected to reduce fragmentation in the primary market and enhance liquidity in the secondary market. Of the 14 ISINs, a maximum of nine ISINs maturing per financial year will be allowed for plain vanilla debt securities. Within this limit of nine ISINs, the issuer can issue both secured and unsecured debt securities. The ISIN (International Securities Identification Number) code, which has 12 characters, is used for identifying securities like stocks, bonds, warrants and commercial papers.

4. PFRDA revises equity exposure permitted in NPS for Tier I and Tier II accounts

For Tier I and Tier II National Pension System (NPS) accounts, the Pension Fund Regulatory and Development Authority (PFRDA) has modified the equity allocation standards. According to the new regulation, subscribers can allocate up to 75% of their funds to equity (E) under active choice in a Tier-I account without any tapering requirements once they turn 51 years of age. The option to allocate 100% of the subscriber's contribution to Asset Class E (Equity) in Tier-II accounts under active choice is permitted by the statutory regulatory body without any restrictions beginning at 51 years of age.

5. Liaison offices: IRDA issues new rules for foreign insurers

IRDA has issued new set of guidelines for foreign insurers to open liaison Offices (LOs) in India. The insurance regulator stated that an overseas issuer should have a financially sound and profit-making track record in its home country. Also, it should have a net worth of not less than \$65 million under the minimum eligibility norms.

DEVELOPMENTS IN RELATED AREAS

1. Net FDI, FPI and FII data (2021-2022)

FDI, FPI and FII data are out for ready reference in RBI Bulletin for October 2022 with estimates of latest months along with debt transactions of FDI enterprises – point 34 under Foreign Investment Inflows.

2. UPI processes over 7 bn. transactions in Oct 2022, record high since inception

India's flagship digital payments platform – Unified Payments Interface (UPI) – processed over 7 billion transactions in October, a record high for the platform since its inception, on the back of festive season spending. According to the latest data released by National Payments Corporation of India (NPCI), in October, UPI processed 7.3 billion transactions, worth Rs 12.11 trillion, a record high in terms of value of transactions. On a year-on-year basis, volume of transactions in October 2022 was up 73 per cent, while the value of transactions was up 57 per cent.

3. FPIs sell Indian equities worth Rs. 6,000 cr. in October 2022 on strengthening dollar

Foreign investors have pulled out close to Rs. 6,000 cr. from the Indian equity markets so far this month in the wake of strength in the US dollar against the rupee.

4. Centre's fiscal deficit in H1 touches only 37.3% of full-year target

The Centre's fiscal deficit for the first half (H1) of the current fiscal year (April-September of FY23) came in at Rs 6.20 trillion, or 37.3 per cent of the full-year Budget Estimate (BE) of Rs 16.6 trillion, according to the data released by the Controller General of Accounts (CGA). This compares with a Budget balance of Rs 5.27 trillion, or 35 per cent of the full-year target for April-September of last year. Given this new, positive trend, the Centre is hopeful of keeping the fiscal deficit at 6.4 per cent of nominal GDP in FY23.

GLOBAL FINANCIAL DEVELOPMENTS

US Fed rate hike and its impact on Indian capital market

The US Federal Reserve [hiked](#) the policy rate by another 75 basis points taking it to 3.25-4% from earlier 3-3.25%. FOMC is committed to taming inflationary pressure and hence maintained its aggressive approach towards monetary policy. The US market reacted to Fed's hike in a seesaw pattern, while Asian cues witnessed a drop including lacklustre demand in Indian equities. The reason behind the volatility in equities globally is due to Fed's embracing a more hawkish outlook than expected.

Indian stock markets fell, [tracking](#) a slide in Asian peers after US Federal Reserve chairman Jerome Powell overnight said that the US central bank would raise interest rates more than previously anticipated, sapping the risk appetite. The Fed raised rates 75 basis points for the fourth time in a row, bringing the top of its target range to 4%, the highest level since 2008.

Markets are pricing over a 90 per cent probability of a 75 bps point hike but "in terms of the December FOMC meeting and beyond, a renewed divide between the hawks and doves is emerging."

The further US Fed tightening may hurt the world's largest economy. the effect of [tightening](#) on growth is normally seen with a two-three quarters of lag. A sharper rate hike in the current tightening cycle may temper growth sooner.

1. Europe's fight against inflation: Germany hits 32-year high, Italy records 40-year peak

Germany's annual inflation rate climbed to 10.4 per cent in October, the highest on record since 1990. While prices in Italy jumped by 11.9 per cent in October compared to the same month a year ago, the highest in nearly four decades, according to provisional data released by the National Statistics Institute (ISTAT). Energy prices in Europe's largest economy soared 43 per cent year-on-year and continued to have a "substantial impact on the inflation rate".

2. European markets close mixed after central bank rate hike and flurry of earnings reports

European markets pared earlier losses as investors continue to digest the European Central Bank's decision to raise its interest rate by 75 basis points alongside a raft of corporate earnings releases. The Stoxx 600 provisionally closed up 0.1%. Sectors were mixed, with basic resources and retail down 2%, but telecoms stocks gaining 1.8% and healthcare up 1.4%.

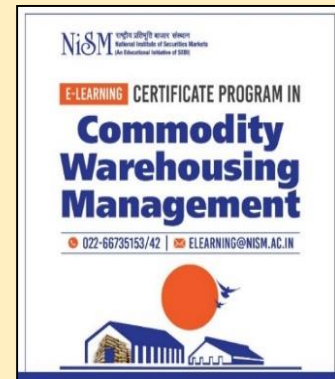
3. Fed jacks up interest rates again, hints at smaller increases ahead

The Federal Reserve raised interest rates by three-quarters of a percentage point again and said its battle against inflation will require borrowing costs to rise further, yet signaled it may be nearing an inflection point in what has become the swiftest tightening of U.S. monetary policy in 40 years.

NISM ANNOUNCEMENTS

Certificate Program in Commodity Warehousing Management:

The newly launched e-Learning program aims to train the participants with the best practices in the warehousing management industry. The course would enable passionate professionals to handle all functions related to warehousing right from good practices in inward of the commodity to the outward of the same such as storage, price stabilization, minimization of risk, financing, grading and packing.



Securities Markets Primer: The e-Learning course "Securities Market Primer" is designed to help the learners become an informed investor by learning the role of financial markets and financial assets in a well-functioning economy.

Mutual Funds (Basic): In this course one will learn about mutual funds concepts, the process of investing in a mutual fund, benefits of investing in a mutual fund. The course also details about various risk factors associated with investing in mutual funds.





Equity Derivatives (Basic): In this course one will learn about the derivatives market in India, its significance and participants, various types of derivatives products such as forwards, futures, options. The course also details about components of premium, greeks, and risk management in derivatives trading.

Broking Operations Management: In this course one will learn about the way a typical broker and dealer firm organizes its operation within functional areas, potential gaps and exposures that present operational risk. The course also details about the trade lifecycle process, from order and trade execution through clearing and settlement. Apart from these the course covers assets or funds of investors or clients, redressal of investor grievances, internal control or risk management, etc.



NISM Series-IX: Merchant Banking Certification Examination

NISM-Series-IX: Merchant Banking Certification Examination seeks to create a common minimum knowledge benchmark for employees working with SEBI registered Merchant Bankers and performing various SEBI regulated functions related to IPO, FPO, Open offer, Buy-back, Delisting etc. It also covers aspects related to entities involved in, or deal with the investors, issuers or clients of intermediaries; assets or funds of investors or clients; redressal of investor grievances; internal control or risk management; activities having a bearing on operational risk and maintain books and records pertaining to above activities. The various aspects of capital market functions, the importance of the different rules and regulations governing the Indian securities market and the processes involved in various functions of registered Merchant Bankers and the regulatory environment in which they operate have also been covered in the certification.

Third International Annual Capital Markets Conference 2022



National Institute of Securities Markets (NISM), along with the Systemic Risk Centre (SRC) at the London School of Economics (LSE), is organising Third International Annual Capital Markets Conference 2022 on the theme “Role of Capital Markets for Sustainability and Growth of the Economy”. This annual event is sponsored by State Bank of India. NISM & SRC invited original, unpublished research papers: about 150 Papers have been received and are under evaluation by experts. The conference will be held in Mumbai at the NISM Patalganga campus during 15-16 December, 2022 (click on the image for more details).

NISM NEWS

Programme on “Trading in Equities and Equities Derivatives



The School for Regulatory Studies and Supervision (SRSS) of NISM conducted a Training Programme on “Trading in Equities and Equities Derivatives-The Hands-on Experience Through Trading Simulator” (Batch 5) for SEBI Officers. The training programme was held during October 13-14, 2022 at NISM Patalganga Campus.

NISM observed Vigilance Awareness Week – 2022



NISM has been observing the Vigilance Awareness Week every year. This year too, NISM observed the Vigilance Awareness Week 2022 from October 31 to November 6, 2022 with the theme - "Corruption free India for a developed nation". A gist of the major activities undertaken during the week include administration of Integrity Pledge by the Director to all the staff members of the Institute, running of ticker/slide on NISM website with a link to the e-integrity Pledge website (<https://pledge.cvc.nic.in>), prominent display of Standees / Banners at the NISM premises regarding the Vigilance Awareness Week and related Web Banners on the NISM Website and TV Display Screens, slogan writing and essay writing competitions, both in English and Hindi, for the staff, support staff and students of NISM.

Delegation from Capital Markets Authority (CMA) Kenya visit NISM



NISM had the privilege of receiving a delegation from the Capital Market Authority (CMA), Kenya comprising Mr. Samuel Martin Kamunyu Njoroge, Senior Manager [Education Awareness and Certification], Ms. Lucy Nyambura Kimani Njaramba, Senior Investor Education Officer, Ms. Christine O Nyaloti, Assistant Licensing Officer [Debt, Equity & Other Schemes] and Mr. James Wanene Mwangi, Senior Learning and Development Officer during November 01-03, 2022 at its Patalganga Campus. The delegation had detailed interactions with the Director, Registrar, Faculty Members and other Senior Officials of NISM on the functioning of the institute,

its establishment, certification and continuing professional education at NISM. The delegation appreciated the role of NISM in promoting securities markets.

FOOD FOR THOUGHT – FROM NISM BRAINS

- **Mr. Kuldeep Thareja, Ms. Mitu Bhardwaj and Ms. Rasmeet Kohli:** “Time to settle the debate on nominations” featured in Mint on October 17, 2022.

In case of different financial assets, most of the court rulings held that nomination cannot overrule succession rights. However, the verdicts on nomination in case of securities markets has been contested in various courts of law and clarity is yet to emerge. Existence of the nomination clause in the 'Companies Act' creates confusion and ambiguity; as it states that upon the death of the shareholder, the right to own the securities vests with the nominee irrespective of any law in force or in disposition. The Apex court is yet to decide and dispose of the appeal related to this issue in the 'Salgaonkar' matter. Thus, to avoid litigation on estate matters concerning financial products (insurance proceeds, shares, debentures, mutual funds etc.), the authors suggest that a legal heir be declared as a nominee, and various financial services providers should seek mandatory nomination at the time of selling the product.

<https://www.livemint.com/money/personal-finance/time-to-settle-the-debate-on-nominations-11665936926107.html>

- **Mr. Ajit Balakrishnan:** “Reimagining Venture Capital” featured in rediff.com on October 18, 2022.

Venture capital funds provide financing to early-stage, non-publicly traded companies in return for equity shares and that it originated in the United States, which is still the largest market for such firms. The author evaluates the origin and role of venture capital, policy measures taken by Indian Government and advocates the need for democratizing the VC ecosystem spread across India so as to gain maximum benefit for start-ups and similar entrepreneurs.

<https://www.rediff.com/business/column/ajit-balakrishnan-reimagining-venture-capital/20221018.htm>

- **Dr. Rachana Baid:** “What to consider before selecting an index fund” featured in Mint on October 23, 2022.

Active and Passive management are two distinct ways of managing portfolios. With active funds under performing, lot of assets are moving towards passive funds. Index funds are the most popular type of passive funds. Tracking error is the measure of performance of index funds which captures the deviation in funds return.

<https://www.livemint.com/money/personal-finance/what-to-consider-before-selecting-an-index-fund-11666537732215.html>

- **Dr. CKG Nair jointly with Dr. M S Sahoo:** “Corporate insolvency: Rethinking irregular transactions” featured in Business Standard on October 25, 2022.

So far 786 applications have been filed to recover over Rs 2.2 trillion allegedly lost through irregular transactions from companies undergone corporate insolvency resolution. Looking at the opportunity cost in terms of lost value, employment, taxes and output combined, these reflect a considerable drain on the economy. Now that there is a reasonable idea of the

incidence of irregular transactions by promoters/management of some firms, it is time that the relevant policies and laws are spruced up to minimize recurrence. Any progress on this front will be a huge gain for the economy.

https://www.business-standard.com/article/opinion/corporate-insolvency-rethinking-irregular-transactions-122102501086_1.html

- **Mr. Shiba Prasad Mohanty:** “RBI digital lending norms threaten to put shadow banks out of business” featured in Policy Circle on October 27, 2022.

Financial innovations and new digital lending norms threaten the business models of shadow lenders at a time when they face significant operational risks. The biggest challenge for digital lenders is in implementing the recent guidelines mandated by the RBI.

<https://www.policycircle.org/industry/rbi-digital-lending-norms-impact/>

- **Dr. CKG Nair jointly with Dr. M S Sahoo:** “Act ahead. Dealing with marketplace bullies” featured in Business Line on November 01, 2022.

A regulator could facilitate building capacity in the ecosystem to ensure compliance with the regulations, encourage the stakeholders to inform aberrations and have mechanisms to detect aberrations. The market laws have created regulators to make regulations, apprehend the violators, punish them and rewrite regulations to meet the emerging needs of the market. Such regulations should be made ex-ante to minimize customer unfriendly business models by big tech players.

<https://www.thehindubusinessline.com/opinion/dealing-with-marketplace-bullies/article66083011.ece>

- **Dr. CKG Nair jointly with Mr. Ajay Tyagi:** “A different kind of quiet quitting” featured in Business Standard on November 02, 2022.

How to address a situation where the promoters of listed companies encumber their equity holdings heavily and continue to be in control of those companies? Tightening the disclosure norms does not seem to be enough. Appropriate regulations like reduction in the number of directors in proportion to pledging may be required to prevent captains leaving the ship first.

https://www.business-standard.com/article/opinion/a-different-kind-of-quiet-quitting-122110201639_1.html

- **Dr. CKG Nair, Dr. Latha Chari and Dr. Pradiptarathi Panda:** “Need that extra 1%” featured in Financial Express on November 04, 2022.

This article critically evaluates India’s growth from the 1950s and its tryst to become a developed a nation by 2047. The article highlights the importance of growing at full potential, avoiding the inefficiencies of the past, to enable reaching destination 2047.

<https://www.financialexpress.com/opinion/need-that-extra-1/2773660/>

- **Dr. Pradiptarathi Panda jointly with Dr. Hanish Sinha:** “Is Non-Renewable Energy Still the Driver of Economic Growth?” featured in MCX commodity Insight year book 2022.

The per capita consumption of energy decides the standard of living of the people of a country. The significance of energy use as the most important barometer of economic

development cannot be overstated. Tracing the temporal and spatial trends in both demand and supply of two most popular energy sources – viz, Crude Oil and Natural Gas, the link between economic development and energy demand is firmly established. We also conclude that Crude Oil and the Natural Gas would continue to be the significant drivers of the economic growth of the world, notwithstanding the great emphasis being given worldwide to shift towards green energy sources.

https://www.researchgate.net/publication/364333981_Is_Non-Renewable_Energy_Still_the_Driver_of_Economic_Growth

- **Dr Latha Chari and Dr Meraj Inamdar:** “Effectiveness of additional surveillance measures: Empirical study using Indian Market Data” featured in NSE Market Pulse October 2022, vol 4, Issue 10.

This study aims at ascertaining the impact of inclusion of stock into STASM (Short Term Additional Surveillance Measures) category on prices, volumes traded and liquidity. Further, the study also looks at the sustenance of such impact post exclusion of the stock from the STASM category to understand the effectiveness of the mechanism. A sample set of 245 events of STASM inclusion and exclusion announcements related to NSE listed companies made in the first 3 months of implementation, *i.e.*, from November 21, 2018 to February 28, 2019 is used for the study. The price and volume event study results show that the STASM surveillance action helps in controlling the abnormal price movements and it is accompanied by fall in traded volumes on inclusion.

<https://www.nseindia.com/resources/research-initiative-financial-market-nse-nyu>

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