

RBI Grade B 2022

PHASE 2 PAPER

SOLUTION

English



(Maximum Marks—**100**)

[Duration: **90 Minutes**]

Instructions. —

(1) All questions are compulsory.

(2) Each question should be answered in the box provided and the **question number must be written on the top.**

(3) The answers of parts of the same question, if any, should be written together. In other words, the answer of another questions should not be written in-between the Parts of a question.

(4) **Marks will be deducted if an answer far exceeds or falls short of the set limit,** or is irrelevant.

(5) Answers must be written **in English only.**

EduTap

1) Write an essay of about 600 words on any one of the following: — (40 Marks)

1. Advantages & Disadvantages of Renewable Sources of Energy. Discuss how Green Grid Initiative under OSOWOG initiative will solve these disadvantages.

According to the draft plan prepared by the MNRE, the ambitious OSOWOG will connect 140 countries through a common grid that will be used to transfer solar power. “The vision behind the OSOWOG mantra is “the Sun never sets” and is a constant at some geographical location, globally, at any given point of time. With India at the fulcrum, the solar spectrum can easily be divided into two broad zones viz. far East which would include countries like Myanmar, Vietnam, Thailand, Lao, Cambodia and far West which would cover the Middle East and the Africa Region,” said in the terms of reference in the RfP published to hire consultants for OSOWOG.

The plan is divided into three phases: the first phase will connect the Indian grid with the Middle East, South Asia and South-East Asian grids to share solar and other renewable energy resources. The second phase will connect the first phase nations with the African pool of renewable sources. The third phase will be the concluding step of global interconnection.

Having international associations is not a new trend for the energy sector which already has a strong geopolitical organisation such as OPEC. Officially announced during UN Climate Change Conference in Paris in 2015, the ISA is a partnership of solar-resource rich countries. Currently, there are 121 countries that have agreed to be members for ISA. Most of these are countries with large participation from Africa, South-east Asia and Europe. Pakistan and China are not a part of ISA.

Additionally, India has power trade with Bhutan and hydropower project development pact with Nepal. Last year, the Central Electricity Regulatory Authority gave its nod to new regulations of ‘Cross-border electricity trade’, thereby making the trade of electricity to neighbouring countries more seamless. This included setting up of nodal agency for bilateral trade of electricity, monitoring and planning by central agencies, and similar technology interface at both ends.

Renewable Energy, solar, wind, clean, greenSeveral policy experts cited it as part of India’s answer to China’s One Belt One Road infrastructure initiative which entails investment in close to 70 countries.

However, to have an inter-continent power infrastructure is a fairly new idea. Australia based Sun Cable is developing the Australia-ASEAN Power Link (AAPL), under which it will supply renewable electricity from Australia to Singapore and later to Indonesia. According

to the website of Sun Cable, "the project will integrate three technology groups - the world's largest battery, the world's largest solar farm, and a 4,500km high voltage direct current (HVDC) transmission system from the solar / storage facility to Darwin (Australia), Singapore and eventually Indonesia."

Several countries including China have initiated infrastructure projects in other countries, which is seen as a sign of asserting supremacy by several policy experts. While India is a partner nation with most trade associations, with ISA and OSOWOG, it is planning to take a leadership position.

"It is obviously a very grand and ambitious project. But it is also clear that a new energy sector paradigm is needed as we are facing a huge inflexion point in electricity generation and consumption. Potential benefits include widespread scale up in energy access, abatement in carbon emissions, lower cost and improved livelihoods. India will need a strong coalition of international partners to realise this vision. It will be interesting to see a practical outline and how the government intends to go about actual execution," said Vinay Rustagi, managing director, Bridge to India, a research agency tracking renewable sector in India.

PM Modi in his Independence Day speech even mentioned an increased partnership with the ASEAN nations. "For India, neighbours are not only ones we share a border, but also those with whom we share emotions and values. Today, India has close relations in the greater neighbourhood. We are working together and have a lot of mutual respect for each other. ASEAN nations not just have a great partnership with us today, but have shared values and cultures for centuries," Modi said.

Geo-politically, this is being touted as a clever strategy however technology-wise, this is yet to make sense. With battery and storage technology becoming cheaper, electricity consumption at source end is a more feasible idea for solar power. However, a shortage of land banks and limited hours of sunshine tip the balance towards expanding the sourcing of solar energy to other nations.

Several African nations are devoid of reliable electricity supply and that makes them a ready market for electricity infrastructure and in recent times, for renewable energy development. Off-grid solar systems have found large acceptability in Kenya where it was also a means to address poverty and illiteracy.

Chinese companies are already active in several African markets. While India has taken baby steps with ISA, a major investment drive is still missing. This is planned to be achieved through OSOWOG.

In July, the MNRE put on hold the RFP to hire a consultant for OSOWOG until further notice. Officials said Covid was one of the reasons for delaying the process. Given the scale and size of this ambitious project, the sooner it commences, the better.

2. Role of Women Entrepreneurship in Economic Growth in India.

Women entrepreneurs have the potential to be the biggest force in India's economic growth story. The country's economy could grow much faster if women were part of its workforce. As per McKinsey, the country could add up to \$770 billion—more than 18%—to its GDP by 2025, simply by giving equal opportunities to women. Women can contribute to the economy not just as job seekers but also job creators such as via entrepreneurship, which is a space women are rapidly taking to across India. One big growth factor for this has been the power of women in small businesses who are leveraging the internet and using digital media to reach millions of customers.

India stands at the cusp of transformation, being the fifth largest economy in the world while proudly recording the highest GDP growth, amounting to annual growth of approximately 6-7%. According to the International Monetary Fund (IMF), the country's nominal GDP has seen a 700% jump since 1995. The IMF also projects India's GDP growth at 7.2% by FY 2025-26, despite the 7.3% contraction of the country's GDP in FY 2020-2021 (NSSO Survey).

India's growth story lies in its macroeconomic policies pertaining to reforms to bring stability, resilience, and a conducive environment for disruptions, as well as safeguards from shocks. A new inflation-targeting framework, energy subsidy reforms, fiscal consolidation, higher quality of public expenditure and a stable balance of payment situation has increased the share of investments, exports and consumption, brought productivity gains, and diversified the economy.

Moreover, the country has witnessed various reiterations of the government's commitment towards achieving Sustainable Development Goals (SDGs). NITI Aayog released an SDG Index 2020-21 to bring together the economic, social, and environmental pillars in the country, with a focus on their partnerships and collaborations. The commitment of the government, specifically in respect of SDG 5 i.e., Gender Equality, is a significant step towards achieving gender equality by ending all forms of discrimination, and calls for valuing women's unpaid care and domestic work amongst other things. Additionally, SDG 5 is interlinked to other SDGs such as End Poverty, Zero Hunger, Health for All, Quality Education, etc. With a score of 60 in the SDG Index 2021, India's success in bringing about inclusive and sustainable growth is well underway. To achieve Gender Equality through the socio-economic empowerment lens, the Government has introduced large-scale programmes such as Beti Bachao, Beti Padhao campaign, Sukanya Samridhi Yojana, MUDRA Yojana and Pradhan Mantri Ujjwala Yojana to bring about equality at the workplace in respect of gaining access to employment and entrepreneurship for women.

Despite the economic contribution of women increasing considerably in the last decade, the female labour force participation has been recorded at only 32% of the entire population. In terms of employment, 52% of the workforce is self-employed as own-account workers or helpers, 30% as casual workers, while only around 18% have regular

jobs. Within the 52% self-employed workforce, women constitute only a dismissal portion i.e., 13.78%. As a result, the potential of women entrepreneurship as a tool to achieve socio-economic empowerment and equity remains underutilised.

To ascertain the challenges in respect of women's access and opportunities to resources for enterprise development and sustenance, EdelGive Foundation conducted the "Landscape Study on Women Entrepreneurship" with a sample size of 1,235 women from 13 states in India. According to the study, despite the availability of government schemes and benefits for women entrepreneurs, 84% of the women still relied on their husbands, family members or sold their assets for financial support towards setting up and sustaining an enterprise. Moreover, only 11% of the women reported that they were aware of the available benefits, even though less than a third from the 11% availed of the benefits due to the worry that they would not be able to pay back the loans, which would result in further distress for their families. According to a study conducted by OECD in 2019, relatively more male entrepreneurs made use of bank loans to start their enterprises, irrespective of collaterals, as opposed to women. Further, the World Bank report on "Measuring Financial Inclusion: The Global Findex Database" revealed that only 27% of women benefit from formal lending institutions.

Due to deep-rooted socio-economic challenges, India's women are unable to gain access to employment and a stable income to support their families. The bouquet of barriers to accessing finance, raw materials, marketing facilities and technology often limit women entrepreneurs in realising their dreams of attaining agency and empowerment.

However, through concerted efforts from NGOs, civil society organisations, government institutions and because of revolutionary reforms in financial institutions through Self Help Groups, women are emerging as resilient powerhouses that can further the Indian economy. It is pertinent to note that women entrepreneurship does not only advance a woman's economic standing but also enables her children to gain access to better quality education, better health and nutrition, clean water and sanitation and higher overall economic indicators that help break the cycle of poverty.

The government of Odisha also aligns with the need to create policies that, in turn, advance the creation of a conducive and enabling entrepreneurship ecosystem through infrastructure, capacity building and advancing knowledge and learning. As a result of the government-led prioritisation of women's entrepreneurship, Odisha's commitment towards the cause has been realised through the grassroots movement of Self-Help Groups and civil society organizations. With provisions for financial linkages, awareness initiatives around government schemes and capacity building through entrepreneurship and soft skills training, SHGs and CSOs have inculcated the spirit of a woman entrepreneur, now deeply embedded in self-reliance even in tribal areas of the state. In this light, Odisha's 'Start-Up-Policy' is uniquely designed to place inclusion at the centre of its advancement of the entrepreneurial ecosystem. Through a plethora of schemes and benefits such as Mission Shakti, Start-Up Odisha and Skilled-In Odisha along with connected enabling

regulations, the state has championed the cause of women entrepreneurship, with a vision of creating a level playing field, in partnership with all the relevant stakeholders.

India's commitment to SDG 5 for Gender Equality positions is itself a prerequisite to achieving the \$5 trillion-dollar-economy-dream. Overall impetus through prioritisation of awareness at the grassroots, sensitization of family members and further reforms within financial institutions can create a conducive environment for women entrepreneurs to flourish and become independent. State-level prioritisation through proper implementation, with inter-departmental coordination (such as in Odisha) could also help to advance India's commitment towards an inclusive, just and equitable society. With interlinkages to other SDG indicators of better standards of living, decent work, affordable and clean energy, and peace and justice, achieving Gender Equality can leverage India's standing globally and stand true to the expectation of it being the fastest growing, most inclusive and progressive economy in the world.

3. "Peace cannot be kept by force; it can only be achieved by understanding." – Albert Einstein. Elaborate.

If two people (or two countries – this saying seems to scale fairly well) don't understand one another, there cannot be a peace. There will be misunderstandings leading to friction, which leads to heated arguments which will eventually lead to conflict.

If they don't understand each other's values, motivations, likes and dislikes, there is little chance for effective communication. With out effective communication, there is no way to de-escalate the eventual problems, and ineffective communication is likely to only exasperate the problems.

Enforcement of one's will by force of arms might suppress resistance of the other for a short period, but there will always be a return to conflict. The cycle will continue until an understanding is reached.

Please realize that understanding does not mean agreement. You can understand someone, their comments and their motivations and still disagree with both their comments and their motivation. As an example, most would find the basics of Hitler's comments and motivations fairly clear and understandable, and most people would disagree with them.

The trick with this quote is that the understanding must be bidirectional for there to be peace. Hitler wasn't interested in understanding other people, his interests appeared to be that he simply wanted to beating them, take their resources, and repeat the process with the next country.

If you can understand the other person, you can start to understand their motivations, how and why they do the things they do. You can put yourself in their shoes and understand how they interpret your actions. Then, hopefully, you can explain yourself in a manner

that they can better understand. They can then start to understand you a bit better and eventually (in an ideal world) start to understand you.

However, understanding has always been a two edged sword. There are, and probably always will be, evil people in the world. People who will take their understanding of you and use it to their advantage and your disadvantage. This is what Hitler did to Chamberlain in the 30's, where the desires and motivations of England and it's leaders were played like a Stradivarius by Hitler and his team.

That said, I would still argue that more good can be done by being honest and open, and dealing with the deceivers and evil people as they appear. Some of that is my years of experience with these types of people, and some of it is my intimidating size and my potentially (and fortunately, very rarely) ferocious nature. Your mileage may vary.

Well, where do you have conflict in your life? Is it someone who you don't understand, or someone you understand too well? Or is it vice versa?

If you don't understand them (or they don't understand you), it is easy to misinterpret an action. For a very famous example, consider the beginning of the final battle in the Arthurian legend, where a sword was drawn to kill a snake and save a life, but instead it resulted a terrible battle and many deaths.

Why would you want to understand them? They're wrong, you're right, they should take the first move! Ever used that argument on yourself? I know I have. And I bet it worked as well for you as it did for me. It makes you feel better, it allows you to heap even more blame and motives on the other party and takes all responsibility off your shoulders and places it firmly on theirs. And the underlying problem remains unsolved.

It may take two to finish the process, but it only takes one to start it. Obviously the other person is either unwilling or unable to take that first step, so in an effort to promote understanding, you will have to take the first step. If it helps, like a salve for your ego, many say that it takes a better person to take that first step.

You don't have to approach them immediately, you can spend some time doing research. If you can find out (either through recollection or through information gathered by others) what their values and motivations are, and what they think the problem is, you can get started on your opening gambit.

Probably the first thing I would do is try to explain, using words, meanings and values that they understand, what you believe to have happened. This, hopefully, will give them some level of understanding of what some of your values are and how things might have gone off the tracks. As always, in life there are no guarantees. Your good intentions may fall on deaf ears, or you may have found someone who is actively being mean to you. Good luck with that!

In any case, you have started to open the lines of communication and shown good faith by trying to understand the other person. Hopefully, that will help change the direction and tenor of the conversation, and lead to a better understanding, and eventually, to peace between you.

What if they understand you too well, and are doing what they are doing specifically to get under your skin, to irritate you? That's a much tougher nut to crack. I can't help much with this one, as I have only had a few instances of this in my life, and in each case had to end the relationship to resolve the problem.

If we do ever achieve peace in our time, it will only be temporary if it is forced at the barrel of a gun, or the threat of a missile.

4. India has become Medical destination of the world. Comment.

India's medical travel industry started gaining momentum at the beginning of the last decade, as more private hospitals started reaching out to neighbouring countries to serve their patients. Pioneers such as Dr Reddy of Apollo, Dr Shetty of Narayana Healthcare led by example in serving patients from neighbouring Bangladesh and then expanding their service to Nepal. They were followed by Fortis, Medanta and Dr Rela establishing deep inroads into CIS, Middle East and Africa. To complement the effort of these hospitals, an industry of Medical Travel Facilitators came into force, marketing these hospitals and setting up offices in these regions to market Indian Healthcare.

Today, almost 2 million patients visit India each year from these regions, generating \$4 billion in annual forex each year. But the future is looking much brighter.

India's health minister Dr Mansukh Madaviya, under the guidance of Prime Minister Modi, has designated Medical Tourism as a champion sector giving it an unprecedented push. The government is pulling out all stops to make India the No.1 Destination for Medical Tourism in the world, tripling it to \$12 billion within 4 years, creating a new industry that generates millions of jobs across states. Never before has any Indian government given the sector such a consistent and comprehensive focus. But the Modi government fully appreciates its potential as a forex earner, job generator and brand ambassador of India's soft power. Today, there are thousands of politicians & government officials from Africa & Asia, who would owe to Indian healthcare for saving the life of a dear one. This is a valuable asset for us in the ever-changing geo-politics.

However, to become the No.1 medical travel destination a lot needs to change. Significant investment has already gone into making Indian hospitals at par with global excellence in equipment & talent. However, almost no effort has gone into building the ecosystem to attract international patients. Patients spend 80-85% of their time in guesthouses around the hospitals, and that is where they get a bad experience and high chance of infection. Such guesthouses need to be standardised and hospitality players need to build patient specific hotels near hospitals. 80-90% of the international patients come to India through

a Medical Travel Facilitator who acts like a travel agent and health advisor to the patient. Significant investment is required in these companies who are marketing Indian healthcare across 70+ countries through their offices, digital marketing and regular events. Standardisation needs to be brought into this segment of service providers urgently.

Insurance is another very large opportunity. Indian insurers should actively pursue the opportunity for selling Indian health insurance to foreigners. This could potentially generate additional \$9 billion in premium and patient inflow to India.

Another opportunity in cross border telemedicine. India has already become the call centre for the world given its advantage in skill and cost. It could similarly become the Telehealth center of the world, healing people in India and through India.

Our unique knowledge and position in traditional medicine of Ayurveda is another advantage that needs to be adequately marketed to the world. While we're already well known for Yoga, patients still don't know the therapeutic potential of Ayurveda in treating diseases such as kidney failure, infertility, eye disorders etc. Under the leadership of India's current health minister, Dr Mansukh Mandaviya, a unique blend of integrated medicine is getting created where patients benefit from standardised traditional and modern medicine treatments, across pre, during and post surgery.

These initiatives, under the governments' guidance is sure to make India the No.1 destination for Medical Tourism, saving millions of lives, generating valuable jobs and over \$13 billion in forex.

2) Make a precis of the following passage reducing it to about 180 words, and also, give it a suitable title. (30 Marks)

We human beings have been venturing into space since October 4, 1957, when the Union of Soviet Socialist Republics (U.S.S.R.) launched Sputnik, the first artificial satellite to orbit Earth. This happened during the period of political hostility between the Soviet Union and the United States known as the Cold War. For several years, the two superpowers had been competing to develop missiles, called intercontinental ballistic missiles (ICBMs), to carry nuclear weapons between continents. In the U.S.S.R., the rocket designer Sergei Korolev had developed the first ICBM, a rocket called the R7, which would begin the space race.

This competition came to a head with the launch of Sputnik. Carried atop an R7 rocket, the Sputnik satellite was able to send out beeps from a radio transmitter. After reaching space, Sputnik orbited Earth once every 96 minutes. The radio beeps could be detected on the ground as the satellite passed overhead, so people all around the world knew that it was really in orbit. Realizing that the U.S.S.R. had capabilities that exceeded U.S. technologies that could endanger Americans, the United States grew worried. Then, a month later, on November 3, 1957, the Soviets achieved an even more impressive space venture. This was SputnikII, a satellite that carried a living creature, a dog named Laika.

Prior to the launch of Sputnik, the United States had been working on its own capability to launch a satellite. The United States made two failed attempts to launch a satellite into space before succeeding with a rocket that carried a satellite called Explorer on January 31, 1958. The team that achieved this first U.S. satellite launch consisted largely of German rocket engineers who had once developed ballistic missiles for Nazi Germany. Working for the U.S. Army at the Redstone Arsenal in Huntsville, Alabama, the German rocket engineers were led by Wernher von Braun and had developed the German V2 rocket into a more powerful rocket, called the Jupiter C, or Juno. Explorer carried several instruments into space for conducting science experiments. One instrument was a Geiger counter for detecting cosmic rays. This was for an experiment operated by researcher James Van Allen, which, together with measurements from later satellites, proved the existence of what are now called the Van Allen radiation belts around Earth.

In 1958, space exploration activities in the United States were consolidated into a new government agency, the National Aeronautics and Space Administration (NASA). When it began operations in October of 1958, NASA absorbed what had been called the National Advisory Committee for Aeronautics (NACA), and several other research and military facilities, including the Army Ballistic Missile Agency (the Redstone Arsenal) in Huntsville.

The first human in space was the Soviet cosmonaut Yuri Gagarin, who made one orbit around Earth on April 12, 1961, on a flight that lasted 108 minutes. A little more than three weeks later, NASA launched astronaut Alan Shepard into space, not on an orbital flight, but on a

suborbital trajectory—a flight that goes into space but does not go all the way around Earth. Shepard's suborbital flight lasted just over 15 minutes. Three weeks later, on May 25, President John F. Kennedy challenged the United States to an ambitious goal, declaring: "I believe that this nation should commit itself to achieving the goal, before the decade is out, of landing a man on the moon and returning him safely to Earth."

In addition to launching the first artificial satellite, the first dog in space, and the first human in space, the Soviet Union achieved other space milestones ahead of the United States. These milestones included Luna 2, which became the first human-made object to hit the Moon in 1959. Soon after that, the U.S.S.R. launched Luna 3. Less than four months after Gagarin's flight in 1961, a second Soviet human mission orbited a cosmonaut around Earth for a full day. The U.S.S.R. also achieved the first spacewalk and launched the Vostok 6 mission, which made Valentina Tereshkova the first woman to travel to space.

During the 1960s, NASA made progress toward President Kennedy's goal of landing a human on the moon with a program called Project Gemini, in which astronauts tested technology needed for future flights to the moon, and tested their own ability to endure many days in spaceflight. Project Gemini was followed by Project Apollo, which took astronauts into orbit around the moon and to the lunar surface between 1968 and 1972. In 1969, on Apollo 11, the United States sent the first astronauts to the Moon, and Neil Armstrong became the first human to set foot on its surface. During the landed missions, astronauts collected samples of rocks and lunar dust that scientists still study to learn about the moon. During the 1960s and 1970s, NASA also launched a series of space probes called Mariner, which studied Venus, Mars, and Mercury.

Space stations marked the next phase of space exploration. The first space station in Earth orbit was the Soviet Salyut 1 station, which was launched in 1971. This was followed by NASA's Skylab space station, the first orbital laboratory in which astronauts and scientists studied Earth and the effects of spaceflight on the human body. During the 1970s, NASA also carried out Project Viking in which two probes landed on Mars, took numerous photographs, examined the chemistry of the Martian surface environment, and tested the Martian dirt (called regolith) for the presence of microorganisms.

Since the Apollo lunar program ended in 1972, human space exploration has been limited to low-Earth orbit, where many countries participate and conduct research on the International Space Station. However, unpiloted probes have traveled throughout our solar system. In recent years, probes have made a range of discoveries, including that a moon of Jupiter, called Europa, and a moon of Saturn, called Enceladus, have oceans under their surface ice that scientists think may harbor life. Meanwhile, instruments in space, such as the Kepler Space Telescope, and instruments on the ground have discovered thousands of exoplanets, planets orbiting other stars. This era of exoplanet discovery began in 1995, and advanced technology now allows instruments in space to characterize the atmospheres of some of these exoplanets.

Solution –

Title – A leap of Faith

Although the possibility of exploring space has long excited people in many walks of life, for most of the latter 20th century and into the early 21st century, only national governments could afford the very high costs of launching people and machines into space. This reality meant that space exploration had to serve very broad interests, and it indeed has done so in a variety of ways. Government space programs have increased knowledge, served as indicators of national prestige and power, enhanced national security and military strength, and provided significant benefits to the general public. In areas where the private sector could profit from activities in space, most notably the use of satellites as telecommunication relays, commercial space activity has flourished without government funding. In the early 21st century, entrepreneurs believed that there were several other areas of commercial potential in space, most notably privately funded space travel.

Q.3 Read the passage given below and answer the following questions on the basis of the passage in your own words.

The merger of the Forward Markets Commission(FMC) with Securities and Exchange Board of India(SEBI) is a major milestone for the commodity futures market in India. This idea is not new; it was floated seriously at least 12 years back when the commodity market was revived and three national-level exchanges were in the field. At that time it was felt the FMC should remain a separate entity, given the unique nature of this market.

The commodity market came under the regulation of the FMC and was guided by the FCRA of 1952 with the FMC being a division of the ministry of consumer affairs (MCA). The argument put forward was that the market was young and needed attention and expertise. It could not be treated as a financial instrument since it involved the physical delivery of goods, which in turn had a bearing on spot markets and prices. Therefore, the MCA would have regulated by the APMC Acts, which fall within the jurisdiction of State governments.

Over the years, the market has matured. In between there was a dent to the credibility of commodity markets with the NSEL failure, but the futures markets have carried on through this turmoil and emerged more resilient.

There have also been controversies regarding their links with inflation, which has led to the banning of futures trading in specific commodities. Conditions have stabilized since, and there is evidently a need to take this market to a different level.

On way of looking at commodity derivatives is like is like any other financial instrument as is the case in several markets, including the US. Since India has separate regulatory structures- the FCRA and SCRA Acts dealing with commodities and securities – integration would be required. The first step taken earlier was to bring the commodity futures market under the Ministry of Finance and, as an extension, merge the FMC with SEBI.

What would this mean for the market? Commodity derivatives can now be looked upon as a financial instrument analogous to equity or debt. This will bring all derivatives under a single regulator just like in the US, where the CFTC controls and regulates them.

This will be good news for brokers if there is integration of the two trading platforms. There will be some housekeeping to be done as all brokers need to register with SEBI. Exchanges too have to comply with the net-worth norms.

It is not known if the stock exchanges will be allowed to deal with commodities and vice versa for commodity exchanges. If permitted, there would be further competition in both markets, leading to consolidation at some point of time, which is always the case for financial infrastructure. The major consideration is to ensure that risk from one market does not spill into the other. This was the primary reason for commodities being separated from securities.

The consequence, however, was that the same broker firm would open a commodity outfit and then trade from the same office space under two banners. With a single regulator now for both the markets, and hence also for the exchanges, this need to need separate companies trading in two segments with separate risk capital.

The existing exchanges will definitely see a shakeout as stock exchanges venture into this space. It is unlikely, however, that in the absence of consolidation they can make a useful dent in the business of existing players. This is so because historically it has been observed that exchanges tend to get specialized in specific products and generate liquidity to the extent that it is difficult to wean away business. Hence MCX retains primacy in bullion and energy while NCDEX dominates the agricultural spectrum. New exchanges have come and barely survived, and more often than not been marginalized by market forces.

**Q.3 Read the passage given above and answer the following questions on the basis of the passage in your own words.
(30 Marks)**

1. Why was the commodity market put under the regulation of the Forward Market Commission (FMC)?

The commodity market came under the regulation of the FMC and was guided by the FCRA of 1952 with the FMC being a division of the ministry of consumer affairs(MCA). The argument put forward was that the market was young and needed attention and expertise. It could not be treated as a financial instrument since it involved the physical delivery of goods, which in turn had a bearing on spot markets and prices. Therefore, the MCA would have regulated by the APMC Acts, which fall within the jurisdiction of State governments.

2. What will be the impact of the merger of FMC with SEBI?

The first step taken earlier was to bring the commodity futures market under the Ministry of Finance and, as an extension, merge the FMC with SEBI.

Commodity derivatives can now be looked upon as a financial instrument analogous to equity or debt. This will bring all derivatives under a single regulator just like in the US, where the CFTC controls and regulates them. This will be good news for brokers if there is integration of the two trading platforms. There will be some housekeeping to be done as all brokers need to register with SEBI. Exchanges too have to comply with the net-worth norms. It is not known if the stock exchanges will be allowed to deal with commodities and vice versa for commodity exchanges. If permitted, there would be further competition in both markets, leading to consolidation at some point of time, which is always the case for financial infrastructure.

3. Why was decision for separating commodities from securities taken?

It is not known if the stock exchanges will be allowed to deal with commodities and vice versa for commodity exchanges. If permitted, there would be further competition in both markets, leading to consolidation at some point of time, which is always the case for financial infrastructure. The major consideration is to ensure that risk from one market does not spill into the other. This was the primary reason for commodities being separated from securities.

4. What was/were the consequences of separating commodities from securities?

There will be some housekeeping to be done as all brokers need to register with SEBI. Exchanges too have to comply with the net-worth norms.

The consequence, however, was that the same broker firm would open a commodity outfit and then trade from the same office space under two banners. With a single regulator now for both the markets, and hence also for the exchanges, this need to need separate companies trading in two segments with separate risk capital.

5. What will be the impact of existing changes on stock exchanges?

The existing exchanges will definitely see a shakeout as stock exchanges venture into this space. It is unlikely, however, that in the absence of consolidation they can make a useful dent in the business of existing players. This is so because historically it has been observed that exchanges tend to get specialized in specific products and generate liquidity to the extent that it is difficult to wean away business. Hence MCX retains primacy in bullion and energy while NCDEX dominates the agricultural spectrum. New exchanges have come and barely survived, and more often than not been marginalized by market forces.