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"During her tenure as an academician she comes across students with brilliant ideas but what lacks is the research. She emphasises on the importance of substantiating views as a student of law and not just opiniating. In Ma'am words research itself suggests searching the already searched. Therefore, the research of the students shall reflect their interest in the topic. She strongly believes that a topic to be researched upon shall have contemporary relevance."

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"Ma'am is an Assistant Professor in Christ Academy Institute of Law. She believes that for someone to excel in a professional course like Law one is expected to focus not only on the textbook knowledge but should also focus on shaping their overall personality by participating in extracurricular activities. As per ma'am most of the students are of the view that they can take benefit only from Moot Courts, competitions, however, any activity in which you participate will help you in your professional development. Just like learning calligraphy helped Steve jobs in creating apple's typography.

Ma'am urges the young researchers to focus on the topics which are innovative and most importantly any field which interests their legal acumen.

Ma'am says that that research is at a very nascent stage in India, especially in the field of law and wishes to students that they should start focusing on improving their research skills and publishing quality papers."

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The Legal Vidya is a student(s) initiative run online journal (Two Issues Per Year) started in 2020 with the aim of reaching youths of the nation, buddying lawyers, students and academicians to bring forth the legal knowledge at your fingertips.

We are here to provide you with a lucid way of learning law with the help of daily blogs pertaining to the latest/other legal issues going on in the country.

We also provide legal advice and needed legal awareness to the masses with a pioneering objective of reaching the underprivileged and serving the idea of Free Legal Aid to them. (Article 39A of the Constitution of India).

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CRITICAL ANALYSIS OF THE ROLE OF FINANCIAL REGULATORS IN SHAPING THE FUTURE OF GLOBAL FINANCIAL SYSTEM

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Abstract*: The aim of global regulatory reform is to create a sturdy worldwide financial system that can handle shocks and decrease their impact on the actual economy, instead of exacerbating them. Due to the lessons learned from modern finance, concrete reform proposals with specific implementation plans at the global level have been suggested. However, there are concerns about governing these novel financial instruments and ensuring cross-border uniformity. It is suggested that the reform process should take into account the significant development challenges faced by developing countries while guaranteeing that domestic financial regulations keep up with global standards. This requires national and regional reforms to complement and augment global reforms, considering the unique characteristics of developing economies' financial systems. Key areas of focus for development should include balancing regulation and innovation, creating national and cross-border crisis management and resolution mechanisms, preparing a comprehensive system and contingency plan for financial institution failure, promoting growth and development while emphasizing international corporate governance, and reshaping the international and regional financial architecture.

INTRODUCTION

BACKGROUND

"Well-functioning financial systems are important in achieving sustained economic growth. They play a crucial role in channeling house Reserve savings into the corporate sector and allocating investment funds among firms". The current global financial system is a complex network of institutions, markets, regulations, and transactions that facilitates the flow of money and credit around the world. It is built on a foundation of interconnected banks, central banks, financial regulators, and international organizations that work together to maintain stability and liquidity in the financial markets.

At the heart of the global financial system are the world's major currencies, which are used as the medium of exchange for international trade and finance. The US dollar is the dominant currency, accounting for about two-thirds of all foreign exchange transactions. Other major currencies include the euro, Japanese yen, British pound, and Swiss franc.

The global financial system[1] is characterized by a high degree of interconnectedness and interdependence. Financial institutions and markets around the world are linked through a vast network of financial transactions, including cross-border lending, portfolio investments, and foreign exchange trading. This interconnectedness can amplify risks and vulnerabilities, as problems in one part of the system can quickly spread to other parts.

The global financial system is regulated by a complex web of national and international regulations, including banking and securities laws, accounting standards, and capital requirements. International organizations such as the International Financial Fund (IMF) and the World Bank also play a key role in setting global financial standards and providing financial assistance to countries in need.

The pace and scope of emerging technologies are creating a sea change for governments and for regulators. They challenge economic regulation by blurring the traditional[2] definition of markets, for example, and by transcending regulatory boundaries domestically and internationally. At the same time, the digital transformation is an excellent opportunity for regulators themselves to harness the power of data and digital tools to improve regulation and its delivery. Seizing this opportunity will require fit-for-purpose regulatory systems and governance arrangements.

STATEMENT OF PROBLEM

In the current times due to developments in fintech, lot of concerns regarding regulatory system of such developments has raised. The main problem which looms over the global financial system is the emergence of decentralized form of finance which would be beyond regulatory norms. Such form of finance is beyond borders and is very difficult to regulate. The concerns of the financial regulators are to have some governance mechanism

[1] Dark, F., E. Durman, and W. Toy, 1990, A one-factor model of loan costs and its applications to depository bonds, Monetary Examiners Diary 46, 33-39.

[2] Bodie, Z., A. Kane, and A. Marcus, 1996, Ventures, third ed. (Richard D. Irwin, Inc., Homewood, Sick.).

over such modern forms of finance. Various economies have taken their stance on adapting with such technology. The main question which is still unsolved is to get the correct combination which balances both innovation and regulations. This paper tries to bridge this gap by studying the current global financial scenario and try to find out measures which can aid in striking that balance. All these above issues led the researcher to take up this particular topic wherein an effort has been made to adumbrate.

Research Objectives

Objective behind this research is to understand why the Well-functioning financial systems are important in achieving sustained economic growth. They play a crucial role in achieving sustained economic growth. They play a crucial role in channeling house Reserve savings into the corporate sector and allocating investment funds among firms into the corporate sector and allocating investment funds among firms is important, and to find issues related with Well-functioning financial systems are important in achieving sustained economic growth. The corporate sector and allocating investment funds among firms having many provisions in the law as well as in the constitution.

- To examine the effects of digitization of money.
- To analyse the need of decentralized finance and its effects from socio-economic perspective.
- To get a global perspective on upcoming technologies such as Defi, Web3, Blockchain, CBDC etc.
- To study the role of financial regulators in formulating a governance structure over these new forms of finance.
- To study stance of various economies and their methods to adapt to the new forms of finance.
- To find out the combination strikes balance without impeding innovation and regulations.
- To suggest measures to fill the gap created by modern forms of finance.

The objectives are proposed to be secured mainly by analyzing Well-functioning financial systems are important in achieving sustained economic growth. They play a crucial role in channeling house Reserve savings into the corporate sector and allocating investment funds among firms.

Research Questions

1. Whether decentralized finance is the future of finance and also secures the socio-economic interests?
2. Will regulatory reforms in the decentralized finance defeat the purpose of creating it?
3. Should financial regulators be independent to solve the agency risk?

Hypothesis

Hypothesis is a tentative generalization these validities of which has to be tested. It provides a direction to the inquiry, aids in establishing a link between theory and practice and helps to delimit these field of inquiry by singling out these pertinent facts on which to concentrate. Before initiating the preparation of this dissertation, the researcher assumes that the Essential Facilities. The Well-functioning financial systems are important in achieving sustained economic growth. They play a crucial role in channelling house Reserve savings into the corporate sector and allocating investment funds among firms.

The Independence of Financial Regulators will strike a balance between Innovation and Governance without impeding Innovation and securing interest of regulators.

Research Methodology

This research study adopts a dual approach using both doctrinal and comparative research methods to understand the effects of modern forms of finance on the global financial system and the role of financial regulators in governing them. Primary and secondary sources are utilized, including acts, statutes, conventions, treaties, books, legal reports, research articles, websites, and other sources. The research is divided into analytical and descriptive methods, and is largely based on secondary data. Historical analysis and doctrinal research methods are used to give the study a precise and productive structure. Materials are collected through various secondary sources, while a questionnaire is also circulated in Google form format to collect primary data. The Twentieth Edition Bluebook technique is utilized for citations. The study acknowledges the limitations of not conducting empirical or field research, but aims to provide insights through the analysis of available data.

Significance of Study

The study aims to bridge the gaps in the current global financial system and aid in providing some insight on the untouched aspects of the decentralized form of finance. Against this backdrop, the objective of global regulatory reform is to build a resilient global financial system that can withstand shocks and dampen, rather than amplify, their effects on the real economy. The goal is to ultimately support vibrant economic activity and growth.

Limitations

The main limitation of this research would be the availability of primary resources in this particular field as it is still at a very nascent stage. So the whole research would be based on mainly secondary sources available and upcoming developments in corporate governance.

Transformation of Financial System With Digitization Of Money

Changes To The Regulatory Environment

The need of the hour is to discuss the emergence of digital currency and decentralized finance as well as the viability of new forms of finance. Digital currency, such as cryptocurrency and stable coins, operates on decentralized networks and provides fast and secure transactions with lower fees than traditional payment systems.[3] Central bank digital currencies (CBDCs) offer similar benefits while being backed by a central authority. However, digital currencies also present several challenges, including volatility, security risks, and regulatory uncertainty.

Decentralized finance (DeFi) is a growing section of blockchain-based finance that allows financial transactions to take place on a decentralized, open-source network. DeFi protocols enable a range of financial activities, including lending, borrowing, trading, and asset management. DeFi is designed to be more transparent, accessible, and open than traditional finance, potentially making financial transactions more efficient and affordable, particularly for individuals and small businesses[4]. However, DeFi also presents several challenges and potential risks, including smart contract risk and liquidity risk.

There is a dire need for regulatory and technological developments to address the challenges associated with digital currency and DeFi. It also should keep in mind the potential benefits of new forms of finance, such as stabilizing short-term global capital flows without adversely affecting long-term foreign direct investment. However, the one should acknowledge that crises can be overwhelming, and the use of bailouts puts a heavy burden on citizens living in the affected countries, leading to high costs and damaging lifestyles[5].

The emphasis should be on the need for a comprehensive framework for macroeconomic policy coordination, which is currently lacking. The lack of adherence to a formal financial system has resulted in a void of global constraints on public macroeconomic policies, leading to a shortage of rule-based governance of financial activities. Calls have been made for increased support from the private sector in the administration of financial crises and the expansion of multilateral institutions' resources.

On a concluding note, Digital currency, DeFi, and new forms of finance are rapidly evolving sections of finance that offer significant potential benefits for consumers, businesses, and governments. While challenges and potential problems associated with digital currencies and DeFi exist, they offer greater transparency and traceability, potentially useful for anti-money laundering and counterterrorism financing efforts. The adoption and integration of these new forms of finance into the wider financial system will require significant regulatory and technological developments to address the associated challenges.[6]

Change in Dynamics Due To Blockchain Technology

The digitization of money has transformed the financial system in many ways, including the rise of cryptocurrencies, increased efficiency, decentralization, automation, new payment methods, financial inclusion, data analytics, security, and disintermediation. Blockchain technology is the underlying technology that powers

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[3] Chang, E. C., & Pinegar, J. M. (1990). Securities exchange seasonals and prespecified multifaceted estimating relations. Diary of Monetary and Quantitative Examination, 25, 517-533.

[4] Cox, J. C., Ingersoll, J. E., & Ross, S. A. (1985). A hypothesis of the term construction of financing costs. Econometrica, 53, 385-408.

[5] Elton, E., & Gruber, M. (1995). Present day portfolio hypothesis and speculation investigation (5th ed.). New York: John Wiley and Children, Inc

[6] Fabozzi, F. J. (1996). Security Markets, Investigation, and Methodologies (3rd ed.). Upper Seat Stream, N.J.: Prentice-Lobby, Inc.

many DeFi protocols and can enable trust to be established between parties without the need for intermediaries or third-party verification. The digitization of money generates vast amounts of data that can be used for data analytics to gain insights into consumer behavior, identify market trends, and inform investment decisions.[7] However, it also presents challenges and potential risks, such as the need for new regulations and the risk of cyber-attacks.

DIGITIZATION REVOLUTION

The digitization of money has brought significant changes to the financial system, including the rise of cryptocurrencies, improved efficiency, automation, increased financial inclusion, data analytics, and disintermediation. These changes have enabled decentralized transactions and provided a level of anonymity. Automated processes are more reliable and cost-effective than manual processes, and they reduce the likelihood of errors[8]. Digitization has also opened up new opportunities for people who previously did not have access to traditional banking services, which can reduce poverty and promote economic growth in developing countries. Data analytics allows businesses and financial institutions to gain insights into consumer behavior, identify market trends, and inform investment decisions. Blockchain technology powers many decentralized finance (DeFi) protocols and can enable trust to be established between parties without intermediaries or third-party verification.[9] However, the digitization of money also presents challenges and potential risks, such as the need for new regulations to govern the use of cryptocurrencies and other digital assets, the risk of fraud and financial crime, and the risk of cyber-attacks. Regulators must balance the need for innovation with the need to protect consumers and maintain financial stability. Financial institutions must take steps to mitigate these risks by implementing robust security measures and continuously monitoring their systems for vulnerabilities.[10]

In conclusion, the digitization of money has transformed the financial system in many ways, and financial institutions must continue to innovate and adapt to the rapidly changing digital landscape to stay competitive and secure.[11]

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[7] Birdsall, N., & Morris, S. (2016). Multilateral Improvement Banking during the current Century's Turn of events Challenges: Five Suggestions to Investors of the Old and New Multilateral Advancement Banks. Washington DC: Community for Worldwide Turn of events.

[8] Feyen, E. (2015, May 27). Six Monetary Area Difficulties for Arising and Creating Economies. World Bank Blog. Retrieved from <http://blogs.worldbank.org/psd/six-monetary area challengesemerging-and-creating.economies#comments.> accessed 3rd April, 2023.

[9] Ibid.

[10] Worldwide Financial Asset (IMF). (2018). Worldwide Monetary Dependability Report April 2018: A Rough Street Ahead. <http://www.imf.org/en/Distributions/GFSR/Issues/2018/04/02/Worldwide FinancialStability-Report-April-2018 > accessed 3rd April, 202

[11] Association for Financial Co-activity and Advancement (OECD). (2018). Improvement finance information data set. <http://www.oecd.org/dac/supporting-sustainable-development/improvement-finance-information/> accessed 3rd April, 2023.

INTERNATIONAL PERSPECTIVE: REGULATORS ROLE IN MITIGATING THE SHIFT FROM TRADITIONAL TO MODEN FORMS OF FINANCE

USA: THE SEC'S DECENTRALIZE AND MORPH APPROACH

The Securities and Exchange Commission (SEC) in the United States has been grappling with how to regulate cryptocurrencies and initial coin offerings (ICOs) for several years. One of the key issues is whether these assets should be treated as securities and therefore subject to securities laws and regulations.

In 2018, the SEC staff proposed a theory that a cryptocurrency is not a security if the associated blockchain project is "sufficiently decentralized"[12]. This approach was designed to address ICOs, which were very popular at the time, and was followed by more detailed guidance in 2019. However, this theory has been criticized for being difficult to apply in practice and not being supported by legal precedent, including the Howey High Court case. In addition, it has resulted in market distortions that have harmed both market participants and long-term growth in the cryptocurrency industry.

The emerging forms of finance present the need to regulate Initial Coin Offerings (ICOs) and similar token sales as securities offerings. The **Securities and Exchange Commission (SEC) v. W. J. Howey Co.[13]** case in 1946 is cited as a precedent for the application of the Securities Act of 1933 to investment contracts, where investors expect profits solely from the efforts of others. The SEC has proposed that a crypto asset is not a security if the associated blockchain project is sufficiently decentralized. However, this hypothesis is problematic as it is difficult to apply to real blockchain projects and lacks legal precedent. A better approach is suggested in the paper, The Ineluctable Methodology of Securities Regulation for Fungible Crypto Assets[14]. This paper recommends that capital-raising events by blockchain projects are regulated as securities offerings, while fungible crypto assets are not. Cross-border regulation is also discussed, which is complicated by the different legal frameworks in different countries. Finally, product design is mentioned, where the complexity of certain financial products, such as credit derivatives, can cause liquidity crises. Changes are being made to address these issues, such as improved credit rating information and longer-term incentive structures.

UK ON FINANCIAL MARKETS AND INSTRUMENTS

The finance sector in the UK is undergoing significant technological advancements, which are transforming traditional finance practices. Cloud, AI, and machine learning, coupled with data and visualization tools, are providing finance teams with more tools than ever before. Automating repetitive tasks and standardizing workflows will enable finance professionals to focus on strategic analysis and advisory activities. The finance sector's three-

[12] Thomson Reuters, 'China capital outpourings top $500 billion in 2015: IIF' (12 December 2015) <https://www.reuters.com/article/us-china-streams-iif/china-capital-outpourings-top-500-billion-in-2015-iif-idUSKBN0TV0R6.> accessed 3rd April, 2023.

[13] 328 U.S. 293, 66 S. Ct. 1100 (1946)

[14] Ibid

sided shape is becoming more diamond-shaped, with a focus on analysis and data interpretation in the center. The rise of low-code/no-code tools is also making custom application building easier. With higher capital charges and less ability to leverage the financial system, global financial institutions are seeking to make the system less crisis-prone. Simplicity and transparency are becoming more important, with higher capital charges on non-standardized products to encourage standardization. Although customized products and transactions will still have a place in the market, this activity will likely decrease. Overall, the finance sector is becoming more technology-driven, strategic, and focused on analysis, with a greater emphasis on human skills such as professional judgment, skepticism, and communication[15].

European Union On Financial Markets and Instruments

The European Union's financial plan is mainly supported by own assets, and digital transformation is necessary for banks to meet changing customer demands while reducing costs and increasing efficiency. While technological reforms in the financial sector offer benefits for banks and clients, they also bring new risks. Banks need sustainable business models to be prepared for these changes. Digital innovations have allowed new players, such as fintech firms and big tech platforms, to enter the market and offer attractive and easy-to-use interfaces for financial services. This has led to the unbundling of financial services, giving clients a wider range of choices and more involvement in the process[16]. Efficiency gained from offering solely online services can be seen in the success of Chinese entity WeBank and Brazilian entity Nubank. These companies have lower operating costs, and Nubank uses data about client behavior and algorithms to perform its assessment. Big tech firms, like Amazon and Google, are also starting to offer financial services, using their networks and customer data to focus on specific financial services attached to their other services. Customers appreciate the convenience and usability of being able to access all their financial services online or through mobile devices[17]. They can also choose from more tailored options, including non-financial services that meet their specific needs. These options are based on the extensive data that providers collect about their customers' behavior. The use of customer data and analysis allows providers to offer services to clients who do not have a history of financial stability, leading to greater financial inclusion. The impact of this can be significant, especially in emerging markets. Overall, the reforms offer promising benefits, but managers must mitigate new risks and ensure sustainable business models to prepare for the changes in the financial sector.

Role of The IMF

The International Monetary Fund (IMF) plays an important role in monitoring and assisting individual countries, regions, and the global economy as a whole. The IMF offers financial help in times of financial crisis, but it comes

[15] UNCTAD, World Investment Report 2017, < http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf> accessed 3rd April, 2023
[16] Hirsch M, Economic Principles: A Manual of Political Economy (The Russkin Press Pty Ltd, 1985) 123.
[17] Gavetti G, Rivkin JW, 'On the Origin of Strategy: Action and Cognition over Time', Organization Science (2007) 18(3): 420-439.

with conditions such as Structural Adjustment Programs (SAPs) and a commitment to implement macroeconomic changes. The IMF also offers technical assistance to transitioning economies and emergency funds to collapsed economies. The IMF's goal is to promote sustainable development, but critics argue that its conditions prioritize economic concerns over social ones, leading to a widening gap between rich and poor countries. The IMF also helps to develop financial regulations and to ensure their implementation by public authorities, using its knowledge and experience to translate the pros and cons of different regulatory structures into practical regulations[18]. The IMF can also provide advice on where best to invest for financial security, helping to minimize accidental fallout from the transition to a new financial system. The IMF can help bring peer pressure to bear on countries that fail to comply with global best practices. The IMF is working to enhance its policy advice through greater collaboration between multilateral and bilateral monitoring and more targeted technical assistance in the areas of oversight, regulation, and crisis management. The IMF is also working with other international organizations on topics of mutual interest, such as regulatory change. The IMF is expected to expand its surveillance activities to include observation of the macro-prudential management system, which should spur change efforts. The IMF has also developed additional ways to ensure compliance with emerging regulations, best practices, or guidelines.

OECD: Financial Expansion and Integration

The Organisation for Economic Co-operation and Development (OECD) highlights the need to strengthen capital structures and reduce dependence on borrowing in the face of increasing credit restrictions for small and medium-sized enterprises (SMEs). While bank financing remains important for SMEs, there is a concern that credit restrictions will become the new normal, making it necessary to expand the range of funding instruments available to them. The OECD's Working Party on SMEs and Entrepreneurship is working to widen the range of funding options available to SMEs and entrepreneurs, including asset-based finance, alternative debt, hybrid instruments, and equity instruments. It is suggested to map the main features of these external funding methods and highlight the potential for wider use by specific categories of firms. Asset-based finance is widely used by SMEs, particularly in Europe, and is based on the value of specific assets rather than a firm's credit standing. Policies to promote asset-based finance are key to enabling a wide range of assets to secure loans. In conclusion, a broader range of funding options is needed to enable SMEs and entrepreneurs to continue to invest, innovate, and create jobs[19].

Asian Development Bank: At The Global Level

Over the past decade, the Asian Development Bank (ADB) has faced questions about its relevance as more of its borrowers transitioned to middle-income status. However, renewed interest in infrastructure and the role it plays in productivity and growth has revived the ADB's importance, and its continued relevance depends on its ability

[18] Begg DKH, The Rational Expectations Revolution in Macroeconomics: Theories and Evidence (John Hopkins University Press, 1982).
[19] Skidelsky R, 'Keynes and the Crisis of Capitalism' (Talk to celebrate the Book Keynes: The Return of the Master, London School of Economics and Political Science, 2009).

to leverage resources beyond traditional development finance. The ADB needs to move to a new model that focuses on using private-sector funding for infrastructure, rather than acting as a mere intermediary that prepares capital through its own debt issuances[20].

While the ADB's sectoral needs have shifted over time, its basic model has remained consistent. However, emerging markets in Asia now have access to global capital markets, and the demand for infrastructure investment far exceeds the capacity of multilateral development banks (MDBs) to directly fund it. The ADB should see itself as a facilitator of the flow of private capital to projects in developing countries and activate private-sector capital through co-financing, direct private-sector lending, project planning, and guarantees or subsidies[21].

The ADB's activation of private-sector capital has been modest to date, and the bank needs to rethink its pricing of sovereign lending, where the potential for increasing the leverage of private-sector financing is the greatest. A financing rate that was closer to the market rate would make it easier to get institutional investors to co-finance sovereign lending. ADB should also explore structuring its financing so that institutional investors could buy the loan after the project is generating returns.

ADB has a competitive advantage over some of its competitors to adopt this radical overhaul of development financing. Asia is home to mostly middle-income countries where more market-based financing is feasible, and the ADB has a strong private-sector team that is highly capable. The ADB needs to abandon its traditional development finance model and focus on facilitating private capital to develop infrastructure in the region[22].

BIS: At The Global Level

The Bank for International Settlements (BIS) is a global financial institution owned by 63 national banks that provides banking services for central banks and is a forum for discussing financial and regulatory policies. Established in 1930, it originally served as a clearinghouse for German war reparations, but later became a group for collaboration and counterparty for central banks. During World War II, the BIS was officially neutral, but it was widely believed to have supported the Nazi war effort. The BIS played a significant role in maintaining global currency convertibility and developing capital requirements for banks[23]. The Basel Accords, widely adopted by national governments, regulate financial systems. The entry of large tech firms into financial services presents new challenges, including market power and data management. In 2019, the SEC sued Ripple and CEO John Rooney for violating securities regulations. The SEC won the case, and the court rejected a procedural defense. The BIS is governed by a board of 18 directors chosen by member national banks. Regulators aim to encourage more transparent institutional arrangements among financial institutions to better identify emerging risks. This may mean

[20] Gleick J, Bedlam: Making Another Science (1987) Penguin Books USA.
[21] Feynman R P, Quantum Electrodynamics (1962) Addison Wesley USA.
[22] Soros G, 'The New Worldview for Monetary Business sectors: The Credit Emergency of 2008 furthermore, What It Means' (2008) Public Talk London School of Financial matters and Political Theory London UK.
[23] Soros G, 'General Hypothesis of Reflexivity, Monetary Business sectors, Open Society, Private enterprise versus Open Society, The Way Forward' (2009) Open Talks Monetary Times London UK, www.ft.com/soros accessed 3rd April, 2023

certain activities are only allowed in specific types of companies, resulting in better reporting of risk opportunities and easier sharing of information across borders. The goal is to create a safer and more efficient global financial system that benefits society at large[24].

INDIAN PERSPECTIVE: REGULATORS ROLE IN MITIGATING THE SHIFT FROM TRADITIONAL TO MODERN FORMS OF FINANCE

VIRTUAL DIGITAL ASSEST SERVICE PROVIDER NOW COVERED UNDER PMLA

The notification issued by the Government of India on 7th March 2023 ***(Annexure A)*** marks a significant development in the regulation of virtual digital asset service providers (VDASPs). The notification states that VDASPs will now be covered under reporting entities under the Prevention of Money Laundering Act (PMLA), thereby requiring them to comply with the same anti-money laundering and counter-terrorism financing regulations as banks, financial institutions, and other designated non-financial businesses and professions[25].

The move to regulate VDASPs under the PMLA is aimed at curbing the potential misuse of virtual assets for illicit activities such as terrorism financing and money laundering. Virtual assets, including cryptocurrencies, have gained popularity in recent years due to their ease of use, low transaction fees, and anonymity. However, this anonymity has also made them attractive to criminals who use them for illicit activities such as money laundering, drug trafficking, and terrorism financing[26].

With the notification, VDASPs will now have to implement measures such as customer due diligence, record-keeping, and suspicious transaction reporting to ensure compliance with the PMLA. This will also involve monitoring transactions, reporting suspicious activities, and maintaining records of transactions for a specified period. The move is expected to enhance transparency and accountability in the virtual asset space, which will promote a safer and more regulated environment for virtual assets in India.

The notification has been welcomed by various stakeholders, including industry players and regulators. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) have been actively working towards developing a regulatory framework for virtual assets, and the notification is a significant step towards achieving this goal. The move is also expected to increase investor confidence in the virtual asset space and attract more institutional investors to the sector.

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[24] [2020], USDC ND Cal, Case No. 3:20-cv-10832-JSC

[25] Jubilee 2000 Campaign 2005 'James Tobin: "We Need to Throw Sand in the Wheels of Our Own Machine"' (2 September 2003).

[26] Black F, Scholes M 1973 'The Pricing of Options and Corporate Liabilities' Journal of Political Economy 81(3) 637-654 http://dx.doi.org/10.1086%2F260062 accessed 15 April 2023.

The below figure represents the view of Mr Sumit Gupta, CEO of CoinDCX, one of the major Crypto-exchange in India, on the amendment in PMLA through the said notification.

Figure 2- COINDCX CEO

Figure 1 COINDCX CEO

In conclusion, the inclusion of VDASPs under reporting entities under the PMLA is a significant step towards regulating virtual assets in India. The move is expected to enhance transparency, accountability and curb the potential misuse of virtual assets for illicit activities. With the notification, VDASPs will now have to comply with the same anti-money laundering and counter-terrorism financing regulations as other reporting entities, which will promote a safer and more regulated environment for virtual assets in India.

CBDC: Proporation Of The Economy

This passage discusses two separate topics, the first being the potential benefits and risks of a central bank digital currency (CBDC) and the second discussing the ongoing legal battle between Ripple and the U.S. Securities and Exchange Commission (SEC) regarding the classification of XRP as a security[27].

Regarding CBDCs, it is a type of digital currency that is backed by a central bank, such as the Federal Reserve in the U.S., and is tied to a government-issued currency, such as the U.S. dollar. The benefits and risks of implementing a CBDC are being explored, with a focus on how it could improve the efficiency and security of domestic payment systems. However, there are concerns about how CBDCs could impact a country's commercial banking system and the global economy.

In the case of Ripple and the SEC, both sides have filed briefs arguing for summary judgment in the ongoing dispute over whether XRP should be classified as a security. Ripple contends that XRP does not meet the criteria for an investment contract, while the SEC argues that it does. The outcome of this case could have implications for how digital assets are classified as securities in the U.S.

Overall, the use of CBDCs and the classification of digital assets are both evolving areas with significant implications for the financial industry and investors[28].

RBI: Regulatory Reforms

The Reserve Bank of India (RBI) is responsible for overseeing the financial sector in India, including commercial banks, financial institutions, and non-banking finance firms. The RBI has implemented significant financial sector reforms such as digital payments, neo-banking, and the rise of Indian NBFCs and fintech, which have improved financial inclusion and fueled credit growth in the country. The Indian financial industry has also seen the rollout of innovative financial models like payments and small finance banks.

The RBI's primary goal is to maintain price stability and ensure that credit flows to productive economic sectors. It manages all foreign exchange under the Foreign Exchange Management Act of 1999 to promote the development

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[27] Supra 24.

[28] Merton RC 1973 'Theory of Rational Option Pricing' Bell Journal of Economics and Management Science 4(1) 141-183 http://dx.doi.org/10.2307%2F3003143 accessed 3rd April 2023.

and stability of the foreign exchange market in India. The RBI also acts as the regulator and supervisor of the overall financial system, injecting public confidence into the financial system and safeguarding interest rates[29].

In the short term, reducing bank leverage may cause the financial system to shrink below its long-term equilibrium, which could require the public sector to continue supporting savings intermediation to ensure credit provision. As a result, the financial sector may become smaller but more stable, especially if banks' activities are restricted. Estimating the likely size of the financial system, including banks and non-banks, could be challenging, with various factors pulling in opposite directions. The non-bank sector may grow if families in developed economies increase their savings and require other financial services. However, if families and investors become more cautious due to recent shocks, they may prefer low-risk investments such as insured bank deposits or government securities, which could result in a contraction of the financial system.

SEBI: Future Of The Financial System

The Securities and Exchange Board of India (SEBI) is responsible for regulating the securities markets in India and aims to protect investors' interests and promote the development and regulation of the securities market. SEBI was established in April 1992 and replaced the Regulator of Capital Issues. SEBI aims for transparency and is protected from direct public accountability. Its power is checked by the Securities Appellate Tribunal and the High Court of India. SEBI has been aggressive in giving out discipline and providing strong reforms to the securities market.[30]

SEBI aims to reduce speculation in the market to prevent retail investors from incurring losses in volatile markets. The market has become more transparent since SEBI's establishment, and it is crucial for people to keep faith in it for the country's financial stability. However, certain security market cheats still occur in India, and SEBI's position is becoming increasingly severe as regulations governing the securities market change regularly.

The Howey case[31] involved two companies and their executives who engaged in transactions that constituted investment contracts within the meaning of the Act. An investment contract refers to a contract, transaction, or plan in which an individual invests money in a common enterprise and expects profits solely from the efforts of the promoter or a third party.

The financial crisis occurred when financial institutions and investors were too optimistic about asset prices and risks against a backdrop of low nominal interest rates. Trends that indicated the financial system was becoming weaker included rapid growth of the financial sector in many countries, dependence on non-deposit-based financing, and an increase in trading account pay, commission, and fee income. The use of traditional leverage ratios showed that banking system leverage was either elevated or filled quickly in the advanced countries that were most affected.

[29] Kuznets S 1973 'Modern Economic Growth: Findings and Reflections' American Economic Review 63 247-58.
[30] Peyer U 2009 'On Shareholder Value Enhancement' Public Lecture, INSEAD, Switzerland.
[31] Engle R, 'Talks on Worldwide Monetary Instability' (2007) Monetary Times London UK.

Crypto Exchange KYC Norms: Principal

The importance of implementing effective anti-money laundering (AML) programs in cryptocurrency exchanges to prevent financial crimes and comply with regulations is unavoidable. The implementation of AML programs requires a client acceptance policy, client identification program, ongoing monitoring of transactions, and risk management procedures. The article highlights that the regulations for KYC (know-your-customer) norms in crypto-to-fiat and crypto-to-crypto exchanges differ in the European Union and the United States[32]. While KYC may not be mandatory for all crypto-only exchanges, implementing these processes is essential to manage the risk of money laundering and terrorist financing.

It is important to note that significant changes in financial regulation have occurred since the 2008 financial crisis, and policymakers now understand that ensuring the safety and soundness of individual institutions is not enough to address systemic risks. Therefore, preventive measures are being emphasized to enhance the safeguards available in the financial system, such as increasing capital requirements for securitization products and trading book activities, improving comprehensive risk management, establishing sound pay practices, and increasing disclosure requirements. Proposed changes to the regulatory framework can be classified into two categories: measures aimed at reducing the likelihood of future crises and measures aimed at better managing them. Preventive measures focus on reinforcing current micro-prudential regulatory requirements and developing a macro-prudential regulatory and management framework. In conclusion, whether the largest global banks become smaller or the system is composed of fewer very large organizations depends on several factors, and the most likely outcome is a more divided system.

Threats and Opportunities

Threats: Targeted Intrusions

Corporate Governance Failure

In December 2022, Sam Bankman-Fried, the former President of FTX, was arrested in the Bahamas on multiple fraud charges related to FTX[33]. The US Attorney of the Southern District of New York called it one of the largest financial crimes in American history. The new CEO of FTX, Brett Harrison, testified before the US House committee that FTX had no accounting and that it was “dated theft”. Bankman-Fried was extradited to the US and indicted by a federal court in Manhattan on eight counts, including securities fraud and tax evasion. After a hearing on December 22, Bankman-Fried was released on a $250 million bond, the largest ever, and will be confined to Northern California and wear an electronic monitoring bracelet.

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[32] Greenspan A, The Period of Disturbance: Undertakings in Another World (Penguin Press New York USA 2007).

[33] Joe Smith, ‘Ftx fiasco leads to millions in losses for traders’ (CNN, 1 April 2022) <https://www.cnn.com/2022/04/01/business/ftx-fiasco-trading-losses/index.html> accessed 3rd April 2023.

Attacks on financial services firms have become more common in recent years, as cyber criminals have become more sophisticated in network disruption techniques. The Schedule of Digital Incidents Including Financial Institutions, compiled by BAE Systems and the Carnegie Gift for Global Harmony, provides a resource for tracking trends in these attacks, though the true volume of incidents and near misses is much greater than the number of publicly reported cases.

Designated Interruptions & Payoff

The financial services sector is facing increasing threats from designated interruptions and ransom and blackmail attacks. State or coordinated criminal groups are among the main threats to the financial system, with a trend towards deeper levels of the financial system. Ransomware attacks have evolved from basic storage malware to sophisticated attacks on large corporations and public institutions. Criminal groups are now stealing data from company networks before encrypting it, threatening to release it publicly if a ransom is not paid. Industrial and manufacturing organizations are the most commonly targeted for ransomware attacks, but financial services and its supply chain have also been targeted. Cloud services are particularly vulnerable to threats from criminal groups. The wider threat landscape highlights greater collaboration among threat actor[34]s. Regulators are increasingly concerned about cybersecurity threats to the financial services sector, with operational resilience being a top priority. Financial services firms that are resilient can differentiate themselves and gain a competitive advantage, while those that do not address vulnerabilities face the potential for significant harm to financial market security, reputation, and consumer funds[35].

Transnational Security Issues

This section describes the evolution of the global financial system since the late 19th century when the modern wave of financial globalization began, resulting in the establishment of central banks, multilateral deals, and intergovernmental associations to regulate international markets. The world economy became increasingly financially integrated during the 1980s and 1990s due to capital account liberalization and financial liberation. However, this led to financial crises in Europe, Asia, and Latin America, with infectious effects due to greater exposure to unstable capital flows. The Global financial crisis, which began in the United States in 2007, quickly spread to other countries, and is recognized as the catalyst for the overall Great Recession. Countries that operate an open economy and globalize their financial capital face financial implications that are captured by the balance of payments and render them vulnerable to risks in global finance, such as political deterioration, regulatory reforms, and legal uncertainties for property rights and investments. Governments should manage conflicting local or public requirements while working towards achieving global agreement on issues such as banking regulation to

[34] Hutton W, Wolf M, 'The Worldwide Monetary Emergency: Will Hutton and Martin Wolf in discussion with Teacher David Held' (2008) Public Talk, London School of Financial aspects and Political Theory, London, UK.

[35] Ibid

prevent future global financial catastrophes. The evolution of international finance shows a U-shaped design in global capital flows, with high flows before 1914 and after 1989 but low flows in between.[36]

Global Financial System Creates Unique Opportunities

Trust Building By Increasing Transparency

The future of financial services is focused on being more human-centric, resolving cultural issues, creating new markets, and rebuilding trust. Financial firms have a unique opportunity to influence every aspect of the economy, and to positively impact the human experience. Seven fundamental forces are driving the industry towards 2030, which will amplify the challenges and opportunities ahead. The ability to access and utilize data streams is becoming a critical resource, and firms must strike a balance between sharing data with alliances and maintaining control over proprietary information. As clients become more sophisticated and services become more commoditized, they will increasingly act as competitors to financial services players. To succeed, firms must view clients as partners and meet their expectations, particularly high-value clients[37].

Solving Liquidity Crisis

In 2030, the financial services marketplace will be highly liquid and connected, with disruptors such as fintechs and digital giants driving innovation. Firms that create coalition ecosystems early on will benefit from the network effects that value networks offer. Building a "financial layer" into non-financial brands' technology stack offers an opportunity for firms to integrate financial services into their products and generate new revenue streams. The global financial system is being tested by the shadow of economic uncertainty brought on by the COVID-19 pandemic, and reforms are necessary to keep up with the evolving dynamics of the global economy. Despite the absence of outward signs of fracture, there are shortcomings in the global financial architecture that need to be addressed to ensure financial stability and avoid crises like the Asian financial crisis of 1998-99 and the global financial crisis of 2008-09.[38]

Case Study: Sahara Case

The Securities Exchange Board of India (SEBI) v. Sahara India Real Estate[39] case is considered a landmark case on SEBI's power and jurisdiction in corporate fundraising. SEBI claimed that Sahara India Real Estate and Sahara Housing Investment had collected funds from the public, including low-income individuals, through Optionally Fully Convertible Debentures (OFCDs) and failed to comply with various regulations, endangering the lives of

[36] Von Mises L, Human Activity (1949) Yale College Press USA, Ludwig von Mises Establishment, Coppery Alabama USA <http://mises.org/humanaction accessed> accessed 3rd April 2023.
[37] Rothbard M N, Man, Economy, and State (1962, 2004) Ludwig von Mises Establishment, Coppery Alabama USA <http://www.mises.org/rothbard/mes.asp> accessed 3rd April 2023.
[38] Friedman M, Capitalism and Freedom (1962) College of Chicago Press, Chicago USA.
[39] (2012) 8 SCC 1.

their investors. The High Court's decision in favor of SEBI will serve as a precedent and deter such fraudulent schemes in the future. Low-income countries face even greater challenges, as their economies and commodity markets have collapsed due to the pandemic, leaving them with significant debt burdens. The global financial system needs reforms to become more resilient and better equipped to withstand shocks in the market[40]. Discussions on the role and scope of regulation and the impact of technology on financial services are essential in shaping the future of the financial system.

Equalising Pay Disparity

The section discusses the importance of expanding social cooperation and benefits of economic growth to address rising income inequality and poverty. The lack of access to quality and affordable financial services remains a significant challenge in fighting global poverty, with two billion people and 200 million small and medium-sized businesses lacking access to formal financial services. It shall also be highlighted that the role of Special Drawing Rights (SDRs) as an alternative reserve instrument to gold, which can be held and exchanged among national banks to provide greater stability in global financial transactions. One should note that the IMF has played a key role in supporting the global financial system by helping countries experiencing balance of payments shortfalls and money crises, but has also imposed contingencies on financing that require countries to take on policies aimed at reducing deficits and supporting macroeconomic stability[41]. The IMF's surveillance role is seen as a critical element in the development of the institution's mandate beyond balance of payments issues to broader concerns with countries' overall economic policies.

Building Strong Risk Management System

This section shall discuss the evolution of international finance and the challenges it has faced in the past few decades. In the 1980s, the United States experienced an imbalance of payments and budget deficits which led to artificially high interest rates and the appreciation of the US dollar. To address this issue, the G5 met and agreed to depreciate the US dollar against major currencies. Later, the G7 held a summit in Paris in 1987 to pursue improved exchange rate stability and better macroeconomic policies. This resulted in the Louvre Accord and the managed float system. The Uruguay Round of GATT multilateral trade negotiations also occurred during this time and resulted in the creation of the World Trade Organization (WTO) in 1995[42]. The emphasis should also be laid down on the benefits and challenges of financial integration, including the increased risk of financial market disturbance and the importance of stable macroeconomic policies and strong legal protection of property rights. In

[40] Ibid.

[41] Quah D, Introduction to Prices and Production and Different Works: F.A. Hayek on Cash, The Business Cycle, and the Highest quality level (2008) Ludwig von Mises Establishment, Coppery Alabama USA.

[42] Beinhocker, E. (2006), 'The Beginning of Abundance', Harvard Business Press, USA.

conclusion there is a dire need to put emphasis on the crises that have occurred in developing countries in the past few decades and the need for strong risk management systems to address these challenges.

SUMMARY

The paper presents a perspective on how to control the bank of tomorrow, with a focus on shaping the global financial system over the next century. The authors propose an analytical approach that considers the origins and evolution of the banking system, its recent transformations, and the limits to its growth. They identify the fundamental causes and constraints that led to the global financial crisis and suggest new policies to regulate the financial system and stabilize it. The author emphasize the importance of nonlinear effects in financial systems, and suggest implementing an Irregular Duty on high-risk high-benefit speculative transactions to stabilize the system. The paper discusses the role of the IMF in promoting a more stable and effective global financial system.

The author argues that a financial system should provide society with a means of matching savings and investment, efficiently and safely. However, the global financial crisis showed that Regulation and oversight were insufficient for the risks that were undertaken by the market. The author suggest that regulatory reforms should aim to lower the gamble/return tradeoff, bringing down risks, raising costs, and possibly lowering returns. He acknowledges that a highly regulated financial system may be less likely to cause large gyrations in financial stability and real economic activity, but it could be associated with slower economic growth.

In conclusion, the paper proposes a set of policies to control the financial system towards its economic development, while mitigating fundamental risks. The author argues that a stable financial system could promote its use, raise the financial development trend, and enable savers and investors to use financial intermediaries more effectively.

CONCLUSION

In sum, the general shapes representing things to come financial System will probably be a less difficult, more secure, greater expense financial System with maybe more slow, yet more steady development and less emergencies it is actually transformed to expect to be financial Regulation and oversight. The financial System will develop to where there is less influence, less benefit, yet more true blue intermediation among savers and financial backers. This new, and improved, System might look less inventive and dynamic and more dated, however will probably convey financial items that do a superior occupation of fulfilling the requirements of families and firms. There will likely be less credit given only by banks and a bigger variety of sorts of establishments in the nonbank area. A few banks might decrease and more specific, others might keep on being huge and Global, yet with more tight injuries and oversight on how they work. To get to this more secure, sounder financial System, facilitated and steady execution of better, more intelligent Regulation and oversight will be required. The IMF is all around put to help its part nations acquire this goal. The acknowledgment that individual financial foundations were deficiently controlled and administered, to some degree since they were assessed without respect to their rising interconnections and the foundational takes a chance with they presented, will prompt administrative structure that is more all-encompassing and more qualified to relieve foundational chances. For this to happen, notwithstanding, money related, financial, and financial specialists need to cooperate across their typical arrangement limits to ensure their approaches don't work at cross purposes. The more Regulation can be made to set motivating forces so the confidential area works securely and actually, the less constrictive it should be. There is a gamble, notwithstanding, that essentially persuasive pieces of the confidential area will oppose even "motivating force viable" Regulations since their adaptability and pay will be diminished. Consequently, changes will be presented earnestly. To make such a change to the new System in the more globalized financial universe of today, a strong obligation to do so and Global collaboration on the new financial administrative construction will be fundamental.

Recommendation

Financial regulators play a crucial role in maintaining the stability and integrity of the financial system. They are responsible for enforcing regulations that ensure the safety and soundness of financial institutions, protect consumers, and prevent systemic risks. However, at the same time, financial innovation is crucial for economic growth and development, and regulators need to strike a balance between promoting innovation and ensuring the stability of the financial system.

The independence of financial regulators is essential in achieving this balance. Independence means that regulators can operate without undue influence from outside forces such as politicians or industry participants. It allows regulators to make decisions based on their professional judgment and expertise, without fear of political or industry pressure.

With independence, regulators can be more proactive in promoting financial innovation, while also ensuring that the risks associated with such innovation are appropriately managed. Regulators can provide guidance and support to innovators while enforcing regulations that safeguard the interests of consumers and maintain the stability of the financial system.

Furthermore, independent regulators are better equipped to respond to emerging risks and challenges in the financial system. They can take decisive actions to prevent or mitigate risks, such as introducing new regulations or imposing sanctions on non-compliant institutions.

In summary, the independence of financial regulators is crucial in striking a balance between financial innovation and governance. It allows regulators to promote innovation while safeguarding the interests of consumers and maintaining the stability of the financial system. By doing so, independent regulators can foster a healthy and sustainable financial system that supports economic growth and development.

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ANNEXURES

ANNEXURE – A

रजिस्ट्री सं. डी.एल.- 33004/99 REGD. No. D. L.-33004/99

भारत का राजपत्र
The Gazette of India

सी.जी.-डी.एल.-अ.-07032023-244184
CG-DL-E-07032023-244184

असाधारण
EXTRAORDINARY

भाग II—खण्ड 3—उप-खण्ड (ii)
PART II—Section 3—Sub-section (ii)

प्राधिकार से प्रकाशित
PUBLISHED BY AUTHORITY

सं. 1028]	नई दिल्ली, मंगलवार, मार्च 7, 2023/फाल्गुन 16, 1944
No. 1028]	NEW DELHI, TUESDAY, MARCH 7, 2023/PHALGUNA 16, 1944

वित्त मंत्रालय

(राजस्व विभाग)

अधिसूचना

नई दिल्ली, 7 मार्च, 2023

का.आ. 1072(अ).—केन्द्रीय सरकार, धन, शोधन निवारण अधिनियम 2002 (2003 का 15) (जिसे इसमें इसके पश्चात् अधिनियम कहा गया है) की धारा 2 की उपधारा (1) के खंड (धक) के उपखंड (iv) द्वारा प्रदत्त शक्तियों का प्रयोग करते हुए, कारबार के अनुक्रम में किसी अन्य प्राकृतिक या विधिक व्यक्ति के लिए या उसकी ओर से किये गये निम्नलिखित क्रियाकलापों को उक्त खंड के प्रयोजनों के लिए क्रियाकलाप के रूप में अधिसूचित करती है-

(i) आभासी डिजिटल आस्तियों और फिएट मुद्राओं के बीच विनिमय;

(ii) आभासी डिजिटल आस्तियों के एक या अधिक प्ररूपों के बीच विनिमय;

(iii) आभासी डिजिटल आस्तियों का अंतरण;

(iv) आभासी डिजिटल आस्तियों या आभासी डिजिटल आस्तियों पर नियंत्रण को समर्थ बनाने वाले उपकरणों का सुरक्षित रखरखाव या प्रशासन; और

(v) किसी जारीकर्ता के प्रस्ताव और आभासी डिजिटल आस्ति के विक्रय से संबंधित वित्तीय सेवाओं में भागीदारी और उसके उपबंध।

1512 GI/2023 (1)

2 THE GAZETTE OF INDIA : EXTRAORDINARY [PART II—SEC. 3(ii)]

स्पष्टीकरण– इस अधिसूचना के प्रयोजन के लिए, "आभासी डिजिटल आस्ति" का वही अर्थ होगा जो आयकर अधिनियम, 1961 (1961 का 43) की धारा 2 के खंड (47क) में है।

[फा. सं. पी-12011/12/2022-ईएस सेल-डीओआर]

शशांक मिश्र, निदेशक (मुख्यालय)

MINISTRY OF FINANCE

(Department of Revenue)

NOTIFICATION

New Delhi, the 7th March, 2023

S.O. 1072(E).—In exercise of the powers conferred by sub-clause (vi) of clause (sa) of sub-section (1) of section 2 of the Prevention of Money-laundering Act, 2002 (15 of 2003) (hereinafter referred to the as the Act), the Central Government hereby notifies that the following activities when carried out for or on behalf of another natural or legal person in the course of business as an activity for the purposes of said sub-clause, namely:-

(i) exchange between virtual digital assets and fiat currencies;

(ii) exchange between one or more forms of virtual digital assets;

(iii) transfer of virtual digital assets;

(iv) safekeeping or administration of virtual digital assets or instruments enabling control over virtual digital assets; and

(v) participation in and provision of financial services related to an issuer's offer and sale of a virtual digital asset.

Explanation:- For the purposes of this notification "virtual digital asset" shall have the same meaning assigned to it in clause (47A) of section 2 of the Income-tax Act, 1961 (43 of 1961).

[F. No. P-12011/12/2022-ES Cell-DOR]

SHASHANK MISRA, Director (Headquarter)

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ANNEXURE – B

Press Information Bureau
Government of India

Azadi Ka Amrit Mahotsav

भारत 2023 INDIA

Ministry of Finance

Transforming India's Digital Payment Landscape

Posted On: 03 OCT 2022 2:52PM

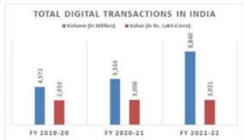
Recent years have seen a technological revolution in governance in India. Government services have been slowly and steadily brought on board and today, last-mile delivery happens with the click of a mouse in seconds. Digital Payments transactions have been consistently increasing over the last few years, as a part of the Government of India's strategy to digitise the financial sector and economy. Further, concerted efforts have been made to promote financial inclusion as one of the important national objectives of the country.

The key enabler at the centre of India's transformed digital payment landscape is the **JAM Trinity - Jan Dhan, Aadhaar and Mobile.** Pradhan Mantri Jan-Dhan Yojana (PMJDY) is one of the biggest financial inclusion initiatives in the world, launched in August 2014, to provide universal banking services for every unbanked household. Aadhaar, the Unique Identification Authority of India's flagship product, is a simple but effective method to verify individuals and beneficiaries based on their biometric information. Jan Dhan accounts, Aadhaar and Mobile connections, taken together, have helped lay the **foundations of a Digital India** where a vast array of Government services are made available directly to the citizen with enhanced ease of access without the presence of any intermediary (middle-men).

Digital Payment Ecosystem in India

One of the major objectives of Digital India is to achieve **"Faceless, Paperless, Cashless"** status. The promotion of digital payments has been accorded the highest priority by the Government of India to bring each and every segment of our country under the formal fold of digital payment services. The vision is to provide the facility of seamless digital payment to all citizens of India in a convenient, easy, affordable, quick and secured manner.

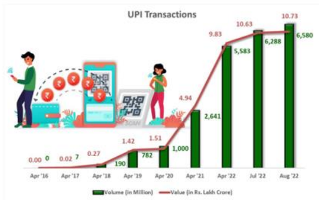
During the last three years, digital payment transactions have registered unprecedented growth in India. Easy and convenient modes of digital payment, such as Bharat Interface for Money-Unified Payments Interface (BHIM-UPI); Immediate Payment Service (IMPS); pre-paid payment instruments (PPIs) and National Electronic Toll Collection (NETC) system have registered substantial growth and have transformed digital payment ecosystem by increasing Person-to-Person (P2P) as well as Person-to-Merchant (P2M) payments. At the same time, pre-existing payment modes such as debit cards, credit cards, National Electronic Funds Transfer (NEFT) and Real-Time Gross Settlement (RTGS) have also grown at a fast pace. **BHIM-UPI has emerged as the preferred payment mode of users**. The Government of India also launched the digital payment solution **e-RUPI**, a cashless and contactless instrument for digital payment which is expected to play a huge role in making Direct Benefit Transfer (DBT) more effective in digital transactions in the country. All these facilities together have created a robust ecosystem for a digital finance economy.



UPI: Revolutionizing Digital Payments

UPI has been termed a revolutionary product in the payment ecosystem. Launched in 2016, it has emerged as one of the most popular tools in the country for carrying out digital transactions. UPI is an instant payment system developed by the National Payments Corporation of India (NPCI). It powers multiple bank accounts into a single mobile application, merging several banking features, seamless fund routing and merchant payments into one hood. To further strengthen and popularise the interface, Prime Minister Narendra Modi launched the **BHIM-UPI** App during the inauguration of the 'DigiDhan Mela' on December 31, 2016.

UPI has gone a long way in making digital payments a habit, and in firmly placing India on the track toward a cashless economy. In the month of August 2022 alone, 346 banks were live on the UPI interface, with **6.58 billion financial transactions** being carried out for a total **value of nearly Rs. 10.73 lakh crores**.



UPI currently constitutes well over 40% of all digital transactions taking place in India. It has given a boost to small businesses and street vendors as it enables fast and secure bank-to-bank transactions even for considerably small amounts. It also facilitates quick money transfers for migrant workers. The technology is convenient to use as it requires minimum physical intervention, making it possible to transfer money simply by scanning a QR code. UPI has also been a saviour during the Covid-19 pandemic, with its adoption expanding rapidly due to its ability to allow easy, contactless transactions.

Today, there is no doubt that the digital payment landscape in India has been transformed. Complementing the efforts of the Government, the people of India have also displayed a great affinity for embracing new technologies. While some of the developed countries are facing problems due to inadequate digital infrastructure for transferring money to the accounts of their citizens, India has emerged as a leader in the creation of digital assets, which can serve as an example to many other nations. Further, the Government of India is leaving no stone unturned to make India a global leader in the arena of digital payment systems and help it attain the status of one of the most efficient payments markets in the world. Going forward, the emerging Fin-Techs will play a key role in the further growth of digital transactions by enabling transparent, secure, swift and cost-effective mechanisms benefiting the entire digital payments ecosystem.

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