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1. Iran bombs U.S. allies across West Asia

Why in the News?

Iran has launched missile and drone attacks across Israel and parts of the Gulf region following the reported killing of its Supreme Leader, Ali Khamenei, in coordinated U.S.-Israeli strikes. The escalation has widened into a regional conflict involving the United States, Israel, and several Gulf states.



Background

Long-standing Iran–Israel Hostility

- Since the 1979 Islamic Revolution, Iran has refused to recognise Israel and supports anti-Israel groups like Hezbollah and Hamas.
- Israel views Iran’s nuclear program and regional proxy network as existential threats.
- The conflict has traditionally remained in the “shadow war” domain-cyber attacks, proxy wars in Syria and Lebanon, and covert assassinations.

U.S.–Iran Tensions

- Relations have been hostile since the 1979 U.S. Embassy hostage crisis.
- The U.S. withdrawal from the 2015 Iran nuclear deal (JCPOA) under President Trump heightened tensions.
- Sanctions and military standoffs in the Persian Gulf have repeatedly brought both countries close to open conflict.

Trigger of the Current Crisis

- Coordinated U.S.–Israeli airstrikes reportedly targeted Iranian military headquarters in Tehran.
- Supreme Leader Ali Khamenei and other senior leaders were killed.
- Iran has responded with direct missile strikes on Israeli cities and U.S. military-linked facilities in Gulf countries.

Features

Leadership Crisis in Iran

- Iran has announced an interim leadership council.
- Senior cleric Alireza Arafati has been named to the interim body.
- The Assembly of Experts will choose a permanent Supreme Leader within days.
- This is the first leadership transition under direct war conditions.

Direct State-to-State War

Unlike previous proxy confrontations, this conflict involves:

- Direct Iranian missile strikes on Israel.
- Israeli air raids on Iranian territory.
- U.S. forces were actively engaged, with reported casualties.

Regional Spillover

- Missile impacts in Tel Aviv and Beit Shemesh.
- Shrapnel damage reported in Abu Dhabi.
- Attacks extending into Oman.
- Risk of Gulf shipping lanes being affected.

Civilian Impact

- Over 200 reported casualties in Iran.
- Civilian deaths in Israel.
- U.S. military casualties confirmed.
- Religious sites (a synagogue in Beit Shemesh) were struck.

Challenges

Risk of Full-Scale Regional War

- Gulf states hosting U.S. bases may become direct targets.
- Hezbollah in Lebanon and militias in Iraq could join the conflict.
- Strait of Hormuz disruption could spike global oil prices.

Leadership Vacuum in Iran

- The sudden death of a Supreme Leader may trigger internal instability.
- Hardliners vs. moderates may clash over succession.
- Risk of radicalised decision-making during transition.

Global Economic Shock

- Oil supply disruption.
- Shipping insurance costs are rising.
- Global markets are reacting to instability in West Asia.

Nuclear Escalation Risk

- Iran may accelerate nuclear enrichment.
- Israel may consider preemptive strikes on nuclear facilities.
- Collapse of any remaining diplomatic frameworks.

Diplomatic Isolation

- Oman, traditionally a mediator, is now drawn into the crisis.
- Arab Gulf states caught between Iran and the U.S.
- UN Security Council paralysis is likely due to veto politics.

Way Forward

Immediate De-escalation Mechanisms

- Establish back-channel diplomacy via neutral states (e.g., Oman, Qatar).
- Temporary ceasefire to allow humanitarian relief.
Confidence-building measures, such as halting strikes on civilian infrastructure.

Controlled Leadership Transition in Iran

- Transparent and constitutional process through the Assembly of Experts.
- Avoid militarisation of succession politics.

Revival of Nuclear Diplomacy

- Re-engagement on a revised nuclear agreement.
- Phased sanction relief in exchange for verifiable limits.
- IAEA inspections strengthened.

Regional Security Architecture

- Create a Gulf security dialogue forum involving:
 - Iran
 - Israel
 - Gulf Cooperation Council (GCC) states
 - United States
- Confidence-building measures for maritime security.

UN and Global Role

- UN-mediated ceasefire negotiations.
- International monitoring of ceasefire compliance.
- Humanitarian corridors for civilians.

Conclusion

The killing of Iran's Supreme Leader has transformed a long-standing shadow conflict into open warfare across West Asia. The direct involvement of the United States and the broadening geographic scope mark one of the most dangerous escalations in decades.

If not contained, the conflict risks:

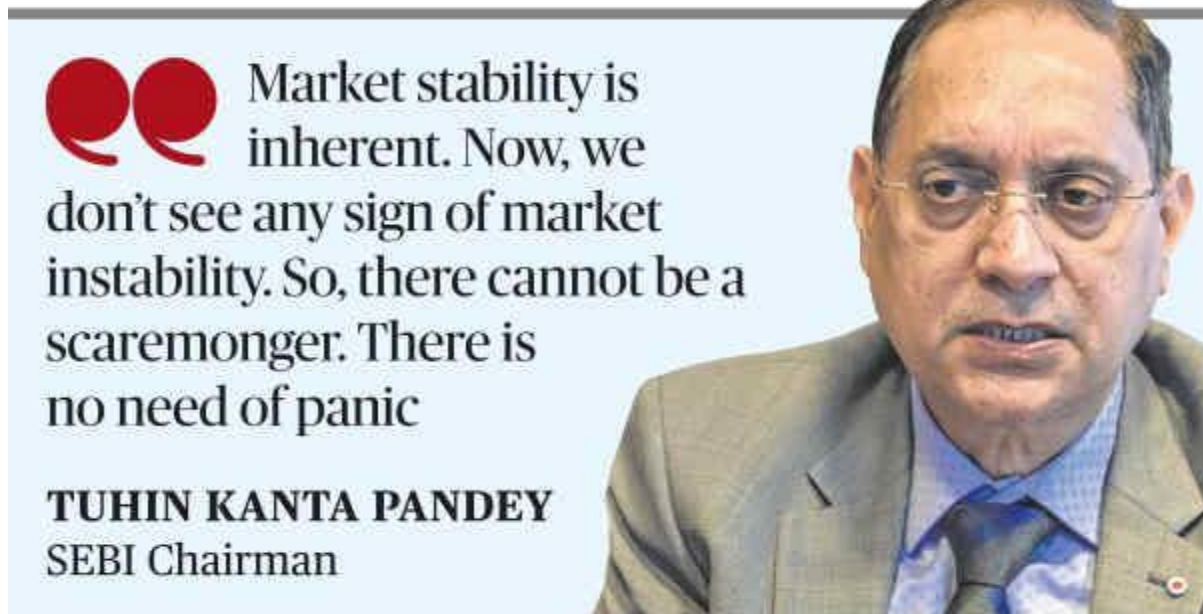
- Regional conflagration,
- Energy market destabilisation,
- Nuclear proliferation,
- And long-term geopolitical realignment.

The coming days, especially the selection of Iran's next Supreme Leader, will be critical. Whether diplomacy prevails over retaliation will determine not just Iran–Israel relations, but the stability of the entire West Asian region and the global order.

2. Will leverage tech to crack down on market manipulators, says SEBI chief

Why in the News?

The Securities and Exchange Board of India (SEBI) has announced enhanced technology-driven surveillance to crack down on market manipulators and cyber fraudsters. SEBI Chairman Tuhin Kanta Pandey stated that Artificial Intelligence (AI) will be leveraged for investor awareness and fraud detection, while warning against financial influencers promising unrealistic returns.



Background About SEBI

- The Securities and Exchange Board of India was established in 1988 and given statutory powers in 1992.
- Mandate:
 - Protect investor interests
 - Regulate securities markets
 - Promote orderly development of capital markets
- Regulates stock exchanges, brokers, mutual funds, portfolio managers, investment advisers, and other intermediaries.

Rising Market Participation & Risks

- Surge in retail investors post-COVID.
- Increased derivatives and options trading participation.
- Growth of “finfluencers” on social media platforms.
- Rising instances of:
 - Unregistered investment advisory services
 - Pump-and-dump schemes
 - Cyber fraud through fake trading apps
 - WhatsApp-based stock manipulation

This has necessitated stronger surveillance and investor education mechanisms.

Features

Technology-Driven Surveillance

SEBI plans to:

- Enhance AI-based monitoring of trading patterns.
- Detect market manipulation and insider trading.
- Track suspicious digital payment flows.
- Monitor social media-based financial scams.

AI-Based Investor Awareness Campaign

SEBI has collaborated with Bengaluru-based AI firm SARVAM to:

- Conduct multilingual AI-powered calls.
- Reach nearly 3.85 lakh investors in pilot campaigns.
- Spread awareness about safe investing practices and fraud detection tools.

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This marks a shift from passive advisories to proactive outreach.

Regulatory Reforms & Market Stabilisation

Since assuming office, the SEBI Chairman highlighted:

- 58 initiatives to ease business processes.
- 9 initiatives to make markets investor-centric.
- 13 measures to develop capital markets.
- 6 regulations to stabilise equity derivatives.
- 4 framework reforms for market intermediaries.

Focus areas include:

- Cooling speculation in short-duration options.
- Ensuring no “scaremongering” amid market corrections.
- Protecting retail investors from excessive risk exposure.

Action Against Market Manipulators

- Recent high-profile actions include:
- Action against Avadhut Sathe for unregistered advisory services.
- Action against Jane Street for alleged options market manipulation.

Focus on Market Deepening

SEBI is also:

- Studying the rejuvenation of agri-commodity markets.
- Focusing on deepening corporate bond markets.

- Introducing scientific regulatory impact assessments under a committee led by Chief Economic Adviser V. Anantha Nageswaran.

Challenges

Rising Derivatives Speculation

- Retail participation in short-duration options trading.
- High leverage and potential systemic risks.

Social Media Financial Fraud

- Finfluencers promising “guaranteed returns”.
- WhatsApp and Telegram-based stock tips.
- Difficulty in regulating cross-border digital platforms.

Balancing Regulation & Market Freedom

- Over-regulation may hurt market liquidity.
- Under-regulation may increase fraud risks.
- Need for “optimum regulation” without “irritating stakeholders.”
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Cybersecurity Threats

- Growth of AI-generated scams.
- Deepfake financial advisory content.
- Phishing attacks targeting new investors.

Weak Corporate Bond & Commodity Markets

- Over-reliance on equity markets.
- Limited depth in agri-derivatives.

Way Forward

Strengthening AI Surveillance

- Develop real-time algorithmic fraud detection systems.
- Use machine learning for anomaly detection in options markets.
- Integrate payment data analytics with trading surveillance.

Investor Behavioural Regulation

- Suitability-based trading restrictions for derivatives.
- Risk profiling before options trading access.
- Mandatory cooling-off periods for high-risk segments.

Regulation of Finfluencers

- Mandatory registration for financial content creators.
- Strict disclosure norms.
- Penal provisions for misleading advice.

Enhancing Investor Education

- AI-powered multilingual awareness campaigns.
- Integration of SEBI Check in all digital payment gateways.
- Collaboration with schools and colleges for financial literacy.

Scientific Policy Making

- Regulatory impact assessment framework.
- Data-backed rule-making.
- Periodic review of derivatives regulations.

Conclusion

SEBI's tech-driven crackdown reflects the evolving nature of India's capital markets — increasingly digital, retail-driven, and vulnerable to sophisticated fraud. The use of AI for surveillance and investor education marks a paradigm shift from reactive enforcement to preventive regulation. However, sustainable market stability will depend on balancing innovation with investor protection, ensuring disciplined investing, and strengthening institutional trust. In an era of algorithmic trading and social media-driven speculation, regulatory intelligence must evolve as fast as financial technology itself.

3. Indians among injured in Iranian strikes: UAE

Why in the News?

Several Indians were injured in Iranian missile and drone strikes across West Asia as the conflict between the U.S.-Israel alliance and Iran escalated. An oil tanker with Indian crew members was hit off the Oman coast, passengers were stranded due to airspace closures, and Indian missions activated emergency outreach mechanisms.

Background

Escalation of West Asia Conflict

- Iran launched large-scale missile and drone attacks targeting Israel and U.S.-allied Gulf states.
- **The United Arab Emirates reported:**
 - 541 drones launched toward Abu Dhabi and Dubai.
 - 165 ballistic missiles detected.
 - Several foreign nationals, including Indians, were injured.
- The conflict has entered its second day with widening regional consequences.

Maritime Security Threats

- An oil tanker, Skylight, flagged under Palau, was struck off the coast of Oman.
- 15 of the 20 crew members were Indians.
- Four crew members suffered injuries and were evacuated.
- This signals risk to Indian seafarers and global energy supply routes.

Features

Indians Injured in the UAE

According to UAE authorities:

- 58 people were injured, including Indians.
- Three foreign nationals were killed.
- UAE forces intercepted most incoming drones and missiles.
- This highlights the vulnerability of the large Indian diaspora in the Gulf.

Aviation Disruptions & Stranded Indians

- Airspace closures in the UAE disrupted international flights.
- 84 students and 4 faculty members from Indira University were stranded in Dubai.
- Eight Indians, including a Kerala family, were stranded in Karachi after an aircraft diversion.
- Olympian P. V. Sindhu described a tense situation following an explosion near Dubai airport.
- 48 flights to and from Hyderabad were cancelled, affecting airlines like Emirates, Qatar Airways, and others.

Government Response

The Ministry of External Affairs:

- Issued advisories for foreign nationals stranded in India to contact FRRO offices.
- Intensified embassy outreach in Kuwait and other Gulf nations.
- Coordinating evacuation and contingency planning.



Challenges

Safety of Indian Diaspora

- Over 9 million Indians live in West Asia.
- Concentration in the UAE, Saudi Arabia, Kuwait, Oman, and Qatar.
- Risk of collateral damage in missile and drone warfare.

Maritime Security & Energy Routes

- The Strait of Hormuz is a critical chokepoint.
- Any disruption affects:
 - Indian oil imports
 - Shipping insurance premiums
 - Global crude prices

Aviation and Connectivity

- **Airspace closures lead to:**
 - Diversions to Pakistan and other countries.
 - Stranded passengers.

- Rising ticket costs.
- India's Gulf connectivity is among the busiest in the world.

Diplomatic Balancing Act

India maintains:

- Strategic ties with Israel.
- Strong energy and diaspora links with Gulf countries.
- Civilizational ties with Iran.

Escalation complicates India's carefully balanced West Asia policy.

Economic Impact

- Rising oil prices → inflationary pressure.
- Remittance disruptions.
- Trade route instability.

Way Forward

Diaspora Protection Strategy

- Activate crisis management cells in all Indian missions.
- Prepare evacuation corridors (similar to Operation Ganga / Operation Kaveri models).
- Maintain real-time digital registration of Indians abroad.

Maritime Security Measures

- Deploy Indian Navy assets in the Arabian Sea.
- Coordinate with international maritime security coalitions.
- Ensure the safety of Indian-flagged and Indian-crewed vessels.

Diplomatic Engagement

- Call for immediate de-escalation.
- Use India's neutral diplomatic standing to encourage dialogue.
- Engage through multilateral platforms like the UN.

Aviation Contingency Planning

- Alternative air routes via Central Asia.
- Dedicated evacuation flights if required.
- Close coordination with Gulf aviation authorities.

Economic Preparedness

- Build strategic petroleum reserves.
- Monitor oil price volatility.
- Strengthen remittance channels.

Conclusion

The expanding Iran–U.S.–Israel conflict has moved beyond military confrontation to directly affect civilians, global trade routes, and aviation networks. For India, the crisis is not distant geopolitics - it directly impacts its diaspora, energy security, and economic stability.

India must combine:

- Proactive diplomacy,
- Robust evacuation planning,
- Maritime vigilance,
- And economic resilience.

As tensions deepen across West Asia, safeguarding Indian nationals and strategic interests will remain the top priority.

4. Sixteenth Finance Commission — misses and concerns

Why in the News?

Concerns have been raised regarding the recommendations of the Sixteenth Finance Commission (SFC), particularly on fiscal devolution, cesses and surcharges, and the revised horizontal distribution formula. Former RBI Governor and Chairman of the Twelfth Finance Commission, C. Rangarajan, has highlighted key “misses and concerns” in the Commission’s approach.

Background

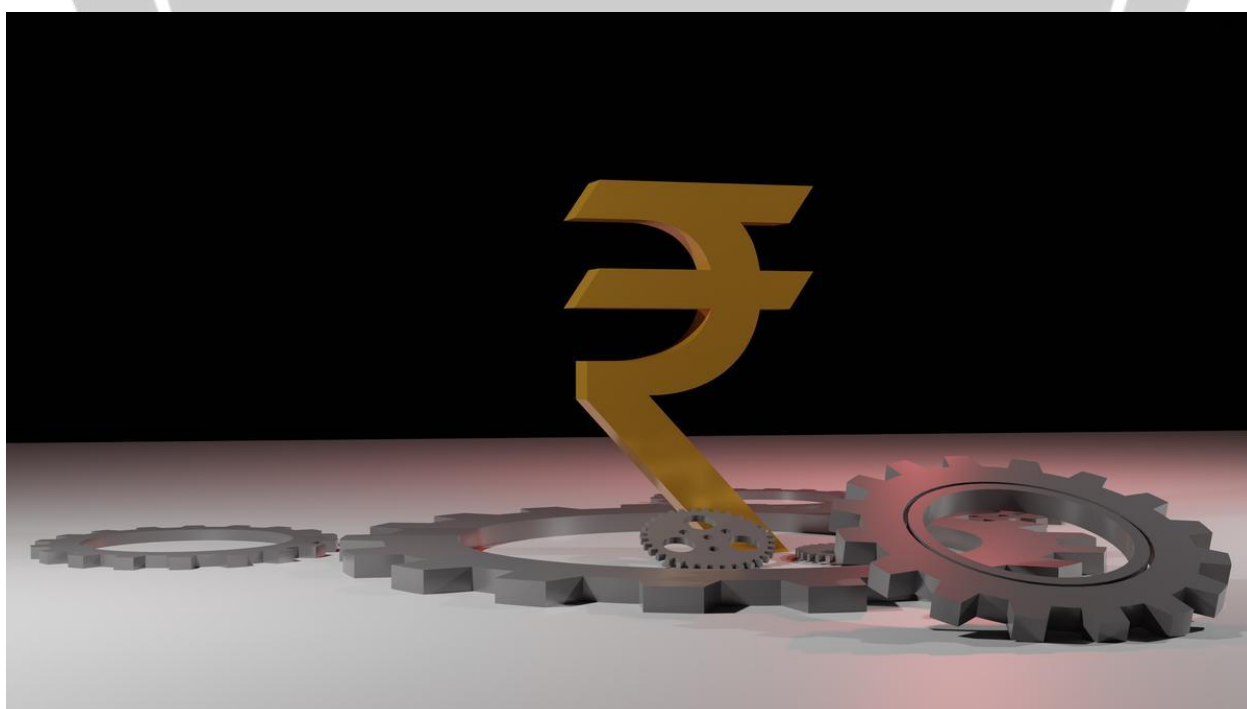
Constitutional Basis of Finance Commission

- The Finance Commission is constituted under Article 280 of the Constitution.
- It recommends:
 - Vertical devolution (Centre–State sharing of taxes)
 - Horizontal distribution (inter-State allocation)
 - Grants-in-aid under Article 275
- The divisible pool is governed by Article 270.

Vertical Devolution – Key Concerns

Retention of 41% Share to States

- The Fourteenth Finance Commission increased States’ share from 32% to 42%.
- The Fifteenth Finance Commission reduced it to 41% (post J&K reorganisation).
- The Sixteenth Finance Commission retained 41%, making it semi-permanent.



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Issue of Cesses and Surcharges

The Centre responded to higher devolution by:

- Increasing non-shareable cesses and surcharges.
- Reducing its share in Centrally Sponsored Schemes (CSS).
- Not accepting certain State-specific grants recommended earlier.
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Concern:

- Cesses and surcharges are not shareable with States.
- They should be temporary and earmarked, but have become a major revenue source.
- The Commission proposed a “grand bargain” - merging cesses into regular taxes, with States accepting a smaller share in a larger divisible pool.

- **Criticism:**

The Commission did not strongly assert its constitutional responsibility under Articles 270 and 280 to objectively determine the States’ share.

Decline in Effective Transfers

Average effective transfers (tax devolution + grants) as % of Centre’s gross revenue receipts:

- 11th–13th FC: ~27–28%
- 14th FC: 35.6%
- 15th FC: 34.4%
- 16th FC (2026-27 estimate): 32.7%

Discontinuation of Revenue Deficit Grants

- The Sixteenth FC discontinued revenue deficit grants.
- No State-specific or sector-specific grants were recommended.
- This reduces the fiscal equalisation tools available to weaker States.

II. Horizontal Devolution – Key Changes

Introduction of “Contribution” Criterion

- A new “contribution” criterion based on Gross Domestic Product (GDP) share.
- Intended to reflect efficiency considerations.
- Ultimately, the square root of GSDP was used to moderate the impact.

Conceptual Issues

- Income distance formula rewards poorer States (lower per capita GSDP → higher share).
- Contribution criterion rewards richer States (higher GSDP → higher share).
- Using GSDP in opposite directions creates conceptual tension.
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Dropping Fiscal Discipline Criterion

- Tax effort/fiscal discipline criterion removed.
- This contradicts the efficiency narrative of the Commission.

III. States that Gained and Lost

Major Losing States

- Madhya Pradesh
- Uttar Pradesh
- West Bengal
- Bihar
- Odisha
- Chhattisgarh
- Rajasthan
- Several North-Eastern States

Richer States

- Gains are not uniform but relatively better placed.

Concern:

- Poorer States may lose resources despite greater developmental needs.

IV. Broader Federal Implications

Weakening Equalisation Objective

- Devolution alone cannot capture cost and need differentials.
- Article 275 grants allow State-specific equalisation.
- Dropping revenue gap grants weaken fiscal equalisation.

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Overreliance on Formula-Based Transfers

- Pure formula-based devolution may overlook:
 - Health and education deficits
 - Infrastructure gaps
 - Geographic disadvantages

GST Reform Impact Ignored

- Revenue-reducing GST reforms (Sept 2025) not fully factored in.
- Nominal GDP growth assumptions may be optimistic.

Challenges

- Balancing equity vs efficiency.
- Managing the Centre's fiscal constraints.
- Preventing excessive use of cesses and surcharges.
- Addressing regional disparities.
- Preserving cooperative federalism.

Way Forward

Rationalisation of Cesses

- Time-bound levies.
- Merge into a divisible pool.
- Strengthen fiscal transparency.

Restore Equalisation Grants

- Normatively determined revenue gap grants.
- Focus on health, education, and infrastructure standards.
- Article 275 grants for critical services equalisation.

Reintroduce Fiscal Discipline Criterion

- Reward tax effort.
- Incentivise responsible borrowing.

Improve Data-Based Policy

- Realistic GDP growth assumptions.
- Dynamic mid-term review mechanisms.

Strengthen Cooperative Federalism

- Regular Centre-State fiscal dialogue.
- Greater GST Council coordination.

Conclusion

The Sixteenth Finance Commission retained the headline 41% devolution share but made structural changes in horizontal distribution and grant mechanisms that raise concerns about equity, constitutional spirit, and fiscal federal balance.

While aiming to incorporate efficiency considerations, the Commission may have diluted equalisation objectives -the core principle of fiscal federalism in a diverse country like India.

The long-term challenge lies in striking a sustainable balance between:

- Fiscal prudence of the Centre,
- Developmental needs of poorer States,
- Incentivising performance,
- And upholding the constitutional mandate of cooperative federalism.

5. Missile interceptors in U.S.-Iran war

Why in the News?

Fresh hostilities between the U.S.-led coalition (including Israel and the UAE) and Iran have led to the activation of an expanded regional air and missile defence network. The conflict has revived debate on missile interceptors, saturation attacks, stockpile depletion, and the comparative strength of systems such as Patriot, THAAD, Iron Dome, and Iran's Bavar-373

Background

What is Missile Defence?

- Missile defence refers to systems designed to detect, track, and destroy incoming missiles before they hit their targets.

Core Components:

- Sensors – Satellites and ground radars detect launches.
- Command & Control – Computers calculate trajectory and threat.
- Interceptor Missiles – Launched to neutralise incoming threats.

Interception methods:

- Proximity fuse (explosive fragmentation)
- Hit-to-kill (kinetic impact destruction)
- Example: The MIM-104 Patriot system uses phased-array radar and ground-guided interceptors with onboard seekers for terminal guidance.

How is This Conflict Different from the 12-Day War?

During the 2025 12-day war:

- Iran fired over 500 ballistic missiles and hundreds of drones.
- Israel and the U.S. relied heavily on Arrow-3, THAAD, SM-3, Patriot, and Iron Dome.
- Stockpiles were rapidly depleted.



In the current conflict:

- The theatre now includes the Persian Gulf.
- The UAE has activated South Korea's Cheongung II.
- The U.S. has deployed newer systems such as Indirect Fire Protection Capability (IFPC).
- Integrated multi-layer defence is more regionally coordinated.

Israel's Systems

- Arrow 3 – Exo-atmospheric interceptor (space-based engagement).
- Iron Dome – Short-range rocket defence (80–97% success reported).
- David's Sling (Stunner interceptors) – Medium-range.

- Iron Beam – Directed-energy laser for drones.

U.S. Systems

- THAAD – High-altitude ballistic missile interception.
- SM-3 / SM-6 (naval-based).
- AIM-9X via IFPC (cost-effective interceptor).
- Ground-based Midcourse Defence (55% success in tests)

UAE's Cheongung II

- The South Korean system was activated by the UAE.
- 360° radar coverage.
- Vertical launch system.
- Hit-to-kill capability.
- Optimised for cruise missiles skimming Gulf waters.

Iran's Air Defence Network

- Bavar-373 (Sayyad-4B missile) – Long-range interception.
- Arman Ballistic Missile Defence – 360° radar.
- Sevom-e-Khordad – Mobile cruise missile defence.
- Tor-M1 – Short-range defence.
- Protecting key sites like Natanz and Isfahan.

Effectiveness & Limitations

Success Rates Vary

- Iron Dome: High success vs slow rockets.
- Patriot: Variable performance vs advanced ballistic missiles.
- GMD: ~55% success in scripted tests.

Saturation Attacks

Iran's strategy:

- Launch large volumes of cheap drones/missiles.
- Exhaust expensive interceptors.
- Force rationing decisions.

PAC-3 MSE interceptor costs ≈ \$4 million per shot.

Reload Vulnerability

- After firing ~6 missiles, batteries must reload.
- Temporary defence gaps emerge.
- High-intensity barrages exploit this.

Challenges

- Cost asymmetry – Cheap drones vs costly interceptors.
- Production constraints – Replenishment takes 1–1.5 years.
- Multi-theatre complexity – Gulf + Levant + Mediterranean.
- Stealth & decoys – Reduced interception probability.
- Stockpile depletion risk in prolonged war.

Way Forward

Directed Energy Systems

- Laser-based defence (Iron Beam, naval lasers).
- Lower cost per shot.
- Ideal for drone swarms.

Production Scaling

- Expand manufacturing capacity.
- Pre-position interceptor reserves.
- Diversify suppliers (e.g., South Korea).

Integrated Regional Defence

- Shared radar data.
- Real-time coordination.
- Multi-layer architecture (exo + endo-atmospheric).

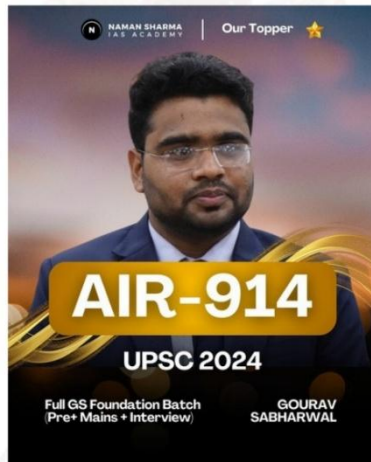
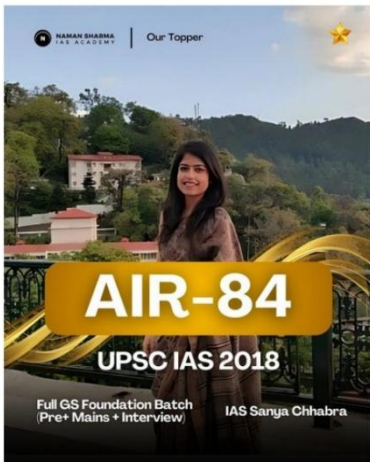
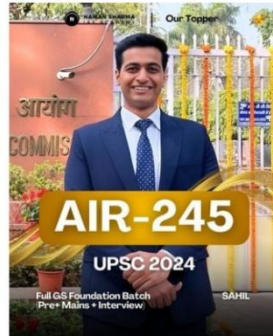
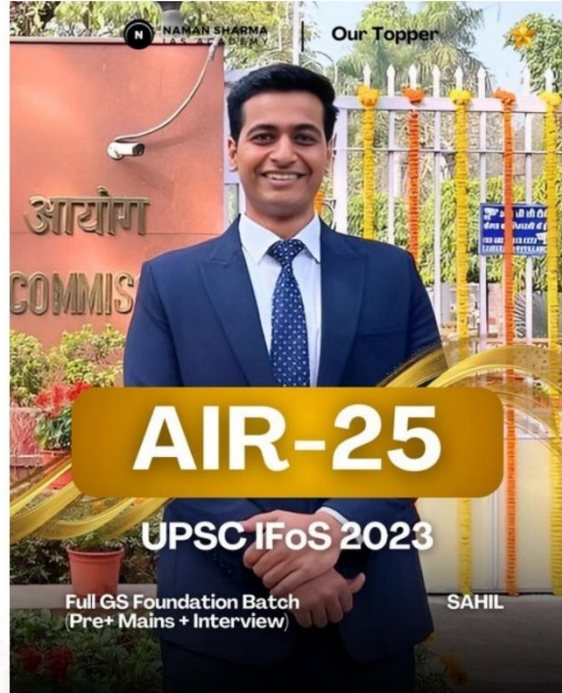
Strategic Doctrine Shift

- Balance offensive deterrence with defensive resilience.
- Harden critical infrastructure.

Conclusion

The renewed U.S.-Iran conflict demonstrates that modern warfare is increasingly defined by missile defence ecosystems rather than just offensive firepower. While systems like Patriot, THAAD, Iron Dome, and Cheongung II showcase technological sophistication, they also expose vulnerabilities - particularly against saturation attacks and prolonged high-intensity warfare. Ultimately, the sustainability of interceptor stockpiles and cost-effective defence solutions will determine the strategic balance in West Asia. The contest is no longer only about whose missiles are more powerful, but whose defence systems can endure longer.

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