

SHAKTHII ACADEMY

RESERVE BANK OF INDIA

Establishment

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the **Reserve Bank of India Act, 1934**.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

Preamble

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

Central Board

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

Appointed/nominated for a period of four years

Constitution

- **Official Directors**
 - Full-time : Governor and not more than four Deputy Governors
- **Non-Official Directors**
 - Nominated by Government: ten Directors from various

fields and two government Officials

Others: four Directors - one each from four local boards

[Profile of Central Board Directors](#)

Functions : General superintendence and direction of the Bank's affairs

Governor - Dr. Raghuram Rajan

Deputy Governors - Shri H. R. Khan, Dr. Urjit R. Patel, Shri R. Gandhi and Shri S. S. Mundra

Local Boards

One each for the four regions of the country in Mumbai, Calcutta, Chennai and New Delhi

Membership:

consist of five members each

- appointed by the Central Government
- for a term of four years

Functions : To advise the Central Board on local matters and to represent territorial and economic interests of local cooperative and indigenous banks; to perform such other functions as delegated by Central Board from time to time.

Financial Supervision

The Reserve Bank of India performs this function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India.

Objective

Primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

Constitution

The Board is constituted by co-opting four Directors from the Central Board as members for a term of two years and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, usually, the Deputy Governor in charge of banking regulation and supervision, is nominated as the Vice-Chairman of the Board.

BFS meetings

The Board is required to meet normally once every month. It considers inspection reports and other supervisory issues placed before it by the supervisory departments.

BFS through the Audit Sub-Committee also aims at upgrading the quality of the statutory audit and internal audit functions in banks and financial institutions. The audit sub-committee includes Deputy Governor as the chairman and two Directors of the Central Board as members.

The BFS oversees the functioning of Department of Banking Supervision (DBS), Department of Non-Banking Supervision (DNBS) and Financial Institutions Division (FID) and gives directions on the regulatory and supervisory issues.

Functions

Some of the initiatives taken by BFS include: restructuring of the system of bank inspections introduction of off-site surveillance, strengthening of the role of statutory auditors and

- i. strengthening of the internal defences of supervised institutions.

The Audit Sub-committee of BFS has reviewed the current system of concurrent audit, norms of empanelment and appointment of statutory auditors, the quality and coverage of statutory audit reports, and the important issue of greater

transparency and disclosure in the published accounts of supervised institutions.

Current Focus

- supervision of financial institutions consolidated accounting

legal issues in bank frauds

divergence in assessments of non-performing assets and

supervisory rating model for banks.

Legal Framework

Umbrella Acts

Reserve Bank of India Act, 1934: governs the Reserve Bank functions

Banking Regulation Act, 1949: governs the financial sector

Acts governing specific functions

Public Debt Act, 1944/Government Securities Act (Proposed): Governs government debt market

- Securities Contract (Regulation) Act, 1956: Regulates government securities market
- **Indian Coinage Act, 2011** : Governs currency and coins
- Foreign Exchange Regulation Act, 1973/**Foreign Exchange Management Act, 1999**: Governs trade and foreign exchange market
- **"Payment and Settlement Systems Act, 2007**: Provides for regulation and supervision of payment systems in India"
 - **Payment and Settlement Systems Regulations, 2008 and Amended up to 2011 and BPSS Regulations, 2008**
 - **Government Securities Regulations, 2007**

Acts governing Banking Operations

- Companies Acts of 1956 and 2013: Governs banks as companies
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980: Relates to nationalisation of banks
- Bankers' Books Evidence Act
- Banking Secrecy Act
- Negotiable Instruments Act, 1881

Acts governing Individual Institutions

- State Bank of India Act, 1954
- The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003
- The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993
- National Bank for Agriculture and Rural Development Act

National Housing Bank Act

Deposit Insurance and Credit Guarantee Corporation Act

Main Functions

Monetary Authority:

Formulates, implements and monitors the monetary policy.

Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

Regulator and supervisor of the financial system.

Prescribes broad parameters of banking operations within which the country's banking and financial system functions.

Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

Manages the Foreign Exchange Management Act, 1999.

Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency:

Issues and exchanges or destroys currency and coins not fit for circulation.

Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Developmental role

Performs a wide range of promotional functions to support national objectives.

Related Functions

Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.

Banker to banks: maintains banking accounts of all scheduled banks.

Offices

Has [19 regional offices, most of them in state capitals and 9 Sub-offices.](#)