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Establishment of the RBI

The Reserve Bank of India (RBI) was first established in 1935 according to the Reserve Bank of India Act of 1934. Situated in Mumbai, the RBI is wholly owned and operated by the Indian Government. The operations of the RBI are governed by the Central Board of Directors which comprises of 21 members appointed by the Government of India by the Act. The Central Board of Directors consists of the Official Directors and the Non-Official Directors. The Official Directors would include the Governors appointed for four years with an addition of 4 Deputy Governors. The Non-Official Directors comprise of 10 Directors elected from multiple fields along with 2 Government Officials.

Chain of Command

The following is the chain of command among the Central Board of Directors of the RBI according to their ranks.

Governor

Deputy Governor

Executive Directors

Principal Chief General Manager

Chief General Managers

General Managers

Deputy General Managers

Assistant General Managers

Managers

Assistant Managers

Support Staff

Objectives of the RBI

The primary goals of the RBI according to the Preamble of the same are as follows.

To regulate the issue of Banknotes.

To secure monetary stability in the country.

To meet the economic challenges by modernising the monetary policy framework.

The primary focus of the RBI is to supervise and undertake initiatives on behalf of the financial sector which consists of financial institutions, commercial banks, non-banking financial companies. A few critical efforts of the RBI are to restructure bank inspections and fortifying the role of statutory auditors in the banking system.

Functions of the RBI

The following are the functions of the Reserve Bank of India under various authorities.

Supervisory and Regulatory Authority

To set specific parameters for the banks in the country. This would include financial operations within which the banking and financial systems are to function.

To protect the interests of every investor and offer economic and cost-efficient banking services to the public.

Monetary Authority

To formulate and implement the monetary policies of the country.

To maintain stability in the prices across all the sectors along with the objective of growth.

Currency Authority

To issue, exchange or destroy currency that is not fit for circulation.

To provide adequate currency notes and coins of the standard quality to the public.

Foreign Exchange Management

To oversee the Foreign Exchange Management Act, 1999.

To facilitate the external trade and development of the foreign exchange market in the country.

Other Functions

To promote and perform promotional functions to support national banking and other financial objectives.

To offer banking solutions to the Central and State Governments.

To act as a banker for the Central and State Governments.

To be the Chief Banker to every bank across the country and maintain all the banking accounts of every scheduled bank.

What is Monetary Policy?

Monetary policy is the procedure by which the monetary authority of a nation, normally the central bank or currency board, controls either the expense of short-term borrowing or the cash supply, focusing on inflation or the loan fee to guarantee value strength and general trust in the currency. Further goals of monetary policy are:

to contribute to the stability of the gross domestic product,

to achieve and maintain low unemployment, and

to maintain predictable exchange rates with other currencies.

In India, the monetary policy is developed by the Reserve Bank of India. Hence, it is also called the Monetary Policy of RBI.

Types of Monetary Policies

Expansionary Monetary Policy

If a country is facing a high unemployment rate especially during a crisis period such as a slowdown or a recession, the monetary authority of the country, which is usually the central bank of the country, can opt for an expansionary policy that is aimed at increasing economic growth and expanding economic activity.

As a part of expansionary monetary policy, the subsequent monetary authority often lowers the interest rates for consumers through various measures that make money-saving relatively unfavourable and promotes spending in the market. It leads to an increase in money supply in the market, with the hope of a boost in investment and consumer spending.

Contractionary Monetary Policy

Contractionary monetary policy is when a central bank uses the tools of monetary policy in order to fight inflation. Since inflation is a sign of an overheated economy, the bank must slow economic growth in order to control the situation. So, the contradictory monetary policy may result in slowing down economic growth and an increase in unemployment but is often required to control inflation.

Monetary Policy of RBI | Monetary Policy in India

Developing the Monetary Policy in India is a prerogative of the Reserve Bank of India. Hence, it is also called the Monetary Policy of RBI. The RBI is vested with this responsibility under the RBI Act, 1934. The Monetary policy of RBI regulates the money supply, availability of credit and interest rates. Let us look at the main goal of monetary policy and the monetary policy instruments that the Reserve Bank of India uses to regulate the money supply to achieve the objectives of the economic plan.

Main Goal of Monetary Policy of RBI

The primary goal of monetary policy of RBI is to maintain price stability keeping in mind the objectives laid out in the economic plan. Price stability is extremely important for attaining sustainable growth. To maintain price stability, inflation must be kept in check. RBI uses various monetary policy instruments to ensure that inflation is controlled. Let us look briefly at the monetary policy instruments used by the RBI.

Monetary Policy Instruments | Monetary Policy of RBI

There are several direct and indirect monetary policy instruments that help in implementing the monetary policy in India. Let’s discuss each one of them in brief:

Repo Rate: Repo rate is the rate at which RBI lends short term loans (less than 90 days) to commercial banks.

Reverse Repo Rate: Reverse repo is the rate at which the RBI keeps the extra deposit of all banks within itself.

Marginal Standing Facility (MSF): It is the rate at which banks borrow overnight loans from RBI. It can be only up to 2% of the NTDL(Net Demand and Time Liabilities). It is always 1% or 100 basis points more than the repo rate.

Bank Rate: It is the rate at which RBI offers long term loans (more than 90 days) to commercial banks.

Cash Reserve Ratio (CRR): It is the ratio of the bank’s total deposit that every bank has to keep with the RBI. It has to be in cash form only. RBI does not offer any interest on this reserve money. It can be between 0 to 15%. RBI announces the CRR in its monetary policy.

Statutory Liquidity Ratio (SLR): It is the ratio of the bank's total deposit that a bank has to maintain with itself. It can either be in cash or in liquid assets including Gold, Foreign Currency, Government Bonds, etc. It can be between 0 to 40% as announced by the RBI in its monetary policy.

Open Market Operations(OMO): It refers to the buying and selling of government securities between the RBI & banks.

So, this is a brief overview of the Monetary policy of RBI in India. You need to have a better understanding of this topic as it is of extreme importance for RBI Grade B Prelims, Mains and the Interview round. These rates are fixed by the RBI at regular intervals. Hence, you should keep yourself updated on the latest key indicators as they may be asked in the examination.

CREDIT CONTROL METHODS OF RBI

It is one of the important function of RBI for controlling supply of money or credit. There are 2 types of methods employed by the RBI to control credit creation:

Quantitative method

Qualitative method

Quantitative method:

Bank rate: It is the rate of interest at which central bank lends funds to commercial banks. During excess demand or inflationary gap, central bank increases bank rate. Borrowings become costly and commercial banks borrow less from central bank. During deflationary gap central bank decreases the bank rate. It is cheap to borrow from the central bank or the part of the commercial banks which in turn the Commercial banks also decreases their lending rates.

Open market operations: The open market operations means buying and selling of bonds and shares by RBI is open market. It is also called buying and selling of government security by the central bank from the public and commercial banks.

Sale of securities

At the time of inflation the RBI starts selling of government securities in the market. The resources of commercial bank are reduced and they are not in a position to lend more to the business community. This reduces the investment and aggregate demand.

Purchase of securities

At the time of deflation the RBI starts buying securities from open market. The reserves of commercial banks are raised and they lend more investment, output income and aggregate demand starts rising.

Legal Reserve Requirement: It is another method of RBI for controlling credit or supply of money. It includes 2 types of methods such as:

Cash Reserve Ratio (CRR): It is the ratio of bank deposits that commercial bank has to keep with the central bank. At the time of inflation the RBI increases the rate of CRR, similarly at the time of deflation RBI decreases the rate of CRR.

Statutory Liquidity Ratio (SLR): Every bank required to maintain a fixed percentage of its assets in the form of cash or other liquid assets called SLR. At the time of inflation the RBI increases the SLR, similarly at the time of deflation RBI decreases the rate of SLR.

Qualitative method:

Margin requirements: It is the difference between the market value of loan and the security value of loan. At the time of inflation the margin requirement value decreases by RBI for discouraging people and commercial banks for approaching more and more amount of loan. On the other hand at the time of deflation the RBI increases the value of margin just to encourage issuing of more amount of loan to the commercial banks and general public.

Moral suasion: It refers to written or oral advices given by central bank to commercial banks to restrict or expand credit.

Direct Action: Sometimes the RBI directly takes action against the commercial banks. It takes action to such type of commercial banks who are not following the rules regulation of RBI. It cancels their registration or nationalization of commercial banks.

Rationing of credit: It is the related to limiting the amount of credit, which is issued by all the commercial banks. RBI fixes the size of issuing the credit according to the requirement of the country.

What is SEBI

SEBI stands for Securities and Exchange Board of India. It is a statutory regulatory body that was established by the Government of India in 1992 for protecting the interests of investors investing in securities along with regulating the securities market. SEBI also regulates how the stock market and mutual funds function.

Objectives of SEBI

Following are some of the objectives of the SEBI:

1. Investor Protection: This is one of the most important objectives of setting up SEBI. It involves protecting the interests of investors by providing guidance and ensuring that the investment done is safe.

2. Preventing the fraudulent practices and malpractices which are related to trading and regulation of the activities of the stock exchange

3. To develop a code of conduct for the financial intermediaries such as underwriters, brokers, etc.

4. To maintain a balance between statutory regulations and self regulation.

Functions of SEBI

SEBI has the following functions

1. Protective Function

2. Regulatory Function

3. Development Function

The following functions will be discussed in detail

Protective Function: The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

a. Prohibits insider trading: Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.

b. Check price rigging: Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.

c. Promoting fair practices: SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.

d. Financial education provider: SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

Regulatory Function: Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.

b. Regulating the process of taking over of a company.

c. Conducting inquiries and audit of stock exchanges.

d. Regulates the working of stock brokers, merchant brokers.

Developmental Function: Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.

2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.

3. By making the underwriting an optional system in order to reduce cost of issue.

Powers of SEBI

Following are the key powers of SEBI-

Quasi-judicial Powers

In cases of fraud and unethical practices in the securities market, SEBI India can pass judgements.

The said power of SEBI facilitates transparency, accountability and fairness in the securities market.

Quasi-executive Powers

SEBI can examine the Book of Accounts and other vital documents to identify or gather evidence against violations. If it finds one violating the regulations, the regulatory body can impose rules, pass judgements and take legal actions against violators.

Quasi-Legislative Powers

To protect the interest of investors, the authoritative body has been entrusted with the power to formulate pertinent rules and regulations. Such rules tend to encompass listing obligations, insider trading regulations and essential disclosure requirements.

The body formulates rules and regulations to eliminate malpractices in the securities market.

The Supreme Court of India and the Securities Appellate Tribunal have the upper hand when it comes to the powers and functions of SEBI. The two apex bodies must go through all their functions and related decisions.

Establishment of Investor Education and Protection Fund

The Government thought it fit to provide a time frame for all those persons who have neither claimed nor received their legitimate dues. Broadly, such funds may be classified as:

a) Amount in the unpaid dividend account of companies;

b) Application money received by companies for allotment of any securities and due for refund;

c) Matured deposits with companies;

d) Matured debentures with companies; and

e) The interest accrued on the above.

Utilization of IEPF

The Companies Act, 1956 provided that IEPF shall be utilised for promotion of investors' awareness and protection of the interests of investors in accordance with such rules as may be prescribed. The Investor Education and Protection Fund (awareness and protection of investors) Rules, 2001 was introduced. The Rules, inter alia, provided that the funds be credited to the IEPF, and specified the functions of the Committee etc. The Committee shall recommend the following activities relating to investors' education, awareness and protection:

a) Education programmes through media;

b) Organising seminars and symposia;

c) Proposals for registration of voluntary associations or institution or other organisations engaged in investor education and protection activities;

d) Proposals for projects for investors' education and protection including research activities and proposals for financing such projects;

e) Coordinating with institutions engaged in investor education, awareness and protection activities; and besides to form sub committees to facilitate efficient and speedy discharge of its functions.

The Ministry of Corporate Affairs (MCA) from time to time did conduct investors' awareness programmes through professional institutes and chambers of commerce all over India extensively covering rural and remote areas.

Subsequently, MCA had issued another notification which was effective from 20th May, 2012 for uploading the information of unpaid dividend and other credits to the fund by framing Investor Education and Protection Fund (uploading of information regarding unpaid and unclaimed amounts lying with the companies) Rules, 2012.

Accordingly, companies which have transferred funds to IEPF have to file certain particulars with MCA.

Modified utilisation of Fund The Companies Act, 2013 (the Act) provides in itself the purposes for which the Fund shall be utilised in accordance with the Rules.

They are: a) To refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon;

b) Promotion of investors' education, awareness and protection;

c) Distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which has ordered disgorgement;

d) Reimbursement of legal expenses incurred in pursuing class action suits under section 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and

e) Any other purpose incidental thereto.

Constitution of IEPF Authority

The Investor Education and Protection Fund (IEPF) Authority (Appointment of Chairperson and Members, holding of meetings and provision for offices and officers) Rules, 2016 was notified on 13th January, 2016.

The Government on 2nd May, 2016 constituted the Investor Education and Protection Fund (IEPF) Authority with six members under the Chairmanship of the Secretary, Ministry of Corporate Affairs.

The Companies Act, 2013 (the Act) while introducing the provisions of IEPF very clearly provided the purposes for which IEPF may be utilised in accordance with the Rules.

The Act has two new provisions for the utilisation of IEPF, namely, distribution of disgorged amount on the orders of the Court and to reimburse the legal expenses in pursing class action suits, and the IEPF Authority needs to look into these new provisions for the overall interest of investors.