

RBI

RBI was established in terms of a committee known as “Committee on Currency & Finance” which was headed by one British named Hilton Young and, as such, the committee is known as Hilton Young Commission. RBI Act was enacted in 1934, the Act came into force from 6th March 1935 but RBI started functioning from 01-04-1935.

RBI was established with the objectives of a) to regulate the issue of Bank Notes b) for keeping reserves for securing monetary stability in India and c) to operate the currency & credit system of the country to its advantage.

The provision of Information Technology Act 2000 has been inserted in RBI Act to make regulations for regulating payment systems of banks and financial institutions.

The Act does not directly deal with the regulation of the banking system except for section 42 which provides to CRR of scheduled banks to be kept with RBI as a liquidity measure of the banks and with a view to regulating the credit system and ensuring monetary stability.

Section 18 of the Act provides for direct discount when special occasion arises making it necessary or expedient for the purpose of regulating credit in the interest of trade, industry & agriculture.

To brief, the Act deals with:

Incorporation, capital management & business of the banks

The central banking function like issue & management of bank notes, monetary controls, cash reserve, banker to Govt, bankers' bank & lender of last resort to banks

1. Management of Foreign Exchange & Foreign Reserves

2. Collection and furnishing of credit information

3. Financial Supervision of Banks and financial institutions

4. Acceptance of deposits by NBFCs, their duty to furnish statements etc, furnishing information required by RBI. And RBI's power to file winding up petition

5. General provisions regarding reserve fund, credit funds, publication of Bank Rate, audit and accounts etc.

6. Penalties for violation of the provisions of the act or directions issued there under.

RBI Contd...

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Function of RBI::

1. Note Issuing Authority
2. Control Over Money Market through Open Market Operation (OMO)
3. Banker to Govt.(both GOI & State Govt.)
4. Announcing Monetary Policy
5. Credit Policy: Busy Season (April-May) & Slack Season(October-November) & Interim Review
- 6.Custodian of Foreign Currency
- 7.Bankers' Bank
8. Last resort of Lending to Banks etc.

Note Issuing Authority:

RBI issues 'Bank Note' which ranges from the denomination of 2 to 10000 but at present in circulation upto 1000 rupee denomination, however at any point of time RBI may come up with denomination of 10000 & for which no amendment of RBI Act 1034 is needed but to issue Bank Note beyond the denomination of Rs.10000, the Act has to be amended

Bank Note issued by RBI contains the signature of Governor of RBI who is at present Dr. d. Subba Rao.

Bank Note contains " Guaranteed by Central Government" because RBI issues Bank Note on behalf of GOI

One Rupee Note is issued by GOI & it contains the signature of Secretary, Ministry of Finance & here " Guaranteed by Central Government" is not issued because GOI itself issue the One Rupee Note

Bank Note & One Rupee Note are issued in the form of " Promissory Note" as defined in sec 4 of Negotiable Instrument Act 1881. Currency note comprising One Rupee Note & Bank Notes are Bearer Promissory Note payable on Demand. As such sec 31 of RBI prohibits any other person(s) / Authority(s) other than RBI & GOI to issue bearer promissory note because One Rupee Note, Bank Note & Coins (issued under Coinage Act by GOI) are Legal Tender. At present issuing of One Rupee Note, 2 Rupee Note & 5 Rupee Note have been discontinued, but, RBI has recently decided to re-issue of 5 Rupee Note the fate of which is not yet finalized.

50 paise Coins can be legal tendered provided max. 10 Nos. of 50 paise can be tendered.

RBI contd..