

RBI Act, 1934

Preamble

An Act to constitute a Reserve Bank of India.

To regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in 2 [India] and generally to operate the currency and credit system of the country to its advantage.

a modern monetary policy to maintain price stability monetary policy framework in India shall be operated by the Reserve Bank of India. It extends to whole of India.

Definitions:

Sec 2(e) - Scheduled banks

means a bank included in the Second Schedule.

4 criterions to become a scheduled bank

1. CRR & SLR
2. Demand Time Liability (DTL) - should be Minimum 750 Crore - [the sum of Demand Liabilities and Term Liabilities]
3. CAR or CRAR - Capital Adequacy Ratio a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted assets and current liabilities or credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR).
4. Profit since last 3 years - no loss in last 3 years

Sec 3 - Establishment and incorporation of Reserve Bank.

1. A bank to be called the Reserve Bank of India
2. for the purposes of taking over the management of the currency from the Central Government and of carrying on the business of
3. The Bank shall be a body corporate having perpetual succession and a common seal, and shall by the said name sue and be sued.

Sec 4 - Capital of the Bank.

The capital of the Bank shall be five crores of rupees.

Sec 6- Offices, branches and agencies - 4 Local Board

The Bank shall establish offices in Bombay, Calcutta, Delhi and Madras and may establish branches or agencies in any other place in India with the previous sanction of C.G.

Sec 8- Composition of the Central Board, and term of office of Directors - 21 Directors

1. The Central Board shall consist of the following Directors, namely:
 - a. Governor and not more than four Deputy Governors to be appointed by the Central Government;
 - b. four Directors to be nominated by the Central Government, one from each of the four Local Boards
 - c. ten Directors to be nominated by the Central Government; and
 - d. two Government officials to be nominated by the Central Government.

Sec 13- Meetings of the Central Board.

Meetings of the Central Board shall be convened by the Governor at least six times in each year and at least once in each quarter.

Sec 17- Business which the Bank may transact.

The Bank shall be authorized to carry on and transact the several kinds of business hereinafter specified, namely:

1. The accepting of money on deposit without interest from and the collection of money for Central Government], State] Governments , local authorities, banks and any other persons.
2. Sale or purchase of foreign securities
3. Rediscounting of bills or promissory notes
4. Grant loans

Sec 19 - Business with which bank may not transact

1. engage in trade or otherwise have a direct interest in any commercial, industrial, or other

2. purchase the shares of any banking company or of any other company, or grant loans upon the security
3. advance money on mortgage or become the owner of immovable property, except necessary for its own business premises and residences for its officers and servants;
4. make loans or advances
5. draw or accept bills payable otherwise than on demand
6. allow interest on deposits or current accounts.

Sec 20 - Obligation of the Bank to transact Government business.

1. The Bank shall undertake to accept monies for account of the Central Government
2. make payments up to the amount standing to the credit of its account
3. to carry out its exchange (of currency)
4. remittance (transfer of fund from or to foreign)
5. other banking operation including management of the public debt of the Union. (debt by central or state govt. from public)

Sec 21 - Bank to have the right to transact Government business in India

The Central Government shall entrust the Bank, on such conditions as may be agreed upon, with all its money, remittance, exchange and banking transactions in India, and, in particular, shall deposit free of interest all its cash balances with the Bank.

Sec 22 - Right to issue bank notes.

1. The Bank shall have the sole right to issue bank notes in India. Bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Central Government or by the Bank.

Sec 23- Issue Department. - bank notes are issued by issue department.

1. The issue of bank notes shall be conducted by the Bank in an Issue Department
2. Bank notes are not issued to the Banking Department or to any other person except in exchange for other bank notes or for such coin, bullion or securities as are permitted by this Act to form part of the Reserve.

Sec 24- Denominations of notes.

1. Subject to the provisions of sub-section (2), bank notes shall be of the denominational values of two rupees, five rupees, ten rupees, twenty rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, five thousand rupees and ten thousand rupees.
2. Bank notes maximum denomination - 10 thousand
3. Coins of maximum denomination - 1000
4. Denominations are internationally in multiple of 2 or 5
5. RBI has power to discontinue any currency

Sec 25 - Form of bank notes.

The design, form and material of bank notes shall be such as may be approved by the Central Government after consideration of the recommendations made by Central Board.

Sec 26 - Legal tender character of notes.

every bank note shall be legal tender at any place in India] in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government.

Sec 26A - Certain bank notes to cease to be legal tender.

No bank note of the denominational value of five hundred rupees, one thousand rupees or ten thousand rupees issued before the 13th day of January, 1946, shall be legal tender in payment or on account for the amount expressed therein.

Sec 27 - Re-issue of notes.

The Bank shall not re-issue bank notes which are torn, defaced or excessively soiled.

Sec 28 - Recovery of notes lost, stolen, mutilated or imperfect.

no person shall of right be entitled to recover from the Central Government or the Bank, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note

Sec 29 - Bank exempt from stamp duty on bank notes.

The Bank shall not be liable to the payment of any stamp duty under the Indian Stamp Act, 1899, in respect of

bank notes issued by it.

Sec 31 - Issue of demand bills and notes.

No person in India other than the Bank or the Central Government shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such person.

Sec 33 - Assets of the Issue Department.

1. The assets of the Issue Department shall consist of gold coin, gold bullion, foreign securities, rupee coin and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department as hereinafter defined.
2. The aggregate value of gold coin, gold bullion and foreign securities held as assets - Not less than 200 crore rupees.
3. The aggregate value of gold coin and gold bullion - Not less than 115 crore rupees.

Sec 38 - Obligations of Government and the Bank in respect of rupee coin.

The Central Government shall undertake not to put into circulation any rupees, except through the Bank and the Bank shall undertake not to dispose of rupee coin otherwise than for the purposes of circulation

Sec 42 - Cash reserves of scheduled banks to be kept with the Bank.

Current CRR

Every bank included in the Second Schedule shall maintain with the Bank an average daily balance the amount of which shall not be less than such per cent of the total of the demand and time liabilities with RBI.

Penalty - 1 day - bank rate + 3%

2 day - bank rate + 5%

3 day- legal action

No min or max limit for CRR

Bank does not give interest on deposit held for CRR.

Sec 45 A-F - Collecting and furnishing of credit information [right of RBI]

Bank has to give these information to RBI

1. Secured loan - 10 lakh and above
2. Unsecured loan - 5 lakh and above [as on last Friday of april][eg. Credit card, personal loan] [also called clean loan].
3. RBI is empowered to collect information related to borrower and suit filed accounts.
4. Doubtful, lost and suit filed a/c of outstanding balance of Rs.100 lakh and above [half yearly, march, September]

Sec 45 H-T - Provisions relating to NBFC

No NBFC shall commence business or carry on business without obtaining a certificate of registration from RBI and having net owned fund of Rs. 2 crore.

Sec 45 Z A - Inflation target

Current Inflation Target

Central Government in consultation with RBI determines inflation target in terms of consumer price index .Revised once in every 5 years.

Sec 45 Z B - Constitution of Monetary Policy Committee

The Central Government constitute a Committee to be called the Monetary Policy Committee of the Bank.

The Monetary Policy Committee shall consist of 6 Members.

3 RBI - **Governor, Deputy Governor**, 1 appointed by central board. 3 GOI - appointed by CG.

The Monetary Policy Committee shall determine the Policy Rate required to achieve the inflation target.

Each member has 1 vote and governor has a second or casting vote.

Every 6 months RBI publish monetary policy report.

Sec 45 Z D - Terms and conditions of appointment of Members of Monetary Policy Committee.

shall hold office for a period of four years and shall not be eligible for re-appointment.

Resignation - notice to CG of 6 months.

Sec 45 Z I - Meetings of Monetary Policy Committee.

The Bank shall organise at least four meetings of the Monetary Policy Committee in a year.

Minimum 4 members must be present.

Sec 45 Z L - Publication of proceedings of meeting of Monetary Policy Committee.

Sec 45ZM - Monetary Policy Report.

Sec 45ZO - Power to make rules. - Central Government

Sec 46 - Contribution by Central Government to the Reserve Fund.

The Central Government shall transfer to the Bank rupee securities of the value of five crores of rupees to be allocated by the Bank to the Reserve Fund.

Sec 46 C - National Industrial Credit (Long Term Operations) Fund.

RBI shall establish and maintain a Fund to be known as the National Industrial Credit (Long Term Operations)

an initial sum of ten crores of rupees by the Bank.

Sec 49 - Publication of bank rate.

Current Bank Rate

The Bank shall make public from time to time the standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act and to

Reference as a penalty -if a Scheduled commercial bank is not maintaining CRR and SLR then to charge penalty as per 1 day 2 day or 3 day

Discounting of commercial paper- commercial paper is issuing securities for raising funds or loan taken by big firms from market for less than 1 year. Purchase of this security at a discount rate [bank rate + risk]

Rediscounting of bills of exchange - money against letter of credit after charging some amount at this rate.

MSF = Bank rate - for foreign investors, Margin Standing Facility is kept equal to bank rate.

Government of India - Rate of interest at which RBI gives money to Gol.