

How RBI Works

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There are two boards which one needs to understand in detail to understand the functioning of Reserve Bank of India.

1. Board for Financial Supervision
2. Board for Payment and Settlement Systems

Board for Financial Supervision

The Reserve Bank of India performs the supervisory 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 under the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994.

Objective

The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers.

Constitution

The Board is constituted by co-opting four Directors from the Central Board as Members and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, traditionally, the Deputy Governor in charge of supervision, is nominated as the Vice-Chairman of the Board.

In April 2018, a Sub-committee of the Board for Financial Supervision was constituted, under Para 11 & 12 of the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994. The Sub-committee performs the functions and exercises the powers of supervision and inspection under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, in relation to Payments Banks, Small Finance Banks, Local Area Banks, small Foreign Banks, select scheduled Urban Co-operative Banks, select Non-Banking Financial Companies and Credit Information Companies. The Sub-committee is chaired by the Deputy Governor in charge of supervision and includes the three Deputy Governors and two Directors of the Central Board as Members.

Board for Payment and Settlement Systems

The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of the Central Board of the Reserve Bank of India is the highest policy making body on payment systems in the country. The BPSS is empowered for authorising, prescribing policies and setting standards for regulating and supervising all the payment and settlement systems in the country. The Department of Payment and Settlement Systems of the Reserve Bank of India serves as the Secretariat to the Board and executes its directions. It is headed by the RBI Governor.

Legal Framework

I. Acts administered by Reserve Bank of India and their important sections:

- **Reserve Bank of India Act, 1934**

- Section 3: Establishment and incorporation of Reserve Bank.
- Section 4: Capital of the RBI.
- Section 6: Establishment of Offices, branches and agencies
- Section 8: Composition of the Central Board, and term of office of Directors
- Section 17: The business that RBI can transact
- Section 17(5) : way and means advances
- Section 20: Obligation of the RBI to transact Government business.
- Section 21: RBI to have the right to transact Government business in India.
- Section 21A: RBI to transact Government business of States on agreement.
- Section 22: Right to issue bank notes.
- Section 24: Denominations of notes.
- Section 27: Re-issue of notes.
- Section 26 (1): Defines legal tender of notes
- Section 26(2): Withdrawal of legal tender of notes
- Section 42: Cash reserves of scheduled banks to be kept with the Bank.
- Section 45(U): Defines repo, reverse repo, derivative, money market instruments and securities.
- Section 45(W): Regulations of derivatives and money market

- **Public Debt Act, 1944/Government Securities Act, 2006**

- **Government Securities Regulations, 2007**

- **Banking Regulation Act, 1949**

- Section 5(1)b: Banking Definition
- Section 8: Prohibition on trading
- Section 16: Prohibition of common directors
- Section 17: Reserve Fund
- Section 18: Cash reserve
- Section 35A: Power of the Reserve Bank to give directions
- Section 35AA: Power of Central Government to authorize Reserve Bank for issuing directions to banking companies to initiate the insolvency resolution process
- Section 35AB: Power of Reserve Bank to issue directions in respect of stressed assets
- Section 36AA Power of Reserve Bank to remove managerial and other persons from office
- Section 36AB Power of Reserve Bank to appoint additional directors
- Section 36AE Power of Central Government to acquire undertakings of banking companies in certain cases
- Section 36AF Power of the Central Government to make scheme
- Section 45ZE Release of contents of safety lockers

- **Foreign Exchange Management Act, 1999**

In terms of Section 10(1) of the FEMA, 1999 Reserve Bank is empowered to **authorise any person to be known as authorised person to deal in foreign exchange as an authorised dealer or money changer.**

- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Credit Information Companies(Regulation) Act, 2005
- **Payment and Settlement Systems Act, 2007**
 - **Payment and Settlement Systems Act, 2007 As Amended up to 2019**
 - **Payment and Settlement Systems Regulations, 2008 As Amended up to 2022**
- Factoring Regulation Act, 2011

II. Other relevant Acts

- Negotiable Instruments Act, 1881
- Bankers' Books Evidence Act, 1891
- State Bank of India Act, 1955
- Companies Act, 1956/ Companies Act, 2013
- Securities Contract (Regulation) Act, 1956
- State Bank of India Subsidiary Banks) Act, 1959
- Deposit Insurance and Credit Guarantee Corporation Act, 1961
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
- Regional Rural Banks Act, 1976
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
- National Bank for Agriculture and Rural Development Act, 1981
- National Housing Bank Act, 1987
- Recovery of Debts Due to Banks and Financial Institutions Act, 1993
- Competition Act, 2002
- **Indian Coinage Act, 2011** : Governs currency and coins
- Banking Secrecy Act
- The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003
- The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993