

AS INTRODUCED IN THE RAJYA SABHA
ON THE 12TH JULY, 2019

Bill No. LVII of 2018

THE RESERVE BANK OF INDIA (AMENDMENT) BILL, 2018

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further to amend the Reserve Bank of India Act, 1934.

BE it enacted by Parliament in the Sixty-ninth Year of the Republic of India as follows:—

1. (1) This Act may be called the Reserve Bank of India (Amendment) Act. 2018.

Short title,
extent and
commencement.

(2) It extends to the whole of India.

(3) It shall come into force on such date as the Central Government may, by notification
5 in the Official Gazette, appoint.

2 of 1934

2. In section 7 of the Reserve Bank of India Act, 1934 (hereinafter referred to as the
principal Act):—

Amendment
of section 7.

(i) in sub-section (1), for the words “from time to time give such directions to the Bank
as it may,”, the words “from time to time give such suggestions to the Bank as it may.”;

10 (ii) In sub-section (2), for the words “Subject to any such directions, the words “Subject
to any such suggestions accepted by the Bank, after consultation with the Governor.

3. In section 8 of the principal after of the sub-section (7), the following sub-section
shall be inserted, namely:—

Amendment
of section 8.

“(8) The Central Board shall appoint a senior officer of the Bank to act as its Secretary who shall perform such functions and, in such manner, as may be specified by the regulations made by the Central Board.”

Amendment
of section 11.

4. In section 11 of the principal Act. (i) after sub-section (I), the following proviso be inserted, namely:—

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“Provided that no member shall be removed under this clause unless he has been given a reasonable opportunity of being heard in the matter and he shall also be provided with a minimum of thirty days and a maximum of forty five days to be heard, from the date of notice of such removal, as issued by the Central Government.

(i) After sub-section (6) the following be inserted namely:—

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“(7) A vacancy shall be filled within,

(a) thirty days from the date on which the vacancy arose, where the board-size falls below a total of eleven members, and

(b) one hundred eighty days from the date on which the vaccany arose, in all other cases:

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Provided, that if the Central Government is unable to appoint a Director within the time period specified the Central Government shall prepare a report within ninety days from the expiry of the timelimit specified, stating the reasons for the failure to fill the vacancy and lay a copy of the report it before Parliament in an ongoing session or where the Parliament is not in session, immediately in the next session.”

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Insertion of
a new
section 13A.

Procedure for
Meetings of
the Central
Board.

5. In the Principal Act, after section 13 the following new section shall be inserted, namely:—

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“13A (I) The Bank shall publish the agenda of every meeting within fourteen days after every meeting of the Central Board.

(2) Except as provided in sub section 13A(3), the Bank shall publish, within fourteen days after every meeting of the Central Board, the minutes of the proceedings of the meeting which shall include the following, namely:—

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(a) the resolution adopted at the meeting of the Central Board;

(b) the vote cast by each member of the Central Board, present and voting, ascribed to such member, on resolutions adopted in the said meeting; and

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(c) the statement of each voting member of the Central Board specifying the reasons for voting in favour of, or against the proposed resolution.

(3) The Central Board shall be exempted from publishing select portions of the minutes of any meeting or the minutes of an entire meeting, if the subject discussed falls under any of the following categories, namely:—

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(a) it is likely to frustrate the implementation of an action proposed by the Bank or the Central Board, where such action has not been disclosed to the public; or

(b) it is likely to disclose information the premature disclosure of which would,—

(i) lead to significant financial speculation in currencies, securities, or commodities, or

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(ii) significantly endanger the economic stability of the nation;

(c) they are exempt from disclosure under section 8 of the Right to Information Act, 2005.

22 of 2005.

(4) the publication of minutes relating to a particular meeting, may be delayed or exempted completely only if the Central Board in such meeting,—

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(a) records the reason under the categories mentioned in sub-section (3) applicable in respect of each portion of the minutes; and

(b) the majority of Directors' present at the meeting, vote in favour of such action for each portion of the records separately.

5 (5) The quorum for the meetings of the Central Board shall be more than half the total number of Director appointed:

Provided that atleast half of the Directors attending the meeting should have been appointed under clause (C) of sub-section (I) of Section 8 of the principal Act.

10 (6) The Central Board shall make rules and regulations consistent with the provisions of this section.”

6. In section 58 of the principal Act in sub-section (2):—

Amendment
of section 58.

(i) for clause (h), the following shall be substituted, namely:—

15 “(h) the delegation of powers and functions of the Central Board to Deputy Governors, Directors or officers of the Bank except such powers and functions that are expressly imposed or conferred by any law including this Act on the Central Board”.

(ii) for clause (i), the following shall be substituted, namely:—

20 “(i) the formation of the Committees of the Central Board, the delegation of powers and functions of the Central Board to such Committees except such powers and functions that are expressly imposed or conferred by any law including this Act on the Central Board, and the conduct of business in such Committees”.

STATEMENT OF OBJECTS AND REASONS

The Reserve Bank of India (RBI) was constituted to regulate money supply, maintain reserves with an aim to secure macroeconomic stability, and to operate the currency and credit system in order to meet the challenges of an increasingly complex economy. India's monetary policy aims to ensure price stability while prioritizing economic growth. The responsibility for monetary policy lies with the Reserve Bank of India.

As the RBI is the apex monetary authority and banking sector regulator in India, drawing its power from the prescribed functions in the Reserve Bank of India Act, 1934 (hereinafter referred to as Principal Act), its independence is central to its existence. Independence of a statutory body is marked by the powers ascribed to it, the composition and appointment of its executive and non-executive members, their removal or absence, and the transparency in the functioning of the institution as a whole. Independence, specifically in the context of statutory bodies begins with removal of political interference, but accompanied by strong internal checks and balances.

The Indian Financial Code (IFC), was drafted by the Financial Sector Legislative Reforms Commission (FSLRC), which was instituted in 2011 by the Ministry of Finance. The objective was to rewrite and review the legal and institutional architecture of the Indian financial sector. The gradual enactment of IFC has been the pivot of major financial reforms in India. Additionally, it is imperative to expedite other crucial recommendations, to strengthen the institutional framework of the RBI.

In recent times especially post-demonetization, the extent of political interference and the eroding independence of RBI has been much deliberated. The Central Government derives its power to direct the RBI on matters of public interest from section 7 of the principal Act. While working towards the nationalization of the RBI, a bill was prepared to amend the Act. The then Governor suggested that in the case of differences between the regulator and the government, the latter must take the responsibility for its actions. But later, this point was completely missed. Evidently, section 7 is silent on devolution of responsibility. Inevitably the blame tends to fall on the RBI. Amendment to this section seeks to fortify the independence of the RBI.

Amendments to section 8 and section 11 seek to bring written codes on composition, appointment and vacancy of seats in the Central Board. Before RBI's Central Board approved demonetization, when it met, as many as 11 seats out of the 21 sanctioned posts were vacant. Only 8 out of 10 appointed Directors attended the meeting, of which only 4 were eligible to vote and only 2 were independent directors. This amendment is thus essential, keeping in mind Section 8 (5), which states that no act or decision of the Board can be questioned merely on the grounds of existing vacancy or absence. As an unbalanced composition cannot be the ground of questioning the decision, corrective measures to fill vacancies must be put in place to ensure there is no vacuum. It is crucial to introduce a statutory provision to fill vacancies in a timebound manner. Amendments to Section 13 seek to ensure transparency, with regard to board proceedings, and are in accordance with international practices. The amendment in section 58 ensures that Central Board cannot delegate its power to deliberate on critical issues to the management and to committees.

It is important to strengthen the pillars of our economy through institutional reforms, as we envision growth and long-term monetary stability.

Hence, this Bill.

PROF. M.V. RAJEEV GOWDA

RAJYA SABHA

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further to amend the Reserve Bank of India Act, 1934.

(Prof. M.V. Rajeev Gowda, M.P.)