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Regulatory Bodies in India Descriptive Answer Writing Practice Questions

Q.1) What has been the history of RBI? Throw some light on its organisation structure as well. [15]

Ans.

The Reserve Bank of India (RBI) is the central bank of India whose primary function is to manage and govern the financial system of the country. It is a statutory body established in the year 1935 under the Reserve Bank of India Act, 1934.

- The origins of the Reserve Bank of India can be traced to 1926, when the Royal Commission on Indian Currency and Finance – also known as the Hilton-Young Commission – recommended the creation of a central bank for India to separate the control of currency and credit from the Government and to augment banking facilities throughout the country.
- The Reserve Bank of India Act of 1934 established the Reserve Bank and set in motion a series of actions culminating in the start of operations in 1935.
- Since then, the Reserve Bank's role and functions have undergone numerous changes, as the nature of the Indian economy and financial sector changed.
- Starting as a private shareholders' bank, the Reserve Bank was nationalized in 1949. It then assumed the responsibility to meet the aspirations of a newly independent country and its people.
- An interesting feature of the Reserve Bank of India was that at its very inception, the Bank was seen as playing a special role in the context of development. It practiced using finance to catalyse development.
- The Bank was also instrumental in institutional development and helped set up institutions like the Deposit Insurance and Credit Guarantee Corporation of India, the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, the Discount and Finance House of India etc. to build the financial infrastructure of the country.
- With liberalisation, the Bank's focus has shifted back to core central banking functions like Monetary Policy, Bank Supervision and Regulation, and Overseeing the Payments System and onto developing the financial markets.

<u>RBI's Organisation Structure</u>

➢ The Reserve Bank's affairs are governed by a central board of directors

➢ Central Board
  - The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

  - Constitution
    Official Directors- Full-time: 1 Governor and not more than four Deputy Governors. Current Governor is Shaktikanta Das.
    Non-Official Directors- Nominated by Government: ten Directors from various fields and two government Officials and four Directors - one each from four local boards

- The Central Board has the primary authority and responsibility for the oversight of the Reserve Bank. It delegates specific functions to the Local Boards and various committee

➢ Local Boards
  - One each for the four regions of the country in Mumbai, Kolkata, Chennai and New Delhi.
  - Consist of five members each, appointed by the Central Government, for a term of four years.
  - The local boards help advise the Central Board on local matters and represent territorial and economic interests of local cooperative and indigenous banks.

➢ The Central Board is assisted by following committees:
  - The Committee of the Central Board (**CCB**)
  - The Board for Financial Supervision (**BFS**)
  - The Board for Regulation and Supervision of Payment and Settlement Systems (**BPSS**)

The role of RBI has been redefined through gradual evolution and adaptation, along with some statutory changes. The developments in the recent past leads one to the conclusion that there has been enhancement of the autonomy of the RBI. While various challenges and dilemmas persist in the Indian context, every effort is made by the RBI to meet the broader objectives set forth, from time to time through regulatory and institutional reforms.

Q.2) Explain the role of RBI as the central bank of the country. [15]

Ans.
The Reserve Bank of India is the central bank of India whose primary function is to manage and govern the financial system of the country. It is a statutory body established in the year 1935 under the Reserve Bank of India Act, 1934.The main mission of RBI is to maintain the macroeconomic stability and the Financial Stability. RBI tries to fulfil these missions by **performing different functions** like:

➢ **Regulating and supervising the financial system**
  - RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions.
  - RBI focuses on maintaining public confidence in the system, protecting depositors' interest and providing cost-effective banking services to the public.
  - India has a variety of banks like banking companies, Nationalised Banks, Regional Rural Banks, co-operative banks etc and RBI is entrusted with the task of regulating and supervising all types of banks in the country.

➢ **Issuer of currency**
  - Issuance of bank notes is one of the key central banking functions the RBI is authorised and mandated to do.
  - The objective behind this is to give the public adequate quantity of supplies of currency notes and coins and in good quality.

- **Formulating the Monetary Policy**
  - RBI formulates, implements and monitors the monetary policy which is the macroeconomic policy that involves management of money supply, interest rate and the use of economic policies to achieve macroeconomic objectives.

- **Manager of Foreign Exchange**
  - The powers and responsibilities with respect to external trades and payments, development and maintenance of foreign exchange market in India are conferred on the RBI
  - RBI can authorize any person to deal in foreign exchange or in foreign securities and can also revoke an authorization issued in public interest.

- **Regulates and Supervises Payment and Settlement Systems**
  - The Parliament of India enacted the Payment and Settlement Systems Act, 2007 ('PSS Act, 2007') with an objective to provide for the regulation and supervision of payment systems in India and to designate the Reserve Bank of India as the authority for that purpose.
  - No person can commence or operate a payment system except with an authorization issued by the RBI.

- **Banker to Government**
  - RBI is also known as the banker to government because it provides loan and monetary help to government with the help of an instrument known as ways and means advances at times of need.

- **Bankers' Bank**
  - One of the important functions that the RBI performs is to provide timely supply of credit to other banks whenever required by them through monetary instruments and thus act as lender of last resort by providing financial assistance to banks.
  - It also provides export credit refinance, Liquidity Adjustment Facility & MSF.

- **Developmental role**
  - RBI performs a wide range of promotional functions to support national objectives.
  - This includes work like providing timely credit to the productive sectors of the economy, creating institutions to build financial infrastructures, expanding access to affordable financial services and working on financial inclusion of all classes of the society.
  - It strives to ensure that financial objectives of the country are met and the banks perform the functions as expected.

RBI is thus an institution of national importance and the pillar of the surging Indian economy. It has always guarded the Indian economy and is the main reason behind the growth in the forex, exports, capital markets and various other areas of the economy. It plays a pivotal role in strengthening, developing and diversifying the country 's economic and financial structure being the topmost bank in the Indian banking system. The part of RBI in the economy gets altered as per the situation in the country and it plays a crucial role for the Indian economy by gradually evolving and adapting to the changing environment. It is also exploring its developmental role encouraging various fintech innovations and new ways of ensuring financial inclusion.

Q.3) Explain the significant role of EXIM Bank and ECGC Ltd. [15]

Ans.

<u>EXIM BANK</u>

- EXIM Bank stands for Export-Import Bank of India. It is the premier export finance institution of India that was established in the year 1982 under Export-Import Bank of India Act 1981.
- It was previously a branch of the IDBI, but as the foreign trade sector grew, it was made into an independent body.

Role

- It was set up for the purpose of financing, facilitating and promoting foreign trade in India. Its objective is to create export capability by arranging competitive financing at various stages of the export cycle.

- Functions of EXIM (or products & services offered by EXIM)
    - ✓ **Buyer's credit**: Through this facility, the overseas buyer can open a "letter of credit" in favour of the Indian exporter and can import goods and services from India on deferred payment terms. The exporter benefits through reduced transaction costs and complexities of internal trade transactions.

    - ✓ **Corporate banking**: The bank offers a range of financing programmes to enhance the export-competitiveness of Indian companies. The bank caters to long-term loan requirements that help exporters finance new projects, expand, modernize or purchase new equipment or carry out R&D; and cater to their working capital and overseas investment requirements.

    - ✓ **Lines of credit (LOC):** The bank extends LOC to Indian exporters to enable them enter new areas and expand their business without payment risk from importers. It also extends LOC to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import developmental and infrastructure projects, equipment, goods and services from India, on deferred credit terms.

    - ✓ **Overseas investment finance**: The bank provides term loans to Indian companies for equity investment in their overseas Joint ventures or wholly owned subsidiaries

    - ✓ **Project exports**: In recent years, Indian project exporters have secured diverse contracts exemplifying their versatility and technological capabilities. EXIM Bank provides support to project activities in engineering, procurement, construction (civil, mechanical, electrical or instrumental).

    - ✓ Research and analysis

    - ✓ Marketing and export advisory services

ECGC Ltd.

- It was formerly called Export Credit Guarantee Corporation of India Ltd.
- It is a wholly owned company of Government of India set up in the year 1957, headquartered in Mumbai.
- It functions under the administrative control of Ministry of Commerce & Industry, and is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, and insurance and exporting community.
- It is essentially an export promotion organization, seeking to improve the competitiveness of the Indian exporters by providing them with credit insurance covers

Role

- It performs various Functions like:
    - ✓ Provides a range of credit risk insurance covers to exporters against loss in export of goods and services
    - ✓ Offers Export Credit Insurance covers to banks and financial institutions to enable exporters to obtain better facilities from them
    - ✓ Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan

- Facilities provided by ECGC to exporters
    - ✓ ECGC offers insurance protection to exporters against payment risks.
    - ✓ Provides guidance in export-related activities.
    - ✓ Makes available information on different countries with its own credit ratings.
    - ✓ Makes it easy to obtain export finance from banks/financial institutions.
    - ✓ Assists exporters in recovering bad debts.
    - ✓ Provides information on credit-worthiness of overseas buyers.

The way we do trade with other countries has changed over the years. India has become a leading exporter of many goods and services and is likely to have a better future ahead. Considering the importance of exports from India and the contribution of the EXIM bank and ECGC Ltd who played a significant role necessitates having more such institutions to boost India's trade.

Q.4) Explain the role and Structure of SEBI. [15]

Ans.

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.

Role of SEBI

- It plays a major role in ensuring Investor Protection i.e. protecting the interests of investors by providing guidance and ensuring that the investment done is safe.

- It is involved in preventing the fraudulent practices and malpractices which are related to trading and regulation of the activities of the stock exchange

- It also develops a code of conduct for the financial intermediaries such as underwriters, brokers, etc.
- One of its main objectives is to maintain a balance between statutory regulations and self-regulation.

Following are some of the functions performed by SEBI fulfilling its role.

- **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.
    - **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.
    - **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.
    - **Promoting fair practices**: SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.
- **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.
    - 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.
    - It is involved in conducting inquiries and audit of stock exchanges.
    - It regulates the working of stock brokers and merchant brokers.
    - Registration of brokers, sub-brokers, merchant bankers etc.
    - Levying of fees
- **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.
    - Training of intermediaries who are a part of the security market.
    - Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
    - Conducting research work and publishing the results helpful for market participants.

Structure of SEBI

SEBI has a corporate framework comprising of various departments each managed by a department head. There are about 20 departments under SEBI. Some of these departments are corporation finance, economic and policy analysis, debt and hybrid securities, enforcement, human resources, investment management, commodity derivatives market regulation, legal affairs, etc.

The hierarchical structure of SEBI consists of the following members:

SEBI board comprises nine members.

1. One Chairman of the board who is appointed by the Central Government of India
2. One Board member who is appointed by the Central Bank, that is, the RBI
3. Two Board members who are hailing from the Union Ministry of Finance
4. Five Board members who are elected by the Central Government of India

SEBI is the regulatory authority that acts as a watchdog for all the capital market participants and its main purpose is thus to provide such an environment for the financial market enthusiasts that facilitate the efficient and smooth working of the securities market. To achieve this, it continues to come up with more set of regulations, enhancing the governance and overall functioning of these markets.

Q.5) Write a short note on the Negotiated Dealing System [10]

Ans.
Negotiated Dealing System [NDS] is an electronic trading platform operated by the Reserve Bank of India to facilitate the issuing and exchange of government securities and other types of money market instruments. It was introduced in February 2002 to help RBI enhance the dealings of fixed income investments.

Need

- Prior to the NDS, the country's government securities market was primarily telephone-based, which meant that buyers and sellers had to place trades over the phone, submit physical Subsidiary General Ledger transfer forms, and issue checks for the settlement of funds to RBI. These slow and inefficient procedures led to the development and implementation of the NDS.

NDS- OM System

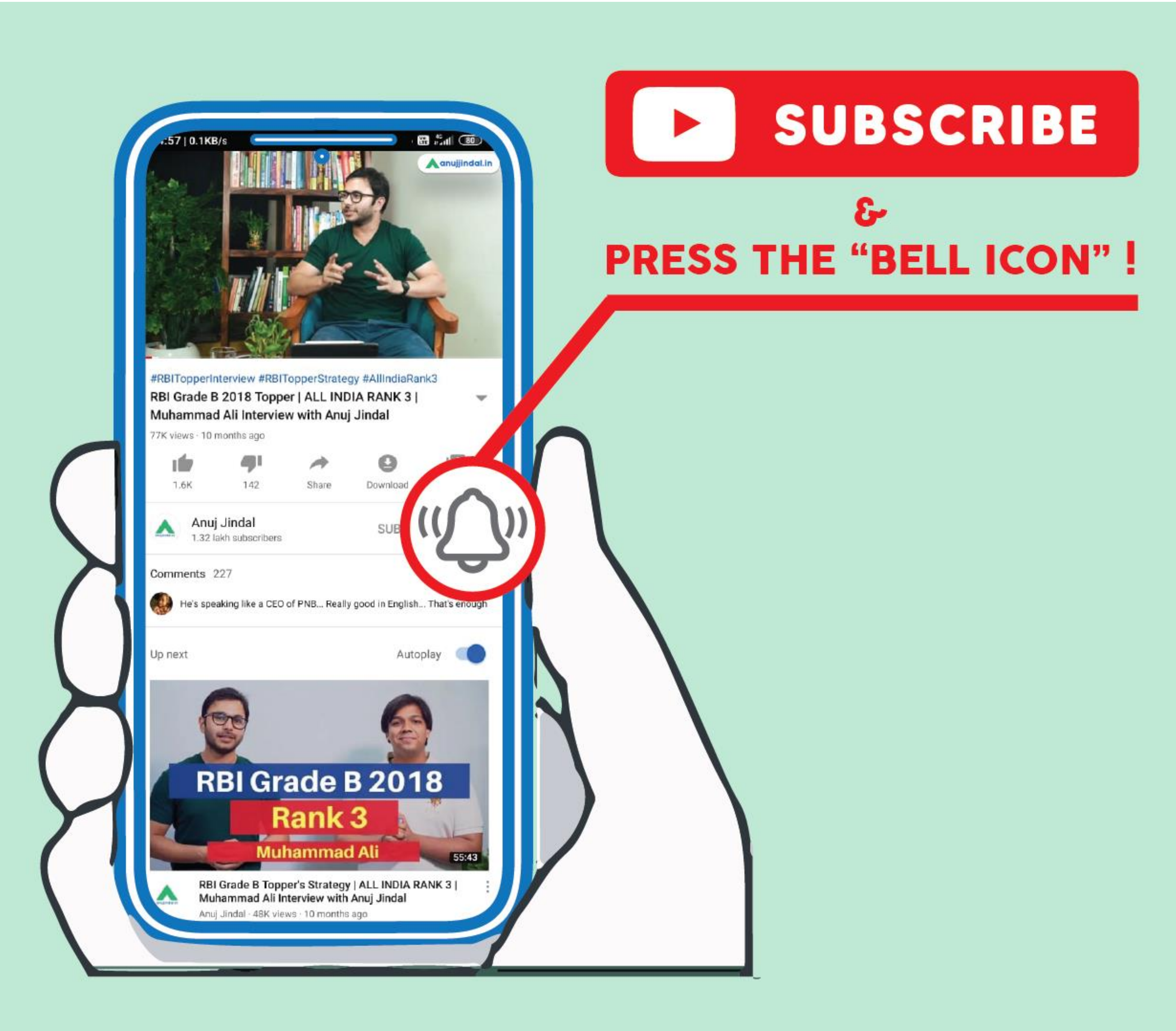
- In August 2005, the RBI introduced the Negotiated Dealing System - Order Matching system, or NDS-OM, an electronic, screen-based, anonymous, order-driven trading system for dealing in government securities.
- The system is designed to bring transparency to secondary market transactions, while enabling members to place bids and offers directly on the NDS-OM screen.

- There are two types of NDS-OM members, including:
  - **Direct Members** - Direct members have current accounts with the RBI and can directly settle trades on NDS-OM.
  - **Indirect Members** - Indirect members do not have current accounts with the RBI and must settle through NDS-OM members that have direct accounts. Most foreign institutional investors have indirect access, while resident entities may have direct access.

- The Negotiated Dealing System consists of two modules, which are designed for different types of member institutions. These modules include:
    1. **Primary Market Module**: The RBI uses the primary auction platform for the auction of federal and state securities, as well as treasury bills. The platform enables participants to electronically submit their bids in primary auctions and receive allotment reports.
    2. **Secondary Market Module**: Over-the-counter trading often happens over the phone, but everyone is required to report these trades using the NDS secondary market module. The data then flows to the Clearing Corporation of India Ltd. for clearing and settlement, which avoids the need for paper-based settlement processes.

- This system offers various **benefits to RBI** like:
    - Ensuring liquidity and attractiveness of Government securities and improving on the efficiency by improving on trading speed, making clearing and settlement faster and reducing the costs.
- The **benefits to investors** include:
    - **Ease of access**: More investors can easily access and buy or sell government securities.
    - **Cost**: The cost of brokers and other trading services is reduced.
    - **Direct investing**: Investors can manage their own securities and investment portfolios more easily.
    - **Convenience**: It is much more convenient, as trades can be made from anywhere through the access of the internet.

Many other countries have similar electronic systems in place for managing government securities, money market accounts, and related securities to increase transparency and lower costs.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