Prof. Naresh Shroff's
ACE TUTORIALS
Think CS Think ACE

Economic, Business & Commercial Laws

For **CS EXECUTIVE**

(New Syllabus)

HIGHLIGHTS

- **Easy Language** to the Beginners of Law
- **Flow Chart Based Book**
- Inclusion of **Important and Relevant** case laws
- Inclusion of **Examples / Case Studies**
- Inclusion of **Notes & Special Note** for More Clarity

PROF. JIMIT MARADIA

Our all India Rankers

1	Atharva A Samant	: CS Foundation
	Karishma M Madrecha	: CS Foundation
	Bhavi Piyush Shah	: CS Foundation
	Vrushali Karnik	: CS Professional
2	Sushil Kumavat	: CS Professional
	Rishab Mehta	: CS Professional
	Sanika S Barve	: CS Foundation
	Kartiki M. Tulaskar	: CS Foundation
	Akshay H. Parnjape	: CS Executive
3	Shehbaazali F Therir	: CS Professional
	Prachiti A. Karandikar	: CS Professional
	Komal T. Shah	: CS Professional
5	Sumedh Pawse	: CS Professional
	Harsh M. Vira	: CS Foundation
	Nrupang Dholakia	: CS Executive
6	Simona D'souza	: CS Foundation
	Raashi U. Rege	: CS Executive
	Krisha C Zatakia	: CS Foundation
	Hardy Patel	: CS Professional
	Swarali Mehta	: CS Executive
8	Md. Tabish R Siddiqui	: CS Executive
	Ami Mehta	: CS Professional
	Ankita Jain	: CS Executive
	Harsha Gupta	: CS Foundation
9	Havish D. Gotecha	: CS Foundation
	Priyanka K. Jain	: CS Executive
	Hemanshi T Ranawat	: CS Foundation
	Pratiksha Mangaonkar	: CS Professional
10	Gibin Joy	: CS Foundation
	Simran C Gupta	: CS Foundation
	Bhavika S. Jain	: CS Foundation
11	Vidhi R Dahanuka	: CS Foundation
	Stuti V. Shah	: CS Foundation
	Khyati Kathrani	: CS Professional
	Pratik Shukla	: CS Foundation
	Komal T. Shah	: CS Foundation
	Chunni Singh	: CS Executive
12	Michella Dantis	: CS Professional
	Rishabh Raj Mehta	: CS Executive
	Shanell Vincent Lobo	: CS Foundation
	Shivani Sanjay Sharma	: CS Foundation
	Ankita Jain	: CS Professional
	Nidhi R. Gemavat	: CS Professional
	Shayantani A. Das	: CS Foundation
13	Hardy V. Patel	: CS Foundation
	Pranali A Patel	: CS Foundation
	Sonali D. Dave	: CS Foundation
	Md. Tabish R Siddique	: CS Professional
	Sumedh R. Ajgaonkar	: CS Foundation
	Varun H. Gianchandani	: CS Foundation
	Bhavika H. Porwal	: CS Foundation
	Nikitha J. Shenoy	: CS Foundation
	Komal P. Parakh	: CS Professional
	Nruprang Dholakia	: CS Professional
	Hardik Mehta	: CS Professional
14	Rishika Sachdeva	: CS Foundation
	Simran C. Gupta	: CS Executive
	Urmit S Mehta	: CS Foundation
	Avani J Killawala	: CS Foundation
	Dharmil K Shah	: CS Foundation
	Ruchi M Chandaria	: CS Foundation
	Barkha D. Hinduja	: CS Foundation
	Aanchalkaur R. Nagpal	: CS Foundation
	Sahil S. Punjabi	: CS Executive
	Priyanka K Jain	: CS Foundation
	Nehal R Nag	: CS Foundation
	Neerali C. Lakhani	: CS Foundation
	Jay Mistry	: CS Professional
	Bhavika Ranpara	: CS Foundation
	Stella M. I Dcosta	: CS Foundation
15	Sakshi M. Jain	: CS Foundation
	Vandita L. Tank	: CS Foundation
	Mittal B. Bhanushali	: CS Foundation
	Aashi K. Mehta	: CS Professional
	Femi P. Jain	: CS Professional
	Savio R. Braganza	: CS Foundation
	Astha M. Jain	: CS Foundation
	Mo[illegible] Agarwal	: CS Professional
	Shibani Nadkarni	: CS Foundation
	Divya V[illegible]l	: CS Executive
	Mayur Shah	: CS Professional
	Divya Ma[illegible]nhas	: CS Foundation
	[illegible] N. Bhuvad	: CS Foundation
	Meghna Somani	: CS Foundation
	Mahek S. Jain	: CS Foundation
16	Saliman Mathi	: CS Foundation
	Ibrat P. Khan	: CS Professional
	Krishna N.Raval	: CS Foundation
	Bhusan P. Porwal	: CS Professional
	Pooja R. Shrimankar	: CS Foundation
	Sunita N. Gohil	: CS Foundation
	Simony J. Rathod	: CS Foundation
	Ankita Bhagat	: CS Foundation
	Ayesha Shah	: CS Executive
	Pawan Kandoi	: CS Executive
	Ayushi N. Jeswani	: CS Foundation
17	Havish Gotecha	: CS Executive
	Raashi U. Rege	: CS Professional
	Vinisha V.Lobo	: CS Foundation
	Reema M. Vara	: CS Foundation
	Heer J. Parekh	: CS Foundation
	Jas K. Ganatra	: CS Foundation
	Sanosh K. Doomasia	: CS Foundation
	Shraddha D. Shah	: CS Foundation
	Neerali C. Lakhani	: CS Executive
	Abhishek M. Salunke	: CS Foundation
	Shivani S. Doiphode	: CS Foundation
18	Pooja S. Nakhuva	: CS Foundation
	Priti A.Shukla	: CS Foundation
	Hiral B. Kakadiya	: CS Foundation
	Manali C. Kokate	: CS Foundation
	Karan S. Visariya	: CS Foundation
	Shubham S. Jain	: CS Foundation
	Harsh L. Siroya	: CS Foundation

SAMPLE

Our all India Rankers

19

Drashti G. Shah	: CS Foundation
Amit B. Jain	: CS Foundation
Tarushi P. Saraff	: CS Foundation
Kaustubh S. Bagav	: CS Foundation
Dhvani V. Jain	: CS Foundation
Srushti T. Sanghvi	: CS Foundation
Ishita S. Desai	: CS Foundation
Femi P. Jain	: CS Foundation
Yuri A. Jain	: CS Foundation
Vatsal Thakkar	: CS Professional
Siddharth Shah	: CS Professional
Twinkle Maheshwari	: CS Foundation
Meet B. Shah	: CS Foundation
Shubham V. Joshi	: CS Foundation

20

Siddhi Joshi	: CS EXECUTIVE
Ritik B. Gupta	: CS Foundation
Pooja V. Mondkar	: CS Foundation
Priyanka K. Jain	: CS Professional
Henil J.Shah	: CS Foundation
Kushant M. Jain	: CS Foundation
Shakshi P.K. Kharga	: CS Foundation
Ankan Maiti	: CS Foundation
Mansi C. Sachala	: CS Foundation
Jigyasha O. Tomer	: CS Foundation
Sulaiman O. Shiekh	: CS Foundation
Siddhi B. Badiyani	: CS Professional
Ameya S. Kulkarni	: CS Foundation
Jinal Shah	: CS Foundation
Aanchal Jain	: CS Foundation
Vidhi Parekh	: CS Professional

21

Ankita D. Murarka	: CS Foundation
Pahini Sonigara	: CS Foundation
Hinal J. Mehta	: CS Foundation
Dhruvi J. Shah	: CS Foundation
Devyani G. Sharma	: CS Foundation
Sahil S. Punjabi	: CS Professional
Nafis A. Shaikh	: CS Foundation
Unnati J. Dave	: CS Professional
Khan Ibrat P. Ashfaque	: CS Foundation
Sukanna N. Karar	: CS Foundation
Jay K. Mehta	: CS Foundation
Juhi Jagdish Tanna	: CS Foundation
Sapna B. Sharma	: CS Foundation
Md. Waqar R. Siddiqui	: CS Foundation
Ankitha S. Iyer	: CS Professional
Komal Parekh	: CS Executive
Shikha Damania	: CS Executive
Sunil K. Shah	: CS Foundation
Divya R. Polekar	: CS Foundation

22

Zeeshal P. Shah	: CS Foundation
Vismaya V. Pisharody	: CS Foundation
Mrunmayi A. Gaikwad	: CS Foundation
Gunjan P. Jain	: CS Foundation
Janet Sojan	: CS Foundation
Supriya K. Tirupati	: CS Foundation
Kaushik C. Raichura	: CS Foundation
Shivani A. Dalvi	: CS Foundation
Vandan P. Gosrani	: CS Foundation
Aanchal V. Bakshi	: CS Foundation
Dhiti M. Mandalia	: CS Foundation
Kajol N Jain	: CS Foundation
Kinjal Shah	: CS Professional
Jeet Vayada	: CS Professional
Pradeep Soni	: CS Foundation
Ayushi R. Vora	: CS Foundation
Heet K. Valia	: CS Foundation
Priyanka V. Joshi	: CS Foundation

23

Daksha P. Kate	: CS Foundation
Sharon S. Pinto	: CS Foundation
Riddhi S. Bandekar	: CS Foundation
Darshil N. Shah	: CS Executive
Hiral V. Bhanushali	: CS Foundation
Vinal V. Ganatra	: CS Foundation
Aishwarya P. Thakur	: CS Foundation
Sheetal P. Dubey	: CS Foundation
Apeksha U. Shetty	: CS Foundation
Pratibha R. Mishra	: CS Executive
Sneha G. Jain	: CS Foundation
Juhi Kumari	: CS Executive
Salini Singhi	: CS Executive
Mihir S. Parekh	: CS Foundation
Riddhi Vikam	: CS Executive
Kanchan Singh	: CS Professional

24

Moksha M. Jain	: CS Foundation
Nikita S. Ambavale	: CS Foundation
Raj Y. Bajaria	: CS Foundation
Harsha S. Shetty	: CS Foundation
Preksha M. Shah	: CS Foundation
Riya R. Naik	: CS Foundation
Sanya K. Shah	: CS Foundation
Prayushi M. Kapadia	: CS Foundation
Kajal R. Shah	: CS Executive
Darshana Prasade	: CS Foundation
Nidhi B. Agarwal	: CS Foundation
Rupali R. Somani	: CS Foundation
Ricky Dedhia	: CS Executive
Aashish K. Sharma	: CS Foundation
Devanshi C. Doshi	: CS Foundation
Naved Havaldar	: CS Professional
Arpit Agarwal	: CS Professional
Prakshi Jain	: CS Foundation

25

Atharva A. Sawant	: CS Executive
Ritesh R. Hegde	: CS Foundation
Visa N. Patel	: CS Foundation
Nishita R. Shetty	: CS Foundation
Mugdha S. Dingore	: CS Foundation
[illegible]n G. Patel	: CS Foundation
Poo[illegible] R. Shah	: CS Foundation
Sura[illegible]. Bhadra	: CS Foundation
Purvi[illegible]. Manghi	: CS Foundation
[illegible]i Suhas Doshi	: CS Foundation
Neha B. Gandhi	: CS Foundation
Twinkle M. Jain	: CS Foundation
Abhishek S. Parekh	: CS Foundation
Devangi Singh	: CS Foundation
Anisha Iyer	: CS Executive
Riaya D. Nagraj	: CS Foundation

Many such successful stories like them at Prof. Naresh Shroff's ACE TUTORIALS

Achieve Your Dream Career With ACE

ECONOMIC BUSINESS AND COMMERCIAL LAW

PART-A

PART- B

PART – C

PART-A

CHAPTER-1

RESERVE BANK OF INDIA ACT, 1934

- Introduction
- Organizational Structure & Management
- Functions of the Reserve Bank of India
- Monetary Policy Management
- Penalties
- Self-Test Questions

INTRODUCTION

The Reserve Bank of India (RBI) was established on April 1, 1935 under the Reserve Bank of India Act, 1934. It is central bank of the country. RBI is also known as banker's bank and government's bank. The RBI controls monetary and banking policies of the Indian government.

The Reserve Bank designs and implements the regulatory policy framework for banking and non-banking financial institutions with the aim of providing people access to the banking system, protecting depositors' interest, and maintaining overall health of the financial system.

The RBI Act, 1934 applies to whole of India except the State of Jammu & Kashmir.

Origin and Background of RBI

1926	A • The Royal Commission on Indian Currency and Finance recommended the creation of a central bank for India.
1927	• A Bill to give effect to the above recommendation was introduced in the Legislative' Assembly. But it was later withdrawn due to lack of agreement among various sections of people.
1933	A • The White Paper on Indian Constitutional Reforms recommended the creation of a Reserve Bank. Afresh Bill was introduced in the Legislative Assembly.

W

1934	• The Bill was passed and received the Governor General's assent.
1935	• The Reserve Bank commenced operations as India's central bank on April 1 as a private shareholders' bank with a paid up capital of Rs. 5 crores.
1942	• The Reserve Bank ceased to be the currency issuing authority of Burma (now Myanmar).
1947	• The Reserve Bank stopped acting as banker to the Government of Burma.
1948	• The Reserve Bank stopped rendering central banking services to Pakistan.
1949	• The Government of India nationalized the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948.

Establishment & Incorporation of RBI

'Reserve Bank of India' was incorporated under the RBI Act, 1934, for managing currency & banking in India, as a body corporate, having perpetual succession and a common seal, and shall by the said name sue and be sued.

ORGANISATIONAL STRUCTURE & MANAGEMENT

The organizational structure in the form of hierarchy of RBI, is stated below. The apex governing body is Central Board of Directors.

Central Board of Directors

Governors

Deputy Governors

Executive Directors

Principal Chief General Manager

Chief General Manager General Manager

Deputy General Manager Assistant General Manager

Manager

Assistant Manager

Support Staff

CENTRAL BOARD OF DIRECTORS	
Central Board of Directors	The Central Board of Directors is at the top of the Reserve Bank's organisational structure. The Central Board has the primary authority and responsibility for the oversight of Reserve Bank.
Appointed by	They are appointed by the Central Government under the provisions of Reserve Bank of India Act, 1934.
Delegation	It delegates specific functions to the 4 Local Boards and various committees.
Composition	The Central Government nominates 14 Directors on the Central Board, including 1 Director each from the 4 Local Boards. The other 10 Directors represent different sectors of the economy, such as, agriculture, industry, trade, and professions.
Tenure of appointment	All these appointments are made for a period of 4 years.
Re-appointment of Retiring Director	A retiring director shall be eligible for re-nomination.
Nominee Director of Government	The Government also nominates 1 Government official as a Director representing the Government, who is usually the Finance Secretary to the Government of India and remains on the Board 'during the pleasure of the Central Government'. A Director nominated holds the office for a period of four years and thereafter until his successor is nominated. *Note:* Director nominated may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote.
Effect of vacancy or defect in constitution of the Board	No act or proceeding of the Board can be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution, of the board.
Powers of Central Government to supersede Central Board	If Central Government is of the opinion that Bank fails to carry out any of the obligations imposed on it by or under the Act, by notification in the Gazette of India, declare the Central Board to be superseded.
	GOVERNOR & DEPUTY GOVERNOR

Governor & Deputy Governor	The Governor supervises and directs the affairs and business of RBI. The Governor is the Reserve Bank's chief executive. The management team also includes Deputy Governors and Executive Directors. They are whole-time employees of the Bank. *Special Note:* The Deputy Governor may attend any meeting of the Central Board and take part in its deliberations but shall not be entitled to vote. However when the Governor is, for any reason, unable to attend any such meeting, a Deputy Governor authorized by him in this behalf in writing may vote for him at that meeting.
Salary & allowance	Governor & Deputy Governors shall receive such salaries and allowances as may be determined by the Central Board, with the approval of the Central Government.
Term of Office	The Governor and a Deputy Governor hold the office for such term not exceeding five years as the Central Government may fix when appointing them.
Re-appointment	The Governor and a Deputy Governor are eligible for re-appointment.
	LOCAL BOARDS
Local Boards	The Reserve Bank also has four Local Boards, constituted by the Central Government under the RBI Act, one each for the Western, Eastern, Northern and Southern areas of the country, which are located in Mumbai, Kolkata, New Delhi and Chennai.

Composition of Local Board	Each of these Boards has five members appointed by the Central Government.
Tenure of appointment	The member of local board be appointed for a term of 4 years and thereafter until his successor is appointed.
Re-appointment	Member of Local Board are eligible for re-appointment.
Chairman	The members of the Local Board shall elect from amongst themselves one person to be the Chairman of the Board.
Function of Local Board	These Boards represent territorial and economic interests of their respective areas, and advise the Central Board on such matters. They also perform other functions that the Central Board may delegate to them.

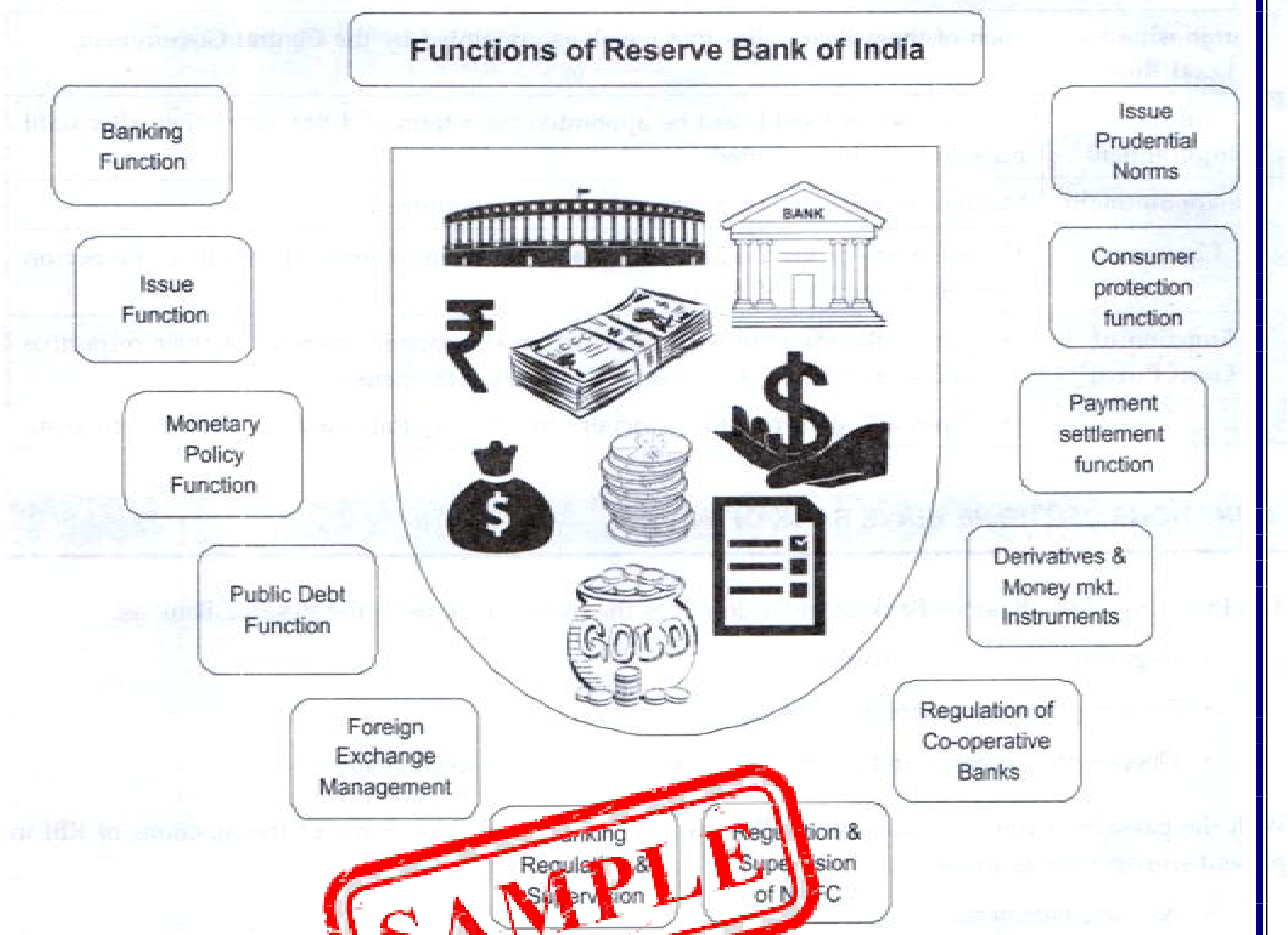
FUNCTIONS OF THE RESERVE BANK OF INDIA

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

- Regulating the issue of Bank notes.
- Securing monetary stability in India.
- Operate the currency and credit system of the country to its advantage.

With the passage of time the function of RBI has grown multiple times. Some of the functions of RBI in present scenario are as follows:

- Banking Functions.
- Issue bank notes.
- Banker's Bank.
- Government's Bank (Banker to the Central and State Governments).
- Monetary Policy Functions.
- Public Debt Function.
- Foreign Exchange Management.
- Banking Regulation & Supervision.
- Regulation and Supervision of NBFCs.
- Regulation & Supervision of Co-operative banks.
- Regulation of Derivatives and Money Market Instruments.
- Payment and Settlement Functions.
- Consumer Protection Functions.
- Financial Inclusion and Development Functions.
- Research and Statistics.



Banking Function	The banking function of RBI may be further classified into 2 parts: Government's Bank Banker's Bank	
	Note:	RBI has a separate dedicated department called 'Public Accounts Departments' for this function.
	Government's Bank	RBI acts as banker of the Central Government as well as all the State Governments except the State of Jammu & Kashmir and Sikkim. The various functions that RBI carries out as a banker of Government are as follows:- It maintain and operates Government Deposit Account. Pays & Receive money on behalf of Government. Provide short-term fund to the Government. Issue Treasury bills on behalf of Government. Purchase & sale of Government securities. Annual Contributions to National Rural Credit Funds. Advise Government on Financial, Banking and Economic matters. It arranges for investments of surplus cash balances of the Governments as a portfolio manager.

	Banker's Bank/Lender of Last Resort	RBI plays the role of bankers' bank in following manner:- * RBI has current accounts of the banks and also holds a part of the cash reserves of commercial banks (Commercial Banks are required to deposit cash reserve to the RBI, RBI declares Cash Reserve ration in order to control credit in the economy). RBI lends funds to Commercial Banks. - It re-discounts bills of exchange which are discounted by other Banks. RBI may periodically inspects banks and asks them for returns and necessary information. In addition, the Reserve Bank has also introduced the Centralised Funds Management System (CFMS) to facilitate centralised funds enquiry and transfer of funds across Deposit Accounts Department (DADs). This helps banks in their fund management as they can access information on their balances maintained across different DADs from a single location. *Lender of Last Resort:* The commercial banks approach RBI in times of emergency & financial difficulties. It is RBI who comes to their rescue when no one else is ready to extend credit to them.
Issue Function/ Issue of Currency/ Right to issue bank notes	RBI has the sole right to issue currency notes/bank notes in India. The issue function of bank notes is performed by the Issue Department, which is separated and kept wholly distinct from the Banking Department. RBI issue all the currency except one rupee notes and coins which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country. Note: **RBI** has a separate dedicated department called 'Department of Currency Management' for this function. *Recommendation of RBI to Government* RBI recommends Central Government the denomination of bank notes. RBI recommends CG for design, form and material of bank notes. *RBI also carries out the following functions:* *S* It ensure an adequate supply of clean and genuine notes. ▪*S* RBI along with the Government is responsible for designing, production & management of currency of the country. *Denomination of the Notes* At present, notes in India are issued in the denomination of Rs. 5, Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 200, Rs. 500 and Rs. 2,000. The printing of Re. 1 and Rs. 2 denominations has been discontinued (Notes in these denominations issued earlier are still valid and in circulation).	

	Special Note: The Reserve Bank is also authorised to issue notes in the denominations of Rs. 5,000 and Rs. 10,000 or any other denomination. Notes in denominations higher than Rs. 10,000 cannot be issued. Stamp Duty is not payable on issue of bank notes. ***Legal Tender of Money*** Every bank note shall be legal tender at any place in India. Further Central Government, on recommendation of the Central Board, by notification in the Gazette of India declare that any series of bank notes of any denomination shall cease to be legal tender, with effect from such date as may be specified in the notification. *Example:* Bank notes of Rs. 500 &Rs. 1000 ceased to be a legal tender of money w.e.f. 8th November, 2016. ***Coins*** The Government of India has the sole right to mint coins. The responsibility for coinage vests with the Government of India in terms of the Coinage Act, 1906 as amended from time to time. The coins are issued for circulation only through the Reserve Bank in terms of the RBI Act. Coins in India are presently being issued in denominations of 10 paise, 20 paise, 25 paise, 50 paise, one rupee, two rupees and five rupees. Coins upto 50 paise are called small coins' and coins of Rupee one and above are called 'Rupee Coins'. Coins can be issued up to the denomination of Rs. 1000 as per the Coinage Act, 1906. Note: 50 paisa coins are legal tender for any sum not exceeding Rs. 10 and smaller coins for any sum not exceeding Re. 1. *Combating Counterfeiting* The Reserve Bank, in consultation with the Government of India, periodically reviews and upgrades the security features of the bank notes to deter counterfeiting.
Monetary Policy Function	The RBI is the main body that controls the monetary policy in India. The inflation and liquidity in the economy is controlled by regulating the flow of money into the market through various instruments of monetary policy. The Central Government, in consultation with the RBI shall determine the inflation target in terms of the Consumer Price Index. ***Monetary Policy Committee*** Government should constitute a Monetary Policy Committee by notification in the Official Gazette. The Monetary Policy Committee consists of: Governor of the RBI; Deputy Governor of the RBI in charge of Monetary Policy; 1 officer of the RBI to be nominated by the Central Board; and 3 persons to be appointed by the Central Government. *Meetings of the Committee:* The Bank shall organize at least four meetings of

	the Monetary Policy Committee in a year.
	Quorum of the meeting: The quorum for a meeting of the Monetary Policy Committee shall be four Members, at least one of whom shall be the Governor and in his absence, the Deputy Governor who is the Member of the Monetary Policy Committee. *Voting at the meeting* Each Member of the Monetary Policy Committee shall have one vote. All questions which come up before any meeting of the Monetary Policy Committee shall be decided by a majority of votes by the Members present and voting, and in the event of an equality of votes, the Governor shall have a second or casting vote. Note: Each Member of the Monetary Policy Committee shall write a statement specifying the reasons for voting in favour of, or against the proposed resolution.
Public Debt Function	RBI manages the public debt functions and its procedures. For this the Parliament has enacted the Government Securities Act, 2006 ('GS Act') with an objective to consolidate and amend the law relating to Government securities and its management by the Reserve Bank of India. This Act prescribes the procedure and modalities to be followed by RBI in the management of public debt. Note: RBI also has the power to determine the title to a Government security if there exists any doubt in the opinion of RBI. Special Note: GS Act provides that no order made by RBI under this Act shall be called in question by any Court.
Foreign Exchange Management	RBI has an important role to play in regulating & managing Foreign Exchange of the country. It manages forex and gold reserves of the nation. Foreign Exchange Management Act, 1999 gives various power to RBI which includes the following:- RBI can authorize any person to act as an authorized dealer, money changer or off-shore banking unit, to deal in foreign exchange or in foreign securities. RBI can revoke an authorization issued to an authorized dealer in public interest, or if the authorized person has failed to comply with the conditions, rules and regulations, etc. Note: However, the revocation of an authorization may be done by the RBI after following the prescribed procedure in FEMA or the Regulations made thereunder. Granting approvals for approval routes of Foreign Direct Investment & Overseas Direct Investment.
Banking Regulation & Supervision	The power to regulate and supervise banks has been provided to RBI under the provisions of Banking Regulation Act, 1949, which includes: Banking policy to be issued by RBI in the interest of banking system or in the interest of monetary stability or sound economic growth. RBI has following powers with respect of Board of Banking Company: It may appoint Chairman or Managing Director of a banking company for the

	reasons stated therein.

	It may appoint additional directors on the boards of banking companies. Power to remove the managerial persons as well. Power to supersede the board of banking companies. It has power to control advances by banking companies. RBI has the power to issue license and also to cancel licenses of banking companies. RBI has the power to issue directions to banking companies in following circumstance: In public interest, or In the interest of banking policy, or To prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of banking company, or To secure the proper management of any banking company. RBI has power to inspect banking companies on its own or at the instance of Central Government. * RBI has been specifically authorized to issue directions to banking companies for resolution of stressed assets. *[As per Banking Regulation (Amendment) Act, 2017]*
Regulation and Supervision of Non-Banking Financing Companies (NBFCs)	RBI regulates the business of NBFC's in India and its powers includes the following: Register NBFC and issuing Certificate of Registration. RBI has power to regulate or prohibit issue of prospectus or advertisements soliciting deposits of money by non-banking financial companies. RBI has power to call for information from NBFC. RBI may issue directions to NBFC. Lay down policy for NBFC. Issue Regulations for NBFC. Inspect, regulate, supervise and exercise surveillance over NBFCs. Penalize NBFCs for violating the provisions of the RBI Act or the directions or orders issued by RBI. Cancelling the Certificate of Registration issued to the NBFC. Filing a winding-up petition for NBFC.
Regulation & **Supervision of**	RBI has been entrusted with the following powers with respect to Co-operatives Banks: Powers to issue licenses, Power to cancel licenses of co-operative banks,

Cooperative banks	Power to supersede their boards, Power to inspect, and Power to issue directions to them in the public interest, interest of banking policy, control over loans and advances, etc.

	Jurisdiction of Union v. State on Co-operative Banks The entry relating to Cooperative Societies fall in State List whereas the entry relating to banking falls in the Union List. This results in the duality of jurisdiction over cooperative banks. Therefore both by RBI (As per of Banking Regulation Act, 1949), and the Registrar of Cooperative Societies (As per State Cooperative Societies Act) has jurisdiction over them. This at times may lead to confusion, which was resolved in the following case law. Case Law: *Janata Sahakari Bank Ltd. v. State of Maharashtra* Fact: There was a confusion regarding jurisdiction of RBI or Registrar of Cooperative Societies due to the item of 'banking' being in Union List and 'societies' being in State List. Judgement: Bombay High Court has held that though the control over management of Co-operative Society where it is Cooperative Banking Society or otherwise is vested in the Registrar of Co-operative Societies, but insofar as banking is concerned, by virtue of the Banking Regulation Act, 1949, it will be a subject matter of RBI.
Regulation of Derivatives and Money Market Instruments	RBI has power to regulate the transactions relating to derivatives, money market instruments, securities, etc. *Note:* Derivative means an instrument to be settled at a future date, whose value is derived from an underlying asset. Similarly, money market instruments have been defined to include call or notice money, term money, repo, reverse repo, certificate of deposit, commercial paper and such other debt instrument of original or initial maturity up to one year as the RBI may specify from time to time.
Payment and Settlement Functions	Payment and Settlement Systems Act, 2007 ('PSS Act, 2007') was enacted with an objective to provide for the regulation and supervision of payment systems in India. The Act designated RBI as the authority for this purpose. Power of RBI under the Act includes the following: RBI has power to give authority to a person to commence or operate a payment system. RBI has the powers to revoke the authorization granted to any person if it contravenes any of the provisions of PSS Act; or does not comply with the regulations; or fails to comply with the orders or directions issued by the RBI; or operates the payment system contrary to the conditions subject to which the

	authorization was issued.
Consumer Protection, Financial Literacy & Development	Recently Reserve Bank of India launched a Financial Literacy week in June 2018 with consumer protection as its main focus. RBI has formulated the Banking Ombudsman Scheme for the redressal of grievances of depositors. The Reserve Bank of India has set up a Consumer Education and Protection Cell (CEP Cell) in all its Regional Offices, in order to protect the interest of the consumers.

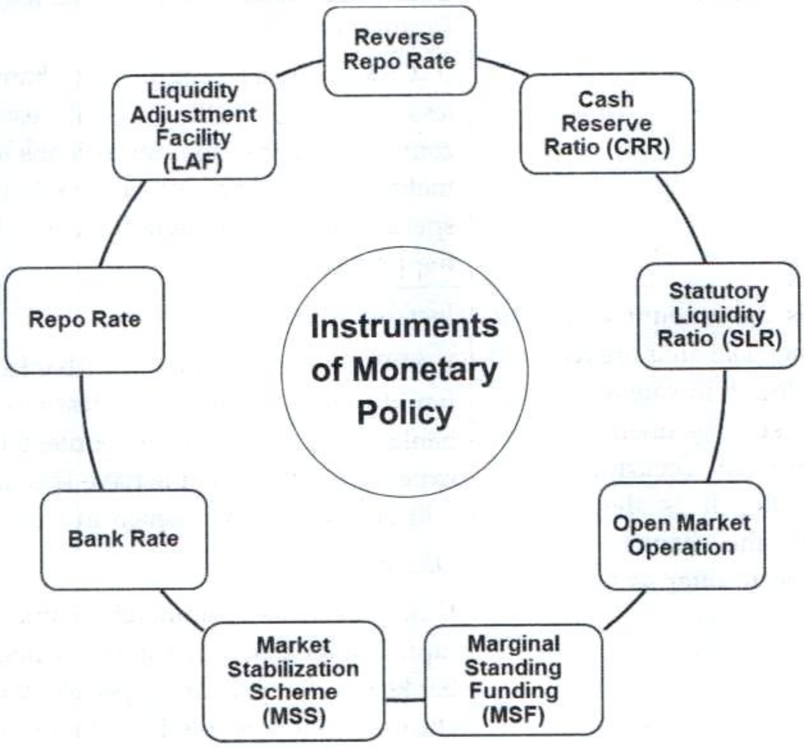
Issue of Prudential Norms for Banks	RBI, from time to time issues prudential norms for the bank, in order to strengthen the balance sheets of banks. These are as follows:- *Capital Adequacy:* The Reserve Bank has instructed banks to maintain adequate capital on a continuous basis. The adequacy of capital is measured in terms of Capital to Risk- Weighted Assets Ratio (CRAR). *Loans and Advances:* RBI requires banks to classify their loan assets as performing and non-performing assets (NPA), based on the record of recovery from the borrowers. Note: A non-performing asset (NPA) refers to a classification for loans or advances that are in default of payment of interest or principal or both. NPAs depending upon age of the NPAs are further categorised into: ■ *f* Sub-standard, *S* Doubtful, and *'C* Loss Assets Banks are also required to make appropriate provisions against each category of NPAs. *Investments:* The Reserve Bank requires banks to classify their investment portfolios into three categories for the purpose of valuation: Held to Maturity (HTM), Available for Sale (AFS), and Held for Trading (HFT). The securities held under HFT and AFS categories have to be marked-to-market periodically (means they are recorded at market price) and depreciation, if any, needs appropriate provisions by banks. Securities under HTM category must be carried at acquisition/amortised cost, subject to certain conditions.

MONETARY POLICY MANAGEMENT

Meaning of Monetary Policy

One of the most important functions of central banks is formulation and execution of monetary policy. Monetary policy refers to the use of monetary instruments under the control of the RBI to achieve the goals specified in the Act. The monetary policy mainly ensures that there is price stability coupled with economic growth. The key areas where the monetary policy targets are the interest rates, bank credits, and money supply.

Instruments of Monetary Policy



Instrument	Meaning	Impact
Repo Rate	It is the rate at which RBI lends money to commercial banks against securities in case commercial banks fall short of funds.	*Lower Repo Rate* If repo rates are low, commercial banks get more money therefore they will lend more money to people. When people will have more money it will lead to increase in demand in economy. Thus prices will increase. *Higher Repo Rate* If repo rates are high, commercial banks get less money therefore they will lend less money to people. When people will have less money it will lead to decrease in demand in economy. Thus prices will decrease.
Reverse Repo Rate	It is a rate at which RBI borrows money from commercial banks	If commercial banks will lend money to RBI, they will have less money to offer to people. When people will have less money it will decrease demand in economy. Thus prices will decrease.
Cash Reserve Ratio (CRR)	CRR is the minimum percentage of deposits with commercial banks that they	*Increase in CRR* If CRR increases, commercial banks need to deposit more money with RBI. This will leave less money with

	need to deposit with the central bank of RBI.	commercial banks to offer as loans to people, which will make loans expensive. When people have less money to spend there will be low demand which in turn reduce the prices.

Instrument	*Meaning*	*Impact*
		Decrease in CRR If CRR decrease, commercial banks need to deposit less money with RBI. This will leave more money with commercial banks to offer as loans to people, which will make loans cheaper. When people have more money to spend there will be high demand which in turn increase the prices.
Statutory Liquidity Ratio (SLR)	SLR is the amount which the commercial banks are required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. It is the amount which the banks are not allowed to offer as loans.	*Increase in SLR* If SLR increases, commercial banks need to keep more liquid funds. This will leave less money with commercial banks to offer as loans to people, which will make loans expensive. When people have less money to spend there will be low demand which in turn reduce the prices. *Decrease in SLR* If SLR decrease, commercial banks need to keep less liquid funds. This will leave more money with commercial banks to offer as loans to people, which will make loans cheaper. When people have more money to spend there will be high demand which in turn increase the prices.
Open Market operations	Open market operations (OMO) refer to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system.	*Sale of Securities* When Government sells securities, people pay money for it which flows money out of the economy to the RBI hence ejecting money out of the economy, leading to decrease in growth. *Purchase of Securities* When Government purchase back government securities, Government will pay money to the people and this will inject money into the economy and stimulate growth.
Marginal Standing Funding	Through this, scheduled commercial banks can get loans from RBI for their	*Lower MSF Rate* If MSF rates are low, commercial banks get more money therefore they will lend more money to

	emergency needs, overnight. Commercial banks can take loan only upto 1% of their liabilities and time deposits. Special Note: Repo rate and MSF are not the same. Following are the noticeable difference between the 2: Repo Rate is the rate at which the money is lent by	people. When people will have more money it will lead to increase in demand in economy. Thus prices will increase. *Higher MSF Rate* If MSF rates are high, commercial banks get less money therefore they will lend less money to people. When people will have less money it will lead to decrease in demand in economy. Thus prices will decrease.

Instrument	*Meaning*	*Impact*
	RBI to commercial bank on the other hand MSF is a rate at which money is lent by RBI to scheduled commercial banks. Repo rate is applicable to loans which are of shortterm nature. MSF is meant for lending overnight fund requirement.	
Bank Rate	It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers.	This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes.
Market Stabilization Scheme (MSS)	Market Stabilization Scheme (MSS) is a monetary policy introduced by the RBI to withdraw excess liquidity (or money supply) by selling government securities in the economy. The MSS was introduced in April 2004.	MSS is used to withdraw excess liquidity or money from the system by selling government bonds.
Liquidity Adjustment Facility (LAF)	LAF is used to aid banks in adjusting the day to day mismatches in liquidity. LAF consists of repo (repurchase agreement) and reverse	The LAF is aimed to inject liquidity into the system when there occur liquidity shortages. Simultaneously, it absorbs liquidity when there is excess liquidity. The mechanism is same as of repo and reverse repo.

	repo operations. Besides the usual repo and reverse repo, LAF includes auction-based repo and reverse repo (variable rate) tools for managing liquidity.	

PENALTIES

Offence	*Penalty*
If a person: ■ Makes a false statement, knowing it to be false, or ■Wilfully omits to make a material statement.	He shall be punishable with imprisonment for a term which may extend to 3 years and shall also be liable to fine.

Offence	*Penalty*
If any person fails to: Produce any book, account or other docu[illegible] or to furnish any statement, or [illegible] Furnish any information, [illegible] Answer any question put to him Whether under this Act [illegible] order, regulation or direction made or given.	He shall [illegible] punishable with fine which may [illegible]xtend to Rs. 2[illegible]00 in respect of each offence. **C[illegible]uous De[illegible]ult:** If he persists in such fa[illegible]lure or refu[illegible], with further fine which may ext[illegible] Rs. 100 per day, after the first during which the offence continues.
If any person defaults with section 31 i.e. Issue of demand bills and notes.	He shall be punishable with fine, which may extend to the amount of the bill of exchange, hundi, promissory note or engagement for payment of money in respect whereof the offence is committed.
If any person discloses any confidential credit information.	He shall be punishable with imprisonment for a term, which may extend to 6 months, or with fine, which may extend to Rs. 1000, or with both.
If a person commence NBFC Business without getting a Certificate of Registration from RBI & without having the required minimum net owned fund.	He shall be punishable with: *Imprisonment:* Min. 1 years Max. 5 years AND *Fine:* Min. Rs. 1 Lakh Max. Rs. 5 Lakh
If any auditor fails to comply with any direction given or order made by the Bank under section 45MA.	He shall be punishable with fine, which may extend to Rs. 5000.

ABOUT THE AUTHOR

Prof. JIMIT MARADIA is a Law graduate & Company Secretary. He has been associated as a Legal Advisor for various companies. He has also worked for various legal firms & his experience ranges in different fields like Arbitration, Non Compliance matters, Labour Law matters, Corporate & Matrimonial matters.

He is teaching Law subjects to students of CS, CA, CMA & LLB. He is also teaching Law at different Law colleges as a visiting faculty. He is currently teaching at ACE TUTORIALS (Mumbai) for CS course.