RBI's Central Board of Directors

What is the issue?

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- RBI Governor Urjit Patel has convened a meeting of the RBI's Central Board of Directors to discuss on various issues.
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- With the ongoing tussle between the RBI and the government, it is imperative to understand the roles and functions of the Board.
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What is the general mandate of the Board?

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- The government appoints the Board in accordance with the RBI Act of 1934.
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- The full strength of the Board is 21, including the Governor and a maximum of four deputy governors.
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- The Board is required to meet at least six times a year and at least once every quarter.
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- It generally meets in Delhi at least once when the Finance Minister addresses the full Board after presenting the Budget for the coming year.
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- S/he outlines the government’s economic philosophy behind the policy initiatives proposed.
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- Besides Delhi and Mumbai, the Board generally meets in various state capitals.
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- The Governor seeks advice of the Board, but finally it is his decision.
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- On interest rates, of course, it is the monetary policy committee that takes a call.
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- The RBI Act specifies that the deputy governors and the government nominees may attend any or all meetings of the Central Board.
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- But they are not entitled to vote.
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- In the event of equality of votes, the Act states that the Governor has a second or casting vote.
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What is its current composition?

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- At present, the Central Board has 18 members, including five official directors - Governor and four deputy governors.
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- Besides, the present Economic Affairs Secretary and Financial Services Secretary are the government nominees.
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- Also, there are four other directors representing the Local Boards (one for each region) and seven more directors appointed by the government.
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- These non-official part-time directors were appointed between March 2016 and August 2018. They enjoy a term of four years.
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- The RBI Act allows for a five-year term for the Governor and the deputy governors, but it can also be less.
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- E.g. Former RBI Governor Raghuram Rajan was given a three-year term, and did not get an extension.
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Who are appointed in the Board and how?

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- There is no prescribed list for the government to follow in deciding nominations to the Board.
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- Part-time, non-official directors are chosen by the political executive.
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- The proposal for appointment to the Central Board is moved by the Department of Financial Services under the Finance Ministry.
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- This has to be approved by the Appointments Committee of the Cabinet (ACC).
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- Generally, the government expects the RBI to consider the views of various stakeholders in the country's socio-economic landscape.
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- These include the businesses, cooperatives, self-help groups, academicians, economists, etc.
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- Also, given the wider and apolitical role of the RBI, government generally avoids appointing individuals with strong ideological or political views.
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- In this, the government is not obliged to seek the Governor's views or his concurrence on directors it seeks to appoint.
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- But conventionally, Finance Ministers informally speak with the Governor before taking the proposal to the ACC.
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What are the key functions of the Board?

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- The Committee of the Central Board meets every week and basically reviews the statistics in RBI's weekly bulletin.
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- Two key sub-committees that are chaired by the Governor are
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i. Board for Financial Supervision (BFS)
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ii. Board for Payment and Settlement Systems (BPSS)
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- The BFS meets every month and includes deputy governors as ex-officio members and four other directors.
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- It undertakes supervision of banks, financial institutions and NBFCs (Non Banking Financial Company).
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- The BPSS takes care of paper-based and electronic systems such as NEFT (National Electronic Funds Transfer) and RTGS (Real-time gross settlement).
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- There are other sub-committees on information technology, building, audit and risk management, and HR management.
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Does the Board have an overriding power?

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- This question is crucial because the government has already invoked Section 7 of the RBI Act.
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- It has sought consultation with the Governor on certain issues it considers necessary in public interest.
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- Under the Reserve Bank of India Act, in Section 7, there are two sub-sections -
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1. the Board has the responsibility to superintend and generally look after the affairs of the bank
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2. subject to regulations which the Board may provide, the Governor or in his absence any deputy governor which he nominates has the same powers
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- In effect, therefore, both have the powers to superintend and look after the affairs of the bank.
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- So the Board can give some directions to the Governor, only subject to the regulations which it makes in accordance with the Act.
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- Those regulations which are there in Section 58 of the Act have a process.
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- It says that the Board can make regulations with the prior approval of the government by notification in the official gazette.
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- After this notification is done, within 30 days or so, it has to be placed before parliament.
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- Both houses of Parliament have to approve that or can modify that.
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- Therefore, the Board cannot suo motu direct the Governor to do something but has to go through this whole process.
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Source: Indian Express

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