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Title : Discussion on the motion for consideration of Reserve Bank of India (Amendment) Bill, 2005 (Bill passed).

MR. DEPUTY-SPEAKER: Now, we will take up item no. 22 − The Reserve Bank of India (Amendment) Bill, 2005. Now, I would request Shri P. Chidambaramji.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Mr. Deputy-Speaker, Sir, I beg to move:

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration. "

The Reserve Bank of India (Amendment) Bill, 2005 was introduced in the Lok Sabha on 13th May, 2005 to amend the Reserve Bank of India Act, 1934, inter alia to:

(a) define the expressions, 'derivative', 'repo' and 'reverse repo"

(b) empower Reserve Bank of India to deal in derivatives, to lend or borrow securities and to undertake repo or reverse repo;

(c) remove the lower floor and upper ceiling of Cash Reserve Ratio (CRR) and to provide flexibility to RBI to specify CRR;

(d) remove ambiguities regarding the legal validity of derivatives;

(e) empower RBI to lay down policy and issue directions to any agency dealing in various kinds of contracts in respect of Government securities, money-market instruments, derivatives etc. and to inspect such agencies.

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The Bill was referred to the Standing Committee of the Lok Sabha on Finance. The Committee has since presented its report on 1st December, 2005. Based on the recommendations of the Committee, Government proposes to amend the definitions of the expressions 'Repo' and 'Reverse Repo' so as to mean Repo −

> "An instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for funds borrowed."

Reverse Repo −

> "An instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for funds lent."

With these words, Sir, I commend that the Reserve Bank of India (Amendment) Bill, 2005 along with the amendments that I have proposed before this House be taken into consideration by this august House.

MR. DEPUTY-SPEAKER: Motion moved:

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration. "

Now, I would request Shri Vijayendra Pal Singhji.

SHRI VIJAYENDRA PAL SINGH (BHILWARA): Sir, I stand to support the Reserve Bank of India (Amendment) Bill, 2005. This Bill is important to the extent that it proposes and aims to make the regulatory powers of the Reserve Bank more effective.

Sir, the times have changed. There was a time that we arketersed the banks and all the banks of that era were arketersed. Now the time has come that the banks give better service, there is more and more arketersedon and they face competition not just amongst the banks in India alone but also with the banks which are coming into the country from outside. There are a lot of banks, which are international banks and which are not in their own country, but they do business outside as well and it has become very necessary that the Reserve Bank of India is empowered. As very rightly put across by the Finance Minister, we need to strengthen the Reserve Bank of India.

Let me put across two or three points to the Finance Minister. There are a lot of countries which have super regulators and I do not know if the Finance Minister is thinking on those lines as well. He knows very well that in America, they have the SCC which is not just a sort of a RBI, but it is a combination of our RBI and SEBI, which, to an extent, has powers not only in the regulation of the finances but the stock market is also regulated by it. That is the impression I have and I feel that that is not just in America, but that is the case in other countries also because there is a need for coordination. Some stock market scams have occurred in our country in the past. The Finance Minister is well aware that there are times when the RBI and SEBI have to work in coordination among themselves because if coordination is not there, then some problems can arise and they can lead to scams like the ones which have occurred earlier. They can happen now also.'

Sir, I am glad and I must congratulate the Finance Minister that he made a very carefully worded, good statement only yesterday when the stock market was plummeting and the stock market revived, only his statement could make the things turn around. Usually, a Finance Minister does not do anything like that, but he has done it. I congratulate him for that.

Talking about regulation, one of the big factors in the last stock market scam that we saw was that it was started by Madhavpura Urban Cooperative Bank. Hundreds and thousands of crores of rupees could be taken out because the urban banks have a lot of money. But there are urban banks which have done a good job. Then, there are urban banks which have used the money as if it was their private family bank. They have been misusing the funds and this Bill will also be regulating that.

Sir, there was always a problem with cooperative banks. There are rural cooperative banks and there are urban cooperative banks. As far as rural cooperative banks are concerned, they have been doing a great job, but I am worried about what sort of a regulation the RBI is going to do. There are hundreds of rural cooperative banks and urban cooperative banks and it is very difficult for the RBI to look into the doings and the nitty-gritty of these banks.

That will be a problem. I think, the RBI will have to be strengthened staff-wise also to look into that or you have a different cell to look after the urban and the rural cooperative banks. Who are the directors, what is happening, is that money being looked after by the banks themselves, or are there irregularities happening, etc. all those things are going to be a problem for the RBI because the RBI has so far only been looking after the commercial banks and not the cooperative banks.

Sir, the other thing that has come about is regarding the CRR, the ratios. I feel that the banks should be left themselves to decide on that because the banking today is not just the money coming in and going out, but it is much more than that. I remember, I was in Japan and there was a bank which was going into red. I was told that there were things like it was going to be merged or taken over by some other bank. That was the time that five Indian bankers from India, in Japan, said that they would turn around that bank. It is a case study. The Finance Minister must be knowing about it. They turned around that Bank of Japan. Today, in that bank, there is a turn around. It was going to the red. Now it is one of the most flourishing banks in Japan. This is what they have done. There is no paper work there. Everything is arketersed. Even the cheque books are not there. Everything is online and that is the latest technology and that is what our IT has been able to do and our Indian bankers have been able to do in Japan. I feel that that is coming into India also.

We need at par banking. Why should the services not have at par banking? Some of the banks are doing it. I went to the SBI counter here. I asked them whether they are having at par banking. What are they thinking about? They said that they were thinking about it. So, the Indian banks have to be in competition with the banks, the state of the art banking services in the world. But we are lagging behind. If that is required, I feel, the RBI should give them more flexibility in lot of things as the hon. Minister is talking about them. I congratulate them for that and also for the new thinking of the RBI for making our banks competitive in the world atmosphere, in the times that are changing.

There was a time when one used to go abroad, there used to be the problems of dollars or foreign exchange. Now, that is going to go away, the rupee is going to be converted in any of the banks easily. Our banking system should be ready for that climate. I congratulate them once again and say that this piece of legislation was much required and it has come in time.

SHRI B. MAHTAB (CUTTACK): Thank you, Mr. Deputy-Speaker Sir. It is really gratifying to note that ultimately this Bill has come. I think, with all round support from this House and also from the Upper House, it will be enacted as early as possible.

Already precious time has passed. It is more than a year. If I remember correctly, it was in 2005, in the month of May, that this Bill was placed in Parliament.

Then, this Bill had gone to the Standing Committee for deliberation. Subsequently, the Standing Committee had fully supported this Bill though there were some amendments that were proposed and they were accepted by the Government. That is how this Bill has come for discussion in this House today.

Sir, when we talk about the Reserve Bank of India, we are also reminded of its history. It was in 1935, on the auspicious day of 1st of April, this Bank was established. It was a colonial period and people had different ideas of this Central Bank. But in 1948, this Bank was nationalized. In 1949, the Constituent Assembly adopted the Constitution and in 1950 India became a Republic. These are the milestones for the Reserve Bank of India too and since 1950 the parliamentary democracy had come into force. In both 1950s and 1960s, the idea was inculcated in this House and also in different Legislatures that the banks also should serve the common people so that a welfare State can deliver the goods for the development of this country.

Today when a change is taking place throughout the world specially in the economic sector and also in the financial sector, we have to look at things in a post-reform economic regime. Monetary policy interventions are the only instruments available to the Government to address short-term aberrations and medium-term problems in the system. The Reserve Bank of India, by its position as the Central Bank, is the guardian of the country's banking sector. With the help of suitable monetary policy instruments, it manages and directs the various financial institutions of the country so that there is neither shortage nor oversupply of various components of money in the economy. It sees that there is neither deflation nor inflation.

With the onset of globalization, serious doubts have been expressed about the efficacy of these policy instruments and effectiveness of the Reserve Bank of India in controlling money supply and inflation. Every student of Economics knows that inflation has two components. The first is the core component which solely depends on the balance of supply and demands of goods and services, the quantum of money in the economy and the perception about the future. This component can be, to a large extent, controlled by the Central Bank with the help of the monetary policy instruments and by the Government through administrative measures like de-hoarding and regulating the distribution of goods, and taking action against black marketers and profiteers. Through this Bill, the Reserve Bank of India will get the flexibility to cut the Cash Reserve Ratio below three per cent and come up with new instruments for covering interest rate risks.

As I said earlier, the Standing Committee on Finance has agreed with the proposals of this Bill. In view of the large variety of products and participants that have entered into the financial market in the last 15 years and the need on the part of the Reserve Bank of India to use newer versions of financial instruments, it has become necessary that certain changes were given effect to. This Bill does that.

Through this Bill, the Government seeks to do away with the floor and ceiling limits of three and 20 per cent respectively and provide greater flexibility to the Reserve Bank of India in monetary management.

15.00 hrs.

The Reserve Bank of India, as I have said earlier, has a role as a regulator. At the same time, as was mentioned earlier by the previous speaker, RBI also has to control the flexibility of the liquid money. Here, I would like to again draw the attention over the volatility of the influx of foreign exchange and the market conditions in a fast changing economy can be expected to continue in future as the finance sector makes more and more progress to cope with any unforeseen eventualities in future such as, excess or lack of liquidity in the banking system. For effective conduct of monetary polity, there is a need to enable the RBI to determine the Cash Reserve Ratio for scheduled banks without any floor or ceiling.

Secondly, at present under Section 29A of the Securities Contracts Act, 1956, the Central Government has delegated to the Reserve Bank of India by a notification, the powers exercisable under Section 16 of that Act for regulating the transactions in money market and other instruments. Therefore, more effective regulation of the markets for interest rate contracts including government securities and money market instruments as also derivatives, it is necessary to confer specific powers on RBI under the Reserve Bank of India Act, 1934 to lay down policy and to issue directions to agencies operating in this contract securities and derivatives.

I would like to conclude my speech by saying that this is a very good Bill and it was necessary that it should get all round support.

SHRI LALIT MOHAN SUKLABAIDYA (KARIMGANJ): Mr. Deputy-Speaker, Sir thank you very much for giving me this opportunity.

I stand here to support the hon. Minister of Finance. Financial sector reforms are making steady progress in India. The Indian financial markets now have more products, participants and better liquidity than before. For more operational flexibility, the Reserve Bank of India (RBI) needs to have enabling powers to use a larger variety of financial instruments than hitherto. Further it is necessary to remove the existing legal ambiguity in respect of certain types of Over-the Counter (OTC) derivative transactions.

The following amendments in the Reserve Bank of India Act, 1934 have been proposed:-

Define the expressions, `derivative' `repo' and `reverse repo' in Section 17 of the purposes of the business of the Bank and differently in new Chapter III-D for the purposes of regulatory powers of the Bank.

To provide for specific definitions for the purposes of transactions of business of RBI under Section 17 and for regulatory powers of RBI under Chapter III-D. Presently, these terms have not been defined in this Act.

While the RBI Act permits RBI to purchase and sell securities, the provision is found inadequate to support undertaking transactions of different types. In order to remove the ambiguity in this regard and also to provide it with a legal basis, it is proposed to empower RBI to deal in derivatives and also to lend or borrow securities and to undertake repo and reverse repo transactions. So, the RBI is to be empowered to deal in derivatives.

The existing prescription of a 3 per cent floor and a ceiling of 20 per cent demand and time liabilities towards CRR restricts manoeuvrability of RBI in its monetary management.

So, it is to be removed. The lower floor rate of three per cent and upper ceiling of 20 per cent of Cash Reserve Ratio are to be removed to provide flexibility to RBI to specify the CRR.

The ambiguity regarding legal validity of Over The Counter derivatives has inhibited the growth and stability of the market for such derivatives. It is essential to provide clear and legal validity of such contracts.

The next is to empower the Reserve Bank of India to lay down policy and issue direction to any agency dealing in various kinds of contracts in respect of Government securities, money market instruments, derivatives and to inspect such agencies. For more effective regulation of the markets for interest rate contracts, including Government securities and money market instruments as also derivatives, it is necessary to expand and confer specific powers on the RBI to lay down policy and issue directions to the agencies operating in them.

On these grounds, I support the amending Bill.

SHRI P. CHIDAMBARAM : Mr. Deputy-Speaker, Sir, I am grateful to the hon. Members for the generous support they have extended to this Bill. The Indian economy today is a larger economy than what it was a few years ago. The financial sector also plays a much greater part in the Indian economy than a few years ago. It is, therefore, important that the RBI has adequate powers and we also take note of developments in the financial sector which may have been strange or unanticipated when the RBI Act was passed.

The banking system finances about 35 per cent of our GDP. In some countries it finances as much as 75 per cent of GDP. The banking system is, therefore, expected to grow. It is growing and it will grow at a very fast rate to keep pace with the growth of the economy and that is how it should be in any modern economy. We, therefore, need regulators with adequate powers and with a considerable degree of autonomy to act quickly. The RBI is one such regulator. It has served this country very well. It has a very high reputation. It has a very high reputation among Central bankers all over the world.

There was a reference to a super regulator. There is no super regulator in the United States. There is one in the United Kingdom. But you cannot compare India's banking system or India's capital market with the banking system or the capital market of the U.K. It is a much smaller country with a longer history and tradition of a free market economy and, therefore, perhaps, they can do with a super regulator. In India we have the RBI, we have the SEBI, we have the insurance regulator. But there is a High-Level Committee consisting of the Governor, RBI, the Chairman of SEBI, the Chairman of the IRDA and the Secretary, Department of Economic Affairs, Ministry of Finance which meets periodically, exchanges information and coordinates policy making.

With the powers that we are now giving to the RBI, I think, RBI will be armed with greater authority and autonomy to deal effectively with the subjects that have been given to it under the RBI Act.

I request the hon. House to pass this Bill with the amendments that I will move. These amendments are pursuant to the recommendations made by the Standing Committee. They are only concerning the definition. We are simply reversing what are repo and reverse repo and we have accepted the recommendation of the Standing Committee.

MR. DEPUTY-SPEAKER : The question is :

"That the Bill further to amend the Reserve Bank of India Act, 1934, be taken into consideration."

The motion was adopted.

MR. DEPUTY-SPEAKER: The House will now take up clause by clause consideration of the Bill.

Clause 2 Amendment of Section 17

Amendment made:

Page 2, *for* lines 23 to 34, *substitute,--*

'(a) "repo" means an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed;

(b) "reverse repo" means an instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent;".'. (3)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 2, as amended, stand part of the Bill."

The motion was adopted.

Clause 2, as amended, was added to the Bill.

Clause 3 was added to the Bill.

Clause 4 Insertion of New Chapter III D

Amendment made:

Page 3, *for* lines 18 to 23, *substitute,--*

'Â© "repo" means an instrument for borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed;

(d) "reverse repo" means an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent;'. (4)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 4, as amended, stand part of the Bill."

The motion was adopted.

Clause 4, as amended, was added to the Bill.

Clause 1 Short title and commencement

Amendment made:

Page 1, line 3,--

for "2005", *substitute* "2006". (2)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 1, as amended, stand part of the Bill."

The motion was adopted.

Clause 1, as amended, was added to the Bill.

Enacting Formula

Amendment made:

Page 1, line 1,--

for "Fifty-sixth", *substitute* "Fifty-seventh". (1)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That the Enacting Formula, as amended, stand part of the Bill. "

The motion was adopted.

The Enacting Formula, as amended, was added to the Bill.

The long Title was added to the Bill.

SHRI P. CHIDAMBARAM: Sir, I beg to move :

"That the Bill, as amended, be passed."

MR. DEPUTY-SPEAKER: The question is:

> "That the Bill, as amended, be passed."

The motion was adopted.
