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Study Notes

Regulatory Bodies in India

Introduction

- Regulatory bodies are independent government bodies established by legislative act in order to set standards in a specific field of activity of the economy and then to enforce those standards.
- Regulators in the financial system play a vital role of protecting the interests of the public and ensuring fair and smooth functioning of the financial system in the country.
- They act in both **regulatory and supervisory capacity**.
- The major regulators in the financial system in India include
 - ✓ Reserve Bank of India (RBI),
 - ✓ Securities and Exchange Board of India (SEBI),
 - ✓ Insurance Regulatory & Development Authority of India (IRDA) and
 - ✓ Pension Fund Regulatory & Development Authority (PFRDA)
- RBI is the monetary head and banking and financial sector regulator. SEBI is the Indian capital markets regulator, IRDA is the regulatory body for the insurance sector while PFRDA regulates the pension sector.
- Other important institutes that help these regulators in the supervisory functions include National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB). In recent times, some new regulatory bodies have also been established that include International Financial Services Centres Authority (IFSCA) and National Financial Reporting Authority (NFRA).

Reserve Bank of India (RBI)

- RBI is India's central banking institution which controls the issuance and supply of Indian rupee.
- RBI is the regulator for the banking system and the money markets in India.
- The following come under the regulation of RBI:
 - Scheduled Commercial banks (including Small finance banks and Payment banks)
 - Regional Rural Banks,
 - Urban Cooperative Banks,
 - NBFCs (including Housing Finance Companies)
- Established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.
- Reserve Bank is fully owned by the Government of India.
- RBI has a Central Office in Mumbai, Maharashtra.
- **Functions of RBI**
 - Monetary Authority:



- Formulates, implements and monitors the monetary policy.
Objective: maintaining price stability while keeping in mind the objective of growth.
- Regulator and supervisor of the financial system:
 - Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
 - Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.
- Manager of Foreign Exchange
 - Manages the Foreign Exchange Management Act, 1999
 - Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.
- Issuer of currency:
 - Issues and exchanges or destroys currency and coins not fit for circulation.
 - Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.
- Developmental role
 - Performs a wide range of promotional functions to support national objectives
- Banker to the Government:
 - performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks:
 - maintains banking accounts of all scheduled banks

Securities Exchange Board of India (SEBI)

- SEBI is the regulator of capital markets in India
- It is responsible for regulating the:
 - Long term Securities Market (both equity and debt)
 - Commodity markets
- The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.
- SEBI has its HQ at Mumbai, Maharashtra.



Functions of SEBI

- As a market regulator, SEBI's major functions include:
 - Protecting interest of investors in securities
 - Ensuring that markets are fair, efficient and transparent
 - Reducing systemic risk
 - Promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation
- The following markets are regulated by SEBI:

- capital markets
- corporate debt markets
- commodity markets
- derivatives market
- The following entities are regulated by SEBI:
 - Stock exchanges like NSE and BSE (including commodity exchanges like MCX, NCDEX)
 - Depositories (like NSDL and CDSL) and Depository Participants (DP)
 - Clearing Corporations
 - Mutual Funds
 - Collective Investment Schemes (CIS)
 - Alternative Investment Funds (AIFs)
 - Infrastructure investment Trusts (InvITs)
 - Real estate Investment Trusts (REITs)
 - Foreign Portfolio Investors (FPIs)
 - Credit Rating Agencies (CRAs)
 - Market intermediaries like stock brokers, investment managers, merchant bankers, registrars and transfer agents, research analysts, underwriters, etc.

IRDA – Insurance Regulatory & Development Authority of India

- The Insurance Regulatory and Development Authority of India (IRDA or IRDAI) is an **autonomous, statutory body** tasked with **regulating and promoting the insurance** and re-insurance industries in India.
- It was founded in 1999 under the **IRDA Act, 1999** and was incorporated as a statutory body in **April, 2000** following the recommendations of the Malhotra Committee report, to regulate the insurance industry.
- It is headquartered in **Hyderabad**



Functions

- To protect the interest of and secure fair treatment to policyholders
- To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy
- The **key objectives** of the IRDA include
 - promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums,
 - while ensuring the financial security of the insurance market

Box1: Overview of Insurance sector in India

- The Insurance industry consists of Life, General, Health, and Reinsurance Insurers
- As of February 2022, the insurance industry of India consists of 57 insurance companies of which:
 - **24 are in life insurance business and**
 - **34 are non-life insurers**
- In the **public sector**,
 - Life Insurance Corporation (LIC) is the sole and oldest life insurance company
 - There are four public sector general insurers, and
 - Two specialized insurers - Agriculture Insurance Company of India Ltd. (for crop insurance only) and Export Credit Guarantee Corporation of India Ltd. (for export credit insurance only)
- In addition to these, General Insurance Corporation of India (**GIC Re**) is the **sole national re-insurer** in India.
- Apart from GIC Re, there are 10 foreign reinsurer branches and Lloyd's India in the re-insurance space. *ITI Reinsurance Ltd is a re-insurer that has license but has not commenced operations till date.*
- *In Budget 2018-19, the government had announced its intent to **merge three public sector insurance companies**—The Oriental Insurance Co. Ltd, National Insurance Co. Ltd, and United India Insurance Co. Ltd—into a single insurance company and list it on the stock exchange (NSE & BSE), as part of its divestment strategy. However, in subsequent budgets, the government has made provisions for capital infusion in these three insurance companies in order to maintain the requisite minimum solvency ratio. In the Budget 2021-22, the government announced its intent to list LIC as part of its divestment strategy.*

PFRDA – Pension Fund Regulatory & Development Authority

The Pension Fund Regulatory and Development Authority, a statutory body, is the pension regulator of India

- On 23rd August, 2003, Interim Pension Fund Regulatory & Development Authority (PFRDA) was established through a resolution by the Government of India to promote, develop and regulate pension sector in India.
- The contributory pension system was notified by the Government of India on 22nd December, 2003, now named the National Pension System (NPS) with effect from the 1st January, 2004.
- The Pension Fund Regulatory & Development Authority Act was passed on 19th September, 2013 and the same was notified on 1st February, 2014
- Its Head Office is at New Delhi.

- The vision of PFRDA is “To be a model Regulator for promotion and development of an organized pension system to serve the old age income needs of people on a sustainable basis”

Functions

- To promote old age income security by establishing, developing and regulating pension funds,
- to protect the interests of subscribers to schemes of pension funds

Major Product – NPS

- National Pension System (NPS) is administered and regulated by Pension Fund Regulatory and Development Authority (PFRDA) and was created by an Act of Parliament.
- It is a voluntary, defined contribution retirement savings scheme designed to enable the subscribers to make optimum decisions regarding their future through systematic savings during their working life.
- The scheme is structured into two tiers:
 - **Tier-I account:** This is the **non-withdrawable** permanent retirement account into which the accumulations are deposited and invested as per the option of the subscriber
 - **Tier-II account:** This is a **voluntary withdrawable** account which is allowed only when there is an active Tier I account in the name of the subscriber. The withdrawals are permitted from this account as per the needs of the subscriber as and when claimed

The International Financial Services Centres Authority (IFSCA)

Est. on - April 27, 2020

Est. under - International Financial Services Centres Authority Act, 2019

HQ - GIFT City, Gandhinagar, Gujarat

Functions - unified authority for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centre (IFSC) in India



Note - Prior to the establishment of IFSCA, the domestic financial regulators, namely, RBI, SEBI, PFRDA and IRDAI regulated the business in IFSC.

Some salient features of IFSCA (Banking) Regulations, 2020

- Laying down the requirements for setting up IFSC Banking Units (IBUs)
 - **Parent bank to have minimum capital – USD 20 million**

Regulatory Bodies in India

- Permitting persons resident outside India (having net worth not less than USD 1 Million) to open foreign currency accounts in any freely convertible currency at IFSC Banking Units (IBUs)
- Permitting persons resident in India (having net worth not less than USD 1 Million) to open foreign currency accounts in any freely convertible currency at IFSC Banking Units (IBUs) to undertake any permissible current account or capital account transaction or any combination thereof under the Liberalised Remittance Scheme (LRS) of the RBI.
- Laying down the permissible activities of IBUs including credit enhancement, credit insurance, and sale , purchase of portfolios, engage in factoring and forfaiting of export receivables and undertake equipment leasing, including aircraft leasing

A summary of the Regulatory and supervisory bodies in the financial sector is presented below:

	Regulators of Financial System in India					Developmental and supervisory bodies	
	RBI	SEBI	IRDA	PFRDA	IFSCA	NABARD	NHB
Regulation/ Supervision	Both	Both	Both	Both	Both	Supervision	Supervision
Of sector	Banking, Money market	Capital markets, commodity markets (since 2015)	Insurance sector	Pension schemes	IFSCs	Agri and Rural Dev.	Housing finance sector
Est. under	RBI Act, 1934	SEBI Act, 1992	IRDA Act, 1999	PFRDA Act, 2013	IFSCA Act, 2019	NABARD Act, 1981	NHB Act, 1987
Est. Year	1 April 1935	12 April 1992 (est. in 1988 but statutory powers in 1992)	April 2000	23 Aug, 2003	27 April 2020	12 July 1982	09 July, 1988
HQ	Mumbai	Mumbai	Hyderabad	New Delhi	GIFT City, Gandhinagar	Mumbai	New Delhi

Some other important regulators related to financial system in India

NFRA - National Financial Reporting Authority

Est. on -	01 October, 2018
Est. under -	Companies Act, 2013
HQ -	New Delhi
Functions -	Monitor and enforce compliance with accounting standards and auditing standards and recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government and oversee the quality of service of such associated professions

NFRA



Scope of NFRA

- Listed companies in India
- unlisted public companies having:
 - paid-up capital of no less than Rs.500 crore or
 - annual turnover of no less than Rs.1,000 crore or
 - in aggregate, outstanding loans, debentures and deposits of not less than Rs.500 crore, or
 - securities listed outside India
 - Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act

Note - ICAI will continue to retain its regulatory powers in respect of private companies and unlisted public companies below the above-prescribed threshold

Powers of NFRA

- NFRA has the power to investigate professional misconduct or other misconduct by members of the ICAI (i.e. CA and CA firms)
- NFRA can issue an order **imposing monetary penalty** on individual auditors and firms, for professional or other misconduct. The penalty for
 - **an individual** auditor is **Rs.1 lakh to five times the audit fee**
 - **For firms**, it is **Rs.10 lakh to 10 times the audit fee**
- NFRA can **debar/suspend** an individual auditor or firm registered with the ICAI for **six months to 10 years**, for professional or any other misconduct.

Note - debarment, or any penalty, would first need to pass the MCA's smell test. After the MCA's approval, the proposed penalty would need to be approved by the National Company Law Tribunal. At this stage, the auditor can present its case to prevent penal action. Any person who is not satisfied with the order of the NFRA, can make an appeal to the Appellate Authority (i.e. NCLAT).

WDRA – Warehousing Development and Regulatory Authority

- **Established** on 26th Oct 2010
- **Established under** Warehousing (Development & Regulation) Act, 2007
- **Statutory body** under the Department of Food and Public Distribution, Government of India
- **HQ** – New Delhi
- **Functions**
 - to regulate and ensure implementation of the provisions of the Warehousing (Development and Regulation) Act, 2007
 - implement Negotiable Warehouse Receipt (NWR) / electronic-Negotiable Warehouse Receipt (e-NWR) System in the country
 - make provisions for the development and regulation of warehouses which *inter alia* includes negotiability of warehouse receipts, registration of warehouses, promotion of scientific warehousing of goods, improving fiduciary trust of depositors and banks, enhancing liquidity in rural areas and promoting efficient supply chain
- **Composition** - Chairperson and two Members appointed by the Central Government.



In the Budget 2021-22, the government announced that “Warehousing Development and Regulatory Authority (WDRA) will be strengthened to set up a commodity market eco system