

THE RESERVE BANK OF INDIA (AMENDMENT) ACT, 2006

No. 26 OF 2006

[12th June, 2006.]

An Act further to amend the Reserve Bank of India Act, 1934.

BE it enacted by Parliament in the Fifty-seventh Year of the Republic of India as follows:—

1. (1) This Act may be called the Reserve Bank of India (Amendment) Act, 2006.

Short title and commencement.

(2) It shall come into force on such date\* as the Central Government may, by notification in the Official Gazette, appoint; and different dates may be appointed for different provisions of this Act.

2. In section 17 of the Reserve Bank of India Act, 1934 (hereinafter referred to as the principal Act),—

Amendment of section 17.

(i) after clause (6), the following shall be inserted, namely:—

‘(6A) dealing in derivatives, and, with the approval of the Central Board, in any other financial instrument.

*Explanation.*—For the purposes of this clause, “derivative” means an instrument, to be settled at a future date, whose value is derived from change in one or a combination of more than one of the following underlyings, namely:—

(a) interest rate,

(b) price of 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,

(c) price of foreign securities,

(d) foreign exchange rate,

(e) index of rates or prices,

(f) credit rating or credit index,

(g) price of gold or silver coins, or gold or silver bullion, or

(h) any other variable of similar nature;’;

(ii) after clause (12A), the following shall be inserted, namely:—

‘(12AA) lending or borrowing of 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;

(12AB) dealing in repo or reverse repo:

Provided that lending or borrowing of funds by way of repo or reverse repo shall not be subject to any limitation contained in this section.

*Explanation.*—For the purposes of this clause,—

(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

\*9-1-2007, vide Notification No. S.O. 21(E) dated 9-1-2007, for all sections except section 3.  
1-4-2007, vide Notification No. S.O. 337 (E) dated 9-3-2007, for s. 3.

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;'

Amendment  
of section 42.

3. In section 42 of the principal Act,—

(i) in sub-section (1),—

(a) for the words, brackets and figure "three per cent. of the total of the demand and time liabilities in India of such bank as shown in the return referred to in sub-section (2)", the words, brackets and figure "such per cent. of the total of the demand and time liabilities in India of such bank as shown in the return referred to in sub-section (2), as the Bank may from time to time, having regard to the needs of securing the monetary stability in the country, notify in the Gazette of India" shall be substituted;

(b) the proviso shall be omitted;

(ii) sub-sections (1AA) and (1B) shall be omitted.

Insertion of  
new Chapter  
III D.

4. After Chapter IIIC of the principal Act, the following Chapter shall be inserted,

#### 'CHAPTER IIID

##### REGULATION OF TRANSACTIONS IN DERIVATIVES, MONEY MARKET INSTRUMENTS, SECURITIES, ETC.

Definitions.

45U. For the purposes of this Chapter,—

(a) "derivative" means an instrument, to be settled at a future date, whose value is derived from change in interest rate, foreign exchange rate, credit rating or credit index, price of securities (also called "underlying"), or a combination of more than one of them and includes interest rate swaps, forward rate agreements, foreign currency swaps, foreign currency-rupee swaps, foreign currency options, foreign currency-rupee options or such other instruments as may be specified by the Bank from time to time;

(b) "money market instruments" include call or notice money, term money, repo, reverse repo, certificate of deposit, commercial usance bill, commercial paper and such other debt instrument of original or initial maturity up to one year as the Bank may specify from time to time;

(c) "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;

(e) "securities" means securities of the Central Government or a State Government or such securities of a local authority as may be specified in this behalf by the Central Government and, for the purposes of "repo" or "reverse repo", include corporate bonds and debentures.

2 of 1956. 45V. (1) Notwithstanding anything contained in the Securities Contracts (Regulation) Act, 1956 or any other law for the time being in force, transactions in such derivatives, as may be specified by the Bank from time to time, shall be valid, if at least one of the parties to the transaction is the Bank, a scheduled bank, or such other agency falling under the regulatory purview of the Bank under the Act, the Banking Regulation Act, 1949, the Foreign Exchange Management Act, 1999, or any other Act or instrument having the force of law, as may be specified by the Bank from time to time.

Transactions in derivatives.

10 of 1949. 42 of 1999. (2) Transactions in such derivatives, as had been specified by the Bank from time to time, shall be deemed always to have been valid, as if the provisions of sub-section (1) were in force at all material times.

45W. (1) The Bank may, in public interest, or to regulate the financial system of the country to its advantage, determine the policy relating to interest rates or interest rate products and give directions in that behalf to all agencies or any of them, dealing in securities, money market instruments, foreign exchange, derivatives, or other instruments of like nature as the Bank may specify from time to time:

Power to regulate transactions in derivatives, money market instruments, etc.

42 of 1956. Provided that the directions issued under this sub-section shall not relate to the procedure for execution or settlement of the trades in respect of the transactions mentioned therein, on the Stock Exchanges recognised under section 4 of the Securities Contracts (Regulation) Act, 1956.

(2) The Bank may, for the purpose of enabling it to regulate agencies referred to in sub-section (1), call for any information, statement or other particulars from them, or cause an inspection of such agencies to be made.

45X. It shall be the duty of every director or member or other body for the time being vested with the management of the affairs of the agencies referred to in section 45W to comply with the directions given by the Bank and to submit the information or statement or particulars called for under that section.

Duty to comply with directions and furnish information.