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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

DCM. No.(Plg) No. 2906 /10.27.00/2016-17
January 30, 2017

Joint Secretary
Ministry of Finance
Dept of Economic Affairs
Government of India
New Delhi

Dear Sir,

**Amendment to Sec 31 of RBI Act, 1934 – GOI Proposal for enabling Scheduled Banks
Issue Electoral Bearer Bonds**

Please refer to your email dated January 28, 2017 forwarding a proposal to amend Sec 31 of the RBI Act 1934 so as to enable scheduled banks issue Electoral Bearer Bonds as a mode of donation to registered political parties.

2. We have examined the proposal and our views are as follows:

i. The move will result in multiple, non-sovereign entities being authorised to issue bearer instruments. As such the proposed mechanism militates against the Reserve Bank's sole authority for issuing bearer instruments ie cash. Bearer instruments have the potential to become currency and if issued in sizable quantities can undermine the faith in banknotes issued by the central bank. Amending Section 31 of the RBI Act would seriously undermine a core principle of central banking legislation and doing so would set a bad precedent.

ii. Even the intended purpose of transparency may not be achievable, as the original buyer of the instrument need not be the actual contributor to a political party. The bonds are bearer bonds and are transferrable by delivery. Hence, who finally and actually contributes the bond to the political party will not be known.

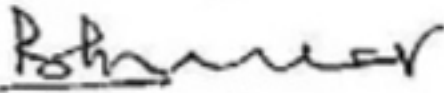
iii. While the person/entity buying the bearer bond will be as per Know Your Customer(KYC) parameters, the identities of the intervening persons/entities will not be known. Thus the principles and the spirit of the Prevention of Money Laundering Act (PMLA) 2002 get affected

iv. If it is the intention that the person/entity buying such a bond is expected to tender it to a political party, such an intention can be accomplished today by a normal cheque, demand draft or any electronic or digital mode of payment. There is no special need for, or advantage by, the creation of an Electoral Bearer Bond, that too by disturbing an established international practice.

3. We are therefore of the opinion that it will not be advisable to amend Sec 31 of the RBI Act 1934, just for the sake of providing a formal mechanism for persons/entities contributing to

political parties, when existing banking instruments like cheques, drafts, digital modes can equally be achieving the said purposes and objectives.

Yours faithfully,


(P Vijaykumar)

Chief General Manager

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