

The Financial and Deposit Insurance Bill, 2017

Why in news?

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FRDI Bill was introduced in Parliament during Monsoon Session 2017.

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What are financial firms?

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• Financial firms include banks, insurance companies, and stock exchanges, among others.

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 Since they transact with each other, their failure may have an adverse impact on financial stability and result in consumers losing their deposits and investments.

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• e.g In 2008, the failure of a Lehman Brothers impacted the financial system across the world.

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- Currently, there is no specialised law to resolve financial firms.
- \bullet Provisions to resolve are found scattered across different laws. $\ensuremath{\backslash n}$

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What are the highlights of the bill?

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• The Bill seeks to create a consolidated framework for the resolution of financial firms.

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• It repeals the Deposit Insurance and Credit Guarantee Corporation Act, 1962 and amends 12 other laws.

• Resolution Corporation - The central government will establish a

Resolution Corporation.

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- The Corporation will have a Chairperson and its members will include representatives from the Finance Ministry, RBI, and SEBI, among others.
- \bullet The Corporation will- $\!\!\!\! \backslash n$

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- 1. Provide deposit insurance to banks
- 2. Classify service providers based on their risk, and \n
- 3. Undertake resolution of service providers in case of failure.

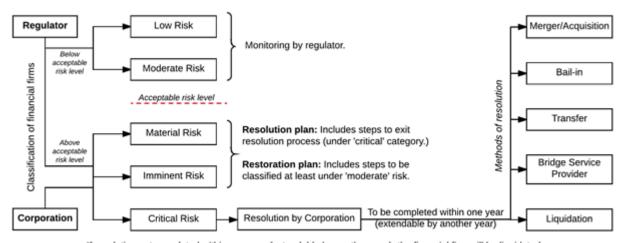
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- \bullet It may also investigate the activities of service providers, or undertake search and seizure operations if provisions of the Bill are being contravened. \n
- Risk based classification The Corporation, in consultation with the respective regulators specify criteria for classifying service providers based on their risk of failure.

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If resolution not completed within one year (extendable by another year), the financial firm will be liquidated

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• A service provider categorised under the 'imminent' or 'critical' category will submit a restoration plan to the regulator, and a resolution plan to the Corporation. These plans will contain information, including: (i) details of assets and liabilities, (ii) steps to improve risk based categorisation, and (ii) information necessary for resolution of the service provider.

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- **Administration** The Corporation will take over the management of the service provider from the date when it is classified as 'critical'.
- **Resolution** The resolution of a service provider classified under the 'critical' category can be done by using\n

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- 2. Merger or acquisition, and
- 3. Creating a bridge financial,
- 4. Bail-in and
- 5. Liquidation \n

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- **Time limit** The service provider will automatically be liquidated if its resolution is not completed within the maximum time period of two years.
- Liquidation and distribution of assets The Corporation will require the approval of the National Company Law Tribunal to liquidate the assets of a service provider.
- **Offences** The Bill specifies penalties for offences such as concealment of property, and destruction or falsification of evidence.

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Does the Bill guarantee the repayment of bank deposits?

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 Currently, the Deposit Insurance and Credit Guarantee Corporation (DICGC) provides deposit insurance for bank deposits up to 1 lakh rupees per depositor.

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- The Bill proposes to subsume the functions of the DICGC under the Resolution Corporation.
- It will guarantee the repayment of a certain amount to each depositor in case the bank fails.

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