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Info Capsule

PROVISIONS OF THE FINANCIAL RESOLUTION AND DEPOSIT INSURANCE BILL, 2017 MEANT TO PROTECT INTERESTS OF DEPOSITORS¹

The Financial Resolution and Deposit Insurance Bill, 2017 (FRDI Bill), introduced in the Lok Sabha on August 10, 2017, is presently under the consideration of the Joint Committee of the Parliament. The Joint Committee is consulting all the stakeholders on the provisions of the FRDI Bill.

Certain misgivings have been expressed in the media regarding “bail-in” provisions of the FRDI Bill. The provisions contained in the FRDI Bill, as introduced in the Parliament, do not modify present protections to the depositors adversely at all. They provide rather additional protections to the depositors in a more transparent manner.

The FRDI Bill is far more depositor friendly than many other jurisdictions, which provide for statutory bail-in, where consent of creditors / depositors is not required for bail-in.

The FRDI Bill does not propose in any way to limit the scope of powers for the Government to extend financing and resolution support to banks, including Public Sector Banks. The Government’s implicit guarantee for Public Sector Banks remains unaffected.

Indian Banks have adequate capital and are also under prudent regulation and supervision to ensure safety and soundness, as well as systemic stability. The existing laws ensure the integrity, security and safety of the banking system. In India, all possible steps and policy measures are taken to prevent the failure of banks and protection of interests of depositors (e.g. issue of directions / prompt corrective action measures, capital adequacy and prudential norms). The FRDI Bill will strengthen the system by adding a comprehensive resolution regime that will help ensure that, in the rare event of failure of a financial service provider, there is a system of quick, orderly and efficient resolution in favour of depositors.

STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES²

Rationalization of Merchant Discount Rate

1. In recent times, debit card transactions at ‘Point of Sales’ have shown significant growth. With a view to giving further fillip to acceptance of debit card payments for purchase of goods and services across a wider network of merchants, it has been decided to rationalise the framework for Merchant Discount Rate (MDR) applicable on debit card transactions based on the category of merchants. A differentiated MDR for asset-light acceptance infrastructure and a cap on absolute amount of MDR per transaction will also be prescribed. The revised MDR aims at achieving the twin objectives of increased usage of debit cards and ensuring sustainability of the business for the entities involved. The revised instructions for MDR on debit card transactions were scheduled for issue on December 6, 2017.

¹ Available at: <http://pib.gov.in/newsite/erelease.aspx>

² Available at: https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=42477

Allowing Overseas Branches/Subsidiaries of Indian Banks to Refinance ECBs

2. Currently Indian corporates are permitted to refinance their existing External Commercial Borrowings (ECBs) at a lower all-in-cost. The overseas branches/subsidiaries of Indian banks are, however, not permitted to extend such refinance. In order to provide a level playing field, it has been decided, in consultation with the Government, to permit the overseas branches/subsidiaries of Indian banks to refinance ECBs of AAA rated corporates as well as Navratna and Maharatna PSUs, by raising fresh ECBs. In this regard, the revised guidelines will be issued.

Report of the Working Group on Hedging of Commodity Price Risk by Residents - Implementation

3. The report of the Working Group on Hedging of Commodity Price Risk by Residents (Chairman: Shri Chandan Sinha) was placed on the Reserve Bank's website for public comments on November 16, 2017. The major recommendations of the Group include the creation of a 'Positive List' of commodities that can be hedged, and enabling inventory hedging, price fix hedging as well as hedging of the currency risk resulting from overseas commodity derivatives. The Reserve Bank shall examine the Group's recommendations and the public feedback. A circular with revised directions will be issued by January 15, 2018.

NATIONAL CONFERENCE ON PDS REFORMS³

Department of Food and Public Distribution, Government of India has placed a lot of emphasis on improving the functioning of Public Distribution System in the country through automation of Fair Price Shops, computerization of Supply Chain Management and enforcement of provisions of National Food Security Act (NFSA), 2013 regarding oversight and grievance redressal in partnership with States/UTs. In continuation of these efforts, a two-day National Conference on PDS Reforms was held on 4th -5th December, 2017 in Vijayawada, Andhra Pradesh. The conference was attended by the representatives from 20 States along with those from NIC, WFP and GIZ. Important aspects of PDS reforms which came up for discussion in the workshop included, seamless working of the online systems, strategy for grievance redressal, enhancing the outreach of the system to the deprived segments of the society, effective safeguards for non-denial of entitled foodgrains to the beneficiaries and viability of Fair Price shops. The participating States shared their experiences and initiatives in these areas.

The participants also visited the Fair Price shops, Godowns and Call Centre to have first-hand exposures to the innovations like equipping ePoS devices with Best Finger Detection (BFD), Fusion Finger Detection (FFD) and IRIS features to minimize the instances of failure of biometric authentication, integration of electronic weighing machines with ePoS devices, cashless transaction through ePoS, distribution of foodgrains for ICDS and MDM schemes through ePoS and management of distribution of foodgrains without biometric authentication.

They also got a chance to see the recent initiative of Village Mall Scheme aimed at improving the viability of Fair Price shops. To set up Village Malls in the FP Shops, the State Government of AP has tied up with Reliance Group for ten (10) districts and with Future Group for other three (3) districts.

Team ICSI

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