



FRDI Bill: Parliamentary Standing Committee Defers FRDI Bill

The Financial Resolution and Deposit Insurance (FRDI) bill which was introduced in the Lok Sabha in August has been deferred. The draft law is undergoing scrutiny by a joint parliamentary committee. The joint committee will now give its report in the Budget Session.

The FRDI bill is similar to the Insolvency and Bankruptcy Code, 2016. It is focused on companies in the financial sector. The bill proposes to create a framework for overseeing financial institutions such as banks, insurance companies, non-banking financial services (NBFC) companies and stock exchanges in case of insolvency.

NPA mess: Govt asks banks to reveal asset quality review impact



piyush Goyal

NEW DELHI, DECEMBER 14: BUSINESSLINE

The government has signalled that it will leave no stone unturned in cleaning up the banking system. It has now asked banks to disclose the

variations between the non-performing asset levels in their balance sheet and the levels arrived at following the asset quality review.

Railway Minister Piyush Goyal, stepping in for Finance Minister Arun Jaitley, who was busy at another event, said, "We are asking banks to show the deviation between their balance-sheet, the audited balance-sheet and the AQR numbers, which has put pressure on the banks to show the correct picture and not indulge in ever-greening."

Goyal said this at a hurriedly convened press meet to counter Congress allegation that Prime Minister Narendra Modi had used an industry function on Wednesday to attack the Opposition on the eve of elections.

Goyal said the identification of NPAs and clean-up of the banking system have been going on since the Modi government came to power. Goyal said, "NPAs are a legacy issue that are being recognised only recently as per Reserve Bank of India Governor Urjit Patel."

Pointing to the discrepancies during loan disbursement, Goyal said, "In March 2008, total lending of banks was Rs 18.16 lakh crore; this grew to Rs 52.15 lakh crore in March 2014. This reflects indiscriminate corporate lending during the Congress-led UPA regime."

"It was unfortunate that earlier NPA accounts were not shown, ever-greening was done and NPAs were hidden by restructuring mechanisms such as corporate debt restructuring," he added.

"In March 2014, 36 per cent of stressed assets were identified as NPAs; in June 2017, this jumped to 82 per cent," he said.

Goyal said the government is working to ensure transparent proceedings against defaulters. "In June 2017, the RBI had identified 12 of the biggest loan defaulters. Their collective borrowings amounted to ₹1.75 lakh crore, or one-fourth of total NPAs. Legal processes have been initiated and the cases have been referred to the National Company Law Tribunal," he added.

Asked about concerns relating to the use of deposits to "bail in" lenders, Goyal reiterated that **"depositors' money will be safe within the banking system. No public sector bank has failed...but if there are any loopholes in the Financial Resolution and Deposit Insurance Bill, 2017, it can be plugged."**

Pre-budget talks: Bankers demand full tax deduction on NPA provisions

K.R.SRIVATS BUSINESSLINE 16 12 17



Finance Minister Arun Jaitley in New Delhi on Friday

Also seek tax breaks on haircuts taken under insolvency resolutions

Faced with weak balance sheets due to high NPA levels, bankers on Friday urged Finance Minister Arun Jaitley to provide full tax exemption on the provisions made by them towards bad debts.

This is warranted especially when the high NPAs in the banking system have blown a hole in the balance sheets of most banks, they said in their pre-budget meeting with Jaitley here at North Block.

Currently, banks are allowed tax deduction of only 8.5 per cent of the amount provided.

Some banks also sought tax breaks on the haircuts that they may have to take under the resolution process provided in the Insolvency and Bankruptcy (IBC) Code.

Emerging out of the pre-budget meeting, Shikha Sharma, Managing Director & CEO, Axis Bank, said tax breaks should be given to banks taking haircuts for reducing the debt of corporates.

Daunting

challenge

Banks face a daunting challenge of recovery of nearly ₹10 lakh crore NPAs. Much would depend on the insolvency framework provided under the Insolvency and Bankruptcy Code enacted in 2016. Already, 34 cases (first list of 12 cases and 22 in the second list) have been referred to the National Company Law Tribunal under the insolvency process.

At the pre-budget meeting, a banker had also suggested measures to fortify the current NCLT structure. First, banks should be allowed to undertake standard provisioning as per underlying income recognition and asset classification, instead of accelerated provisioning for companies referred to NCLT under IBC to help lenders maximise recoveries.

Secondly, the Centre should allow bank financing for domestic M&A of weak companies with good underlying assets to accelerate NPA resolution, with adequate regulatory safeguards, according to this banker.

Raman Aggarwal, Chairman, Finance Industry Development Council (FIDC), told BusinessLine that he had, on behalf of NBFCs, sought parity between the tax treatment provided to them and those available for banks and housing finance companies. FIDC is a self regulatory organisation representing the asset financing NBFCs.

Will FRDI Bill mean a throwback to the tumultuous pre-1960s?

VINSON KURIAN THIRUVANANTHAPURAM,
DECEMBER 14: BUSINESSLINE

Between 1913 and 1960, 1,600 private banks closed down operations and depositors lost all their money

The Finance Ministry sought to allay apprehensions of savers/depositors over the Financial Resolution and Deposit Insurance (FRDI) Bill on three occasions during the past week.

But, apparently, that has not had the desired effect if the continued voicing of fears over the matter is any indication.

The latest among these is whether the Bill, if passed, could precipitate a throwback to the period between 1913 and 1960 when 1,600 private banks closed down operations and depositors lost all their money.

It was then that the **All India Bank Employees Association (AIBEA)** took up the issue in Parliament, following which the Banking Regulations Act was suitably amended in 1960.

Any failed bank would henceforth be put on moratorium and merged with a peer bank, recalled CH Venkatachalam, veteran trade union leader and General Secretary of AIBEA.

In the last 55-plus years, a number of banks that faced liquidation have been led into merger in this manner. Neither has any bank been liquidated nor has any depositor lost his/her money, he said.

Affected banks

Among the affected banks were Bank of Bihar, Belgaum Bank, Lakshmi Commercial Bank, Miraj State Bank, Hindustan Commercial Bank, Traders Bank, Bank of Tamil Nadu, Bank of Thanjavur, Parur Central Bank, Purbanchal Bank, Bank of Karad, Kashinath Seth Bank, Bariely Bank, Sikkim Bank, Benaras State Bank, Nedungadi Bank, Global Trust Bank, United Western Bank.

"All these banks were protected under the Banking Regulations Act and merged with other banks," Venkatachalam said. No depositor lost a single rupee because of their failure.

In contrast, the 'bail-in' clause in the FRDI could discredit this glorious history of law-making that gave primacy to the interest of depositors.

Banks, he said, need resources and deposits of the people constitute the main resource. The clause could drive away these very depositors, which would in turn make banks unviable.

Will cash be king again?

Let's take a look at FRDI

By K V Priya in Business & Politics, New Delhi



Is the government taking over your savings?

Even as the Modi government prepares the Financial Resolution and Deposit Insurance (FRDI) Bill to strengthen the banking system, Indians fear losing their savings.

With mercury set to dip further in Delhi, the cold wave has begun to engulf North India. But the more chilling news is that people fear they

might lose their savings as the Modi government plans to introduce the Financial Resolution and Deposit Insurance (FRDI) Bill in the Winter Session of Parliament beginning Friday.

Messages and videos going viral on social media claims that the bill enables the government to use the depositors' funds to bail out banks. Both Prime Minister Narendra Modi and his finance minister Arun Jaitley have dismissed these claims as mere rumours.

"There have been lot of rumours about the FRDI. The government is doing all it can to secure the deposits of customers. But the rumours are exactly opposite to what the government is doing. Organisations, such as Federation of Indian Chambers of Commerce and Industry (FICCI) have to figure out ways to balance the voices of the government, industry and the common man," Modi said while addressing the annual general meeting of industry chamber, FICCI, in the capital.

Depositors worried

This is due to a controversial 'bail-in' provision that allows banks to use depositors' money for resolution of bad loans due to corporate defaults to save banks and other financial institutions. So, in the event of a collapse of a financial institution, such as a bank, its creditors and depositors will have to absorb some of the losses, as per Section 52 of the Bill. So far, the 'bailout' measure is used in such cases and the government steps in to save banks.

Depositors worry that their hard-earned savings left in the bank could be deducted or turned into fixed deposits without any prior notice. At present, deposits up to INR 100,000 (~EUR 1,323) are insured by the Deposit Insurance and Credit Guarantee Corporation, while the rest can be forfeited in case of a bank failure. The new Bill has not specified the amount of insured deposits yet.

Depositors are concerned as it comes a year after the demonetisation move by Modi on November 8, 2016, banning INR 500 (~EUR 6) and INR 1,000 (~EUR 13) notes.

What is FDRI?

First mentioned by Jaitley in his budget speech in 2016-17, the FDRI Bill, which was introduced in the Lok Sabha on August 11, 2017, is under

consideration by the Joint Parliamentary Committee (JPC). The panel is consulting all the stakeholders on the provisions of the legislation.

The Bill proposes 'bail-in' as one of the methods of resolution, where the banks issue securities in lieu of the money deposited. In the past, the bail-in efforts had largely worked against depositors.

Along with the Insolvency and Bankruptcy Code (IBC), re-capitalisation of PSU banks, and Foreign Direct Investment (FDI) in insurance, this Bill is touted to be a landmark reform in the financial sector.

A banking sector observer wonders why India needs this new law when India has the IBC to take care of liquidation of banks.

The banking sector too is up in arms against the Bill.

C H Venkatachalam, general secretary, **All India Bank Employees' Association (AIBEA)**, who appeared before the JPC told Media India Group: "Unlike banks in other countries, the deposits in India are driven by savings and not investments. Hence, we do not need laws, such as in Cyprus where the banks were dependent on foreign deposits. Once foreign investors withdrew the banks there collapsed."

Global move

In the wake of the 2008 financial sector crisis in the United States of America (US) and other countries, the governments there had to bailout many failed banks with the tax-payers' money, and the Financial Stability Board (FSB) came up in 2009, where the G-20 countries are members.

The FSB had made framework policies and guidelines to deal with banking financial institutions in the eventuality of their failures. As India is also a part of G-20 and FSB, the government brought in this legislation.

In Cyprus, depositors lost almost 50 pc of their savings when a bail-in was implemented.

Besides Cyprus, Canada, New Zealand, US, the United Kingdom (UK) and Germany have also introduced similar legislation that empower the governments in these countries with the option to freeze and seize bank deposits above a certain level.

Currently, 2,125 commercial and co-operative banks are covered under the Deposit Insurance and Credit Guarantee Corporation. According to

Venkatachalam, between 1913 and 1960, nearly 1,600 private banks failed in India, and closed down.

Depositors lost all their money kept in these banks. Hence, the All India Bank Employees Association(AIBE) took up the issue in Parliament and an amendment was made to the Banking Regulation Act in 1960, by which any bank failing will be put on moratorium and merged with another bank. Since then, banks making losses have been merged with big banks.

Mamta Pathania, co-project director at the National Consumer Helpline, and faculty member at the Indian Institute of Public Administration, had observed in a business daily that: "the provisions of the Bill have been creating a lot of confusion in the minds of the people. Ultimately, bank deposits are considered the safest investment option by any investor."

As the issue worried depositors, finance minister Jaitley tweeted: The Financial Resolution and Deposit Insurance Bill, 2017 is pending before the Standing Committee. The objective of the government is to fully protect the interest of the financial institutions and depositors."

It is to be seen how the government introduces the legislation without losing the confidence of Indian depositors in the wake of strong opposition to the Bill.

Here's why bail-in in India is an impossibility

If examined properly, the 'bail-in' clause is not really a point of worry as the bill provides for any loss of secured deposits. The government should have done a better job of introducing it.

Shishir Asthana, MONEYCONTROL.COM

Germany's first chancellor Otto von Bismarck was particularly known for his terse comments, among other things. One such comment was when he said that if you like laws and sausages you should not watch either one being made.

Even 120 years after Bismarck's death, the comment still makes sense, especially in the Indian context where the government of the day typically fights a never-ending perception battle when it tries introducing a new law or a change in policy.

The introduction of the Handling of the Financial Resolution and Deposit Insurance Bill (FRDI), 2017, by the government is a textbook case of how not to introduce a bill to the public. With the dark days of demonetisation still fresh in their mind, the people of India are wary of any steps taken by the government as money is concerned.

Though the bill has been sent to the joint parliamentary committee, which is studying the bill and is expected to submit its report in the winter session, some media reports fuelled by social media messages are causing panic among investors and depositors. But rather than clarifying its position on the bill as soon as the first reports were out, the government waited for social media to go absolutely berserk before the Finance Minister came out with a pacifier.

A common fear among the public with respect to the bill is that the money deposited by a customer in his or her bank account can be used to 'bail-in' these banks. The other concerns expressed by people ranged from the money in the bank being converted into a fixed deposit or shares of the bank. A few messages and commentaries revealed that people were also worried about their whole deposits getting lost.

Before addressing some of these fears, let us first look at what the existing rules mean for depositors and then deliberate on the changes that are expected if and when FRDI is implemented in its current form.

India has historically been a country where not only bank accounts, but even mutual funds are considered safe places to park one's money. No depositor has ever lost his or her money despite the Deposit Insurance Corporation providing a cover of only Rs 1 lakh for both the principal amount and interest earned. The cover was only Rs 1,500 in 1962, when the corporation was incorporated, but was increased to Rs 1 lakh in May 1993.

However, the insurance company did not have much work to do as depositors of banks going under were taken care of by merging the failed banks with bigger banks.

Coming to FRDI, here is what section 52 - the section of the FRDI bill that deals with 'bail-in', has to say:

"...the Corporation may, in consultation with the appropriate regulator, if it is satisfied that it is necessary to bail-in a specified service provider to absorb the losses incurred, or reasonably expected to be incurred, by the specified service provider and to provide a measure of capital so as to enable it to carry on business for a reasonable period and maintain market confidence, take an action under this section by a bail-in instrument or a scheme to be made under section 48".

Section 48 details the method and time of resolution and provides for all possible means to ensuring that the depositor's money is safe. It calls for transferring the whole or part of the assets and liabilities of a specified service provider, or creating a bridge service provider, or merger or amalgamation of the specified service provider, as well as the acquisition of the specified service provider, in whole or in part.

In other words, the bill talks of ensuring that the depositor is insured and protected by the relevant regulator in all possible ways, as is the case even now. Although FRDI details the processes for how the depositors' money is protected, what is not spelled out yet is the cover provided on the loss of one's deposit and interest.

Given the path the government has chosen in the case of smaller banks, where they are being asked to merge with bigger ones, the cover amount is not so much of an issue as the government allowing a bank to collapse. Still, the government should have made a reference to it in the bill to allay public fear.

In any case, depositors need not worry as subsection (7) of Section 52, which talks of the bail-in instrument or scheme, clearly states that this section shall not affect any liability owed by a specified service provider to depositors to the extent such deposits are covered by deposit insurance. It also talks of not affecting any liability that the specified service provider has by virtue of holding client assets.

Subsection (7)(e) of Section 52 talks of not affecting any liability any liability, so far as it is secured – thus covering all secured deposits. Subsection (7)(f) takes care of the liability owed to employees or workmen including pension liabilities of the specified service provider, except for liabilities designated as performance based incentive.

Depositors have little to worry about in India as even failed mutual funds, as was seen in the case of Unit Trust of India, have been bailed out by the government using taxpayer money. All the depositor has to ensure is that they are part of a bigger entity. After all, if the political damage is big enough, all depositors are bound to get paid, irrespective of the bank or financial entity involved.

A classic case is the Saradha Chit fund, where the state government repaid the depositors with taxpayer money. Political capital outweighs financial capital by a mile, particularly in a country like ours. One look at farm loan waivers, where even borrowers have been taken care of, should be enough to dismiss any worries one might have about the bill.

AIBEA THIS DAY – 15 DECEMBER	
1915	Com. K K Mundal, former Vice President, AIBEA (date of birth)
1947	S K Sen Award for Central Bank Employees, Calcutta published.
1978	Non Co-operation Movement launched – 3rd Bipartite developments.
2003	Com. L N Bhayal, Rajasthan , former Vice President AIBEA passes away

AIBEA THIS DAY – 16 DECEMBER	
1954	Calcutta High Court refuses to allow the appeal by Lloyds Bank on dismissal cases of 40 employees.

ALL INDIA BANK EMPLOYEES' ASSOCIATION



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