

Monitoring financial firms

The Financial Resolution and Deposit Insurance Bill, 2017 proposes a comprehensive resolution framework for specified financial sector entities and service providers to deal with bankruptcy in banks, insurance companies and financial sector entities.

The Bill seeks to give comfort to the consumers of financial service providers in financial distress. Its objectives include the maintenance of financial stability during a crisis.

The second schedule of the Bill lists 11 categories of institutions which would come under the definition of specified service providers. These include any banking institution other than eligible cooperative banks, including an insured service provider; insurance companies; any financial market infrastructure; any payment system, as defined under the Payment and Settlement Systems Act, 2007; any non-banking financial company; branch offices of body corporates incorporated outside India, carrying on the business of providing financial service here; and any other entity/ fund which may be notified by the government.

The Bill proposes the setting up of a Resolution Corporation by the Central government. It would lead to repeal or amendment of resolution-related provisions in legislation, including the repeal of the Deposit Insurance and Credit Guarantee Corporation Act, 1961. This would mean the transfer of deposit insurance powers and responsibilities to the Resolution Corporation to streamline the deposit insurance framework for the benefit of retail depositors. The government lists the functions of the Resolution Corporation to include protecting the stability and resilience of the financial system, public funds, and consumers of covered obligations up to a "reasonable limit".

Section 13 of the Bill details the powers and functions of the Corporation to include providing deposit insurance to banking institutions, specifying the criteria for classification of a specified service provider into one of the categories of risk to viability, acting as an administrator for a specified service provider under critical risk, exercising powers in relation to certain termination rights in respect of specified service providers, resolving a specified service provider under critical risk, and acting as a liquidator for a specified service provider.

The recently enacted Insolvency and Bankruptcy Code, 2016 to deal with the insolvency resolution issues of non-financial entities will be complemented by the proposed Bill.

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