Safeguards in FRDI

What is the issue?

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- Financial Resolution and Deposit Insurance Bill (FRDI) proposed by union government has been misinterpreted. Click here to know about the concerns with FRDI
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- It is actually a tool of resolution without taking away the implicit guarantee to depositors.
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What is the need for FRDI?

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- Banks have become a repository of public faith in the financial system.
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- Failure of a bank has repercussions that go well beyond savings and lending, it has an impact on the systemic stability of a country.
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- Thus rules for bankruptcy of a regular business cannot be applied to bank failures.
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- The FRDI Bill is an attempt to make the system more credible, less chaotic, and systematic in times when credibility is at risk, by treating banks differently from regular corporations.
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What are the positives in the law?

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- **Resolution Corporation -**The Bill brings in a system of risk-based monitoring of financial institutions.

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- At the stage of ‘critical’ risk to viability, the proposed Resolution Corporation is empowered to takes all the decision not the banks.
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- The Resolution Corporation can use “bail-in” clause only in consultation with the regulator (RBI).
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- **Curtailing the power -** During global financial crisis 2008, governments used tax-payer money was used to recapitalise the banking industry.
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- The Bill makes it explicitly clear that only such liabilities may be cancelled where the liability/instrument contains a bail-in provision.
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- **Transparent -**It makes it clear that the Resolution Corporation will specify the liabilities to be bailed in and that will be put up in the public domain before finalisation.
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- Creditors/depositors will need to consent in advance to have their liabilities bailed-in.
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- **Accountable -**Even when liabilities are being bailed in, the Bill makes it incumbent upon the Resolution Corporation to follow the prescribed route.
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- Here, uninsured depositors are placed higher over unsecured creditors and amounts due to the Central and State governments.
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- **Guaranteed compensation -** FRDI Bill gives aggrieved persons a right to be compensated by the Resolution Corporation if any of the safeguards have not been followed during a bail-in or in the conduct of any other resolution action.
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Source: The Hindu

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