Financial Resolution and Deposit Insurance Bill, 2017:

- The FRDI Bill is **part of a larger, more comprehensive approach** by the Centre towards systematic resolution of all financial firms.
- The Bill comes together with the **Insolvency and Bankruptcy Code**.
- It aims at **finding and finalising a resolution plan** to get a troubled company back on track, or, in the event of failure, ensure a quick winding up.

Need of the Bill:

- The need for a specific regulation rose **following the 2008 financial crisis**.
- The crisis witnessed **a large number of high-profile bankruptcies**.
- With the Centre also actively encouraging people to engage more with the banking sector — both through schemes like Jan Dhan Yojana and moves like demonetisation, it becomes important to **protect savers and those joining the formal economy in case a bank or insurance firm starts failing.**

Main provisions of the Bill:

- The Bill provides for the setting up of a **Resolution Corporation**.
- It seeks to **replace the existing Deposit Insurance and Credit Guarantee Corporation.**
- The corporation will be tasked with **monitoring financial firms, anticipating their risk of failure, taking corrective action and resolving them in case of failure.**
- The corporation is also tasked with **providing deposit insurance up to a certain limit yet to be specified, in the event of a bank failure.**

- It will be tasked with **classifying financial firms on their risk of failure** — low, moderate, material, imminent, or critical.

Resolution Corporation:

- The Bill establishes a Resolution Corporation to monitor **financial firms, anticipate risk of failure, take corrective action, and resolve them in case of such failure**.
- **The Deposit Insurance and Credit Guarantee Corporation Act insures an amount of deposit (currently 1 lakh); it can be increased** by the Corporation to whatever it chooses.
- It may **classify financial firms under five categories**, based on their **risk of failure**.
- These categories in the order of increasing risk are: **(i) low, (ii) moderate, (iii) material, (iv) imminent, and (v) critical.**
- The Resolution Corporation will **take over the management of a financial firm** once it is classified as 'critical'.
- It will **resolve the firm within one year** (may be extended by another year).
- If resolution is not completed within a maximum period of two years, **the firm will be liquidated**.

Financial resolution by Resolution Corporation:

- Resolution may be undertaken using methods including:

Merger or acquisition:

- In a merger, the boards of directors for two companies approve the combination and seek shareholders approval. After the merger, the acquired company ceases to exist and becomes part of the acquiring company.

- In a simple acquisition, the acquiring company obtains the majority stake in the acquired firm, which does not change its name or legal structure.

Transferring the assets, liabilities and management to a temporary firm:

- The assets, liabilities and management of the 'critical' financial firm will be handed over to another firm.

Liquidation:

- Liquidationis the process by which a company (or part of a company) is brought to an end, and the assets and property of the company are redistributed.

Bail in:

- According to the bail in tool bank's liabilities can be cancelled or modified to shore up its finances.

Current status of the Bill:

December – 2017:

- The Financial Resolution and Deposit Insurance Bill, 2017 (FRDI Bill), 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 confusions have been expressed in the media regarding "bail-in" provisions of the FRDI Bill.

January – 2018:

- The government issued a clarification on the Financial Resolution and Deposit Insurance Bill’s “bail-in” provision.
- According to the government the “bail-in” clause **will not be used for public sector banks (PSBs).**
- The “bail-in” clause **can only be used in private banks,** and **that too only if the customers allow it.**
- Furthermore, the use of the “bail-in” clause by the Resolution Corporation will be **subject to government scrutiny and parliamentary oversight.**
- In the event of a “bail-in”, the Resolution Corporation will have to ensure that **depositors get back at least as much money as they would have if the bank had been liquidated**.
- The claims of **uninsured depositors (that is, beyond 1 lakh) would be given precedence** over the claims of unsecured creditors and government dues.