The Indian Macro/Finance Reforms

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The Indian policy process in Finance

1. Percy Mistry report (2007), Raghuram Rajan report (2009), Dhirendra Swarup report (2010), U. K. Sinha report (2010)
2. It was no longer possible to make progress without fundamental changes to the legal foundations of finance.
3. Financial Sector Legislative Reforms Commission (FSLRC), chaired by Justice Srikrishna, March 2011.
4. Report and draft law submitted in March 2013.

Progress

1. Inflation targeting regime
2. Resolution of financial firms
3. Financial Data Management Centre
4. Public Debt Management Agency
5. Capital controls
6. SEBI FMC merger

FSLRC principles

- Numerous problems in finance can no longer be solved one by one. A structural change is needed.
- Regulators need to be given clear powers in the primary law to write subordinate legislation, to investigate and to adjudicate.
- Regulation making processes need to change - involve stakeholders, feedback, cost benefit analysis, provide rationale.
- Regulators need to be made accountable.
- Arbitrary actions, banning activities and products (often due to lack of capacity) cannot continue. Orders of all regulators should be possible to appeal against.

FSLRC framework (part 1)

Consumer protection:

- One single non-sectoral law
- To be enforced for banking and payments by **RBI** and by a new '**UFA**' for everything else.
- One-stop-shop for unhappy consumers: Financial Redress Agency (**FRA**).

Micro-prudential regulation:

- Same.

FSLRC framework (part 2)

Resolution:

- A non-sectoral ‘Resolution corporation’ (**RC**), a specialised bankruptcy process for most financial firms.

Systemic risk regulation:

- Financial Stability and Development Council (**FSDC**): A council of regulators, with a technical secretariat.
- Financial Data Management Centre (**FDMC**): Financial firms do e-filing of data.

Public debt management:

- Unification of all public debt management work (onshore and offshore) into a Public Debt Management Agency (**PDMA**).
- A new agency that works directly for budget division of MOF and of state governments.

FSLRC framework (part 3)

Monetary policy:

- RBI to target CPI inflation
- Decisions to be made by a Monetary Policy Committee by voting under transparency.

Capital controls:

- Capital controls regulation-making power shift to government
- National security considerations for FDI.

FSLRC framework (part 4)

Working of all financial agencies:

- 120 sections of law that setup the board governance, legislative, executive, quasi-judicial wings of all regulators.
- Framework for investigations and for penalties.
- All appeals to Financial Sector Appellate Tribunal (**FSAT**).

Progress

1. Inflation targeting regime (Enacted)
2. Resolution of financial firms (Bill tabled)
3. Financial Data Management Centre (Under discussion)
4. Public Debt Management Agency (Tabled, rolled back, restarted)
5. Capital controls (Legislative change in FEMA, regulations awaited)
6. SEBI-FMC merger (Enacted and implemented)

1. Inflation targeting regime

- Formally adopted inflation targeting regime in 2016
- Monetary Policy Framework Agreement
- Legislative changes through the Finance Act of 2016
- Implemented

2. FRDI Bill

- Financial Resolution and Deposit Insurance Bill, 2017 ("the FRDI Bill") tabled in Parliament. With Joint Parliamentary Committee for review.
- The Bill will establish an independent Resolution Corporation tasked with resolving financial firms.
- The Corporation will subsume the deposit insurance function presently performed by the Deposit Insurance and Credit Guarantee Corporation (DICGC).
- Staged intervention between the Regulators and the Resolution Corporation.

3. FDMC

- A repository of all financial regulatory data, which would serve to assist the Financial Stability and Development Council (FSDC) in conducting research on systemic risk and system-wide trends
- Task-Force on FDMC recommended setting up of a non-statutory FDMC through executive order.
- Draft cabinet note on setting up of a non-statutory FDMC.
- On re-examination, it was decided to establish a statutory FDMC.
- A Committee was set up to study the Financial Data Management Legal Framework in India, and to submit a report along with a draft bill for setting up a statutory FDMC

4. PDMA

- Notification of October 2016 restored the process of setting up PDMA.
- Legislative track and institution-building track
- On institution-building: A Public Debt Management Cell (PDMC) is set up in DEA as an interim arrangement before setting up an independent and statutory debt management agency.
- Legislative track: Roll back of the Finance Bill 2015 that proposed amendments to the RBI Act.

5. Capital controls

- Most of the FDI comes through the automatic route
- Dismantling of FIPB
- Finance Act 2015 amended Section 6 of FEMA
- Rule-making power on non-debt capital flows to be vested with the Central Government
- Amendments not yet notified
- First step: Requires notification of debt and non-debt instruments

6. SEBI-FMC merger

1. Merged FMC into SEBI (Finance Act, 2015)
2. Financial Sector Regulatory Appointment Search Committee (FSRASC).

Thank you.