

## Embrace FSLRC's approach towards financial reforms

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sector reforms are back in the news due to a slew of decisions taken by the Union Cabinet and due to certain other developments. One such development is the approach paper (AP) released by Financial Sector Legislative Reforms Commission (FSLRC) that was constituted in March 2011.

Financial reforms are crucial for economic growth as well as inclusive growth.

FSLRC has thus done a great job in releasing its AP that not only gives a broad picture about its views on challenging reforms.

The Paper, which was released for public comment on 4th October, provides for multi-facet initiatives to herald paradigm shift in the way financial sector is regulated and operated.

FSLRC is expected to complete by March 2013 its task of recommending a new institutional and legal framework for the financial sector that is currently governed by messy web of 60 laws.

Despite over-regulation and compartmentalized laws, the sector suffers from several limitations such as absence of a law to regulate financial holding companies. Another instance of deficiency in lax oversight of cooperative banks due to their dual control under the Banking Regulation Act and Multi-State Co-operative Societies Act/the State Co-operative Societies Act.

FSLRC's report would cover four broad areas:

- 1) Conceptual foundations in the fields of financial economics, law, and public administration;
- 2) detailed principles of and rationale for legislation;
- 3) Draft bills; and
- 4) Transition issues.

The Commission has adopted a visionary approach in articulating its intention to draft separate laws for eight aspects of financial sector -consumer protection, micro-prudential regulation, resolution of failing financial firms, capital controls, systemic risk, development, monetary policy and debt management.

It has rightly identified consumer protection as the first objective of financial regulation. It thus intends to draft a unified consumer protection law which would contain three components: an enumerated set of rights and protections for consumers, an enumerated set of powers, and principles that guide what power should be used under what circumstances.

FSLRC would also prepare an outline of a unified Financial Redressal Agency (FRA) that would have front-ends in all districts for providing easy access to aggrieved consumers.

Yet another initiative that merits attention is the proposal to create a 'Resolution Corporation' that would manage the consequences of a failing financial corporation with a view to cushioning its adverse impact on the markets.

It has also proposed a new regulatory architecture for the entire financial sector. The architecture, among other initiatives, envisages setting up of a Unified Financial Agency (UFA) in place of stock market, insurance, pension and commodities market regulators (SEBI, IRDA, PFRDA and FMC respectively). It has also mooted a unified Financial Sector Appellate Tribunal (FSAT).

As put by AP,

*¶The aspiration of the Commission is to draft a body of law that will stand the test of time. The Commission has hence focused on establishing sound financial regulatory agencies, which will continually reinterpret principles-based laws in the light of contemporary change, and draft subordinated legislation that serves the needs of the Indian economy. This subordinated legislation, coupled with the jurisprudence built up at the FSAT and the Supreme Court, will continually reflect the changing needs of the Indian economy.¶*

Several limitations of the financial laws have been studied by different expert committees over the years. Several recommendations made by such panels have, however, not been implemented. This should not happen to the report of FSLRC.

The Expert Committee on 'Making Mumbai an International Financial Centre', for instance, recommended enactment of Financial Services Modernisation Act that should incorporate redrafted Banking Regulation Act (BRA).

In its report submitted to Finance Ministry in 2007, the Committee also recommended dismantling of artificial barriers that have been erected between different segments of the financial markets. It also mooted reform of regulatory architecture.

The Planning Commission-constituted Committee on Financial Sector Reforms, in its report submitted in 2008, made similar suggestions on regulatory architecture.

The Committee report titled 'A Hundred Small Steps' rightly pointed out that

*¶Large parts of our financial system are still hampered by political intervention and bureaucratic constraints, limiting their potential contribution.¶*

We all know that compartmentalization has been articulated by sector-specific regulators that periodically indulge in turf wars. The Government should have the political will to override pressures for status quo or minimal reforms.

The Government should prepare itself for implementing the report of the committee right from making it public immediately on the submission and setting up an empowered group to take decisions on the Commission's recommendations. This should be followed by issue of gazette notification of the road-map of financial sector reforms.

Finance Minister P. Chidambaram has the courage to bite the financial reforms bullet. He could not fully pursue such reforms because he was assigned the Home Affairs portfolio by the Prime Minister. We hope he would retain the re-assigned portfolio to oversee unleashing of new wave of financial sector reforms.

We hope the change of political alliance at the Centre, in the event of early Lok Sabha polls, would not overshadow the urgency for financial sector reforms.

What Mr. Chidambaram said about the report of the Committee on 'Making Mumbai an International Financial Centre' is equally applicable to FSLRC's Paper and its future report.

Addressing National Conference on Mumbai as an International Financial Centre in April 2007, Mr. Chidambaram had stated:  
*¶This report is not for weak-hearts, this report is not for the faint-hearted, this report is not for the status-quos, this report is not for the inward looking, this report is not for the insular minded, this report is not for political parties and individuals who believe in caste and communities and other divisive factors. This report could only be implemented by a society which wishes to reinvent itself as a plural society, a tolerant society, a forward looking society and a society driven by ambition and aspiration.¶*

The political class should realize that a robust financial system, accessible to both the mighty corporations and homeless daily wage-earners, is the key inclusive and rapid growth of the economy.

FSLRC's approach towards reforms thus deserves support from all stakeholders.