The government explains Financial Resolution and Deposit Insurance Bill 2017 thus:

- The Financial Resolution and Deposit Insurance, Bill 2017 when enacted, will pave the way for setting up of the Resolution Corporation.
- It would lead to repeal or amendment of resolution-related provisions in sectoral Acts as listed in Schedules of the Bill.
- It will also result in the repealing of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 to transfer the deposit insurance powers and responsibilities to the Resolution Corporation.
- The Resolution Corporation would protect the stability and resilience of the financial system; protecting the consumers of covered obligations up to a reasonable limit; and protecting public funds, to the extent possible.
- The proposed Bill complements the Code by providing a resolution framework for the financial sector.
- Once implemented, this Bill together with the Code will provide a comprehensive resolution framework for the economy.

Government outlines the following merits of Financial Resolution and Deposit Insurance Bill, 2017

- The Financial Resolution and Deposit Insurance Bill, 2017 seeks to give comfort to the consumers of financial service providers in financial distress.
- It also aims to inculcate discipline among financial service providers in the event of financial crises by limiting the use of public money to bail out distressed entities.
- It would help in maintaining financial stability in the economy by ensuring adequate preventive measures, while at the same time providing the necessary instruments for dealing with an event of crisis.
- The Bill aims to strengthen and streamline the current framework of deposit insurance for the benefit of a large number of retail depositors.
- The Bill seeks to decrease the time and costs involved in resolving distressed financial entities.

Controversial Provisions in the Bill

- The FRDI Bill has received flak from various stakeholders for some of its controversial provisions including a ‘bail-in’ clause which suggests that depositor money could be used by failing financial institutions to stay afloat.
- The Resolution Corporation (rescue body), proposed under the Bill, can use your money in case the bank sinks. The bill empowers the rescue body to decide the amount insured for each depositor.

- Under Section 52 it can even cancel the Rs 1 lakh insurance that you get under the current law because the Bill aims to repeal the Deposit Insurance and Credit Guarantee Corporation Act, 1961.
- Section 52, Explanation II says, "The purpose of bail-in is to absorb the losses incurred, or reasonably expected to be incurred, by the covered service provider and to provide a measure of capital for it so as to enable it to carry on business for a reasonable period and maintain market confidence in it."
- Section 53 explains powers of a bail-in instrument in relation to securities:

A bail-in instrument may—

(a) Cancel or modify any securities to which section 52 applies;

(b) Convert any such securities from one form or class into another, including the creation of a new security in connection with the modification of an existing security.

(c) Make provision with respect to rights attaching to securities issued by the covered service provider including:

(i) A provision that specified rights attaching to securities are to be treated as having been exercised;

(ii) A provision that the Corporation is authorized to exercise specified rights attaching to securities;

(iii) a provision that specified rights attaching to securities may not be exercised for a period specified in the instrument;

(d) Provide for the listing of securities issued by the covered service provider to be discontinued.

(e) Provide for securities issued by covered service provider to be transferred to the Corporation or any other entity.

(f) Make any other provision for, or in connection with, the transfer of securities issued by the covered service provider, whether or not the transfer was the subject of that instrument.