

MARKETS

IN MOTION

developments that matter in financial markets

New Financial Sector Legislations

"The financial sector reforms initiated during the early 1990s have borne good results for the Indian economy. The UPA government is committed to take this process further."

Pranab Mukherjee, Union Finance Minister

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Introduction

India, being a market-driven economy, has maintained a robust legal framework and regulatory system that keeps pace with market conditions, ensuring checks and balances that would not overexpose India's financial sector. As India attempts to graduate to a developed economy, a concerted effort is seen on the part of the legislators and regulators to design regulations so as to efficiently and successfully address the demands of investors and interests of stakeholders alike.

It is against this backdrop that Finance Minister Pranab Mukherjee proposed in the 2011-12 Budget to move a few financial sector legislations in the current session of parliament. The bills include:

Proposed Financial Bills

Banking	Insurance	Pension	Credit
<ul style="list-style-type: none"> • Banking Laws Amendment Bill • SBI Amendment Bill 	<ul style="list-style-type: none"> • Insurance Laws Amendment Bill • LIC Amendment Bill 	<ul style="list-style-type: none"> • Revised Pension Fund Regulatory Authority Bill 	<ul style="list-style-type: none"> • Factoring and Assignment Receivables Bill • SARFAESI Act Bill

Insurance Laws (Amendment) Bill, 2008

Currently, the percentage of foreign holding in insurance companies is capped at 26 percent. This bill seeks to raise this limit to 49 percent. It allows for nationalized general insurance companies to raise funds from the capital markets and also entry of foreign re-insurers.

Life Insurance Corporation (Amendment) Bill, 2009

It amends the LIC Act, 1956 and proposes an increase in the paid-up equity capital of LIC to Rs 100 crore from Rs 5 crore so that it meets the capital requirements as specified by the Insurance Regulatory and Development Authority (IRDA). Currently, the LIC Act provides for the Central government to guarantee the entire amount assured by life insurance policies. The bill seeks to permit the Central government to determine the extent of the guarantee.

Revised Pension Fund Regulatory and Development Authority Bill

It was first introduced in 2005. It establishes an authority to develop and regulate the new pension system (NPS), which provides old age income

security for all individuals, including those in the unorganized sector, and became operational for new Central government employees through a notification.

Banking Laws Amendment Bill, 2011

This bill seeks to address the capital raising capacity of banks and strengthen the regulatory powers of the Reserve Bank of India.

Bill on Factoring and Assignment of Receivables

The bill seeks to create a separate legal framework for provisions of factoring services in the country in order to facilitate increased credit access to the industry. It will also provide for management of receivables.

State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009

It seeks to amend the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959. It seeks to amend the acts to reflect the transfer of ownership of SBI from the RBI to the Central government.

Bills to amend RDBFI Act 1993 and SARFAESI Act 2002

These two bills seek to strengthen recovery mechanisms available to secured creditors. An additional objective would be to strengthen the securitization and asset reconstruction market in the country.

Direct Taxes Code, 2010

This bill replaces the Income Tax Act, 1961, and seeks to create a new direct taxes framework. The code changes the current income tax slabs for individuals and corporate entities.

The Government of India has set up Financial Sector Legislative Reforms Commission (FSLRC) under the Chairmanship of Justice B N Srikrishna with the objective to rewrite and streamline the financial sector laws, rules and regulations and bring them in harmony with the requirements of a modern financial environment. The setting up of the Commission is a major landmark. Over the years there have been piecemeal changes in financial laws to address specific issues and FSLRC will provide a cohesive financial legislative framework without jurisdictional overlap. The Commission consists of seven part-time members and three full-time members and it would review 60 Acts. The Commission is expected to complete its work in 24 months.

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