

PARLIAMENTARY STANDING COMMITTEE ON FINANCE

'RBI should bear responsibility to fix flaws with its oversight functions'

'Current banking sector crisis, which is transient, should not become alibi for privatisation of PSBs'

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IN THE BACKDROP of the recent fraud at Punjab National Bank and stress in the banking sector, a Parliamentary panel has recommended that the Reserve Bank of India should bear the responsibility to proactively fix the flaws in its oversight functions.

The Parliamentary Standing Committee on Finance, in its report on banking sector released Wednesday, made various suggestions to the RBI to resurrect the bleeding public sector banks, which include relaxation in capital adequacy rules to free up excess capital, easing of the Prompt Corrective Action (PCA) framework, separate treatment of NPAs due to wilful defaulters and those where defaults are because of extraneous reasons, among others. The Committee emphasised that the present banking sector crisis, which is transient, should not become an alibi for privatisation of public sector banks (PSBs),

'Fix reasonable base price'

New Delhi: Considering the fact that unduly large haircut have been suffered by the creditors in some cases, the Committee recommended fixing reasonable base price for any bidding so that large "haircuts" can be avoided in the course of the JBC process in National Company Law Tribunal.

With regard to the RBI maintaining that it doesn't have enough powers to regulate the state-owned banks, the Parliamentary panel suggested that the government should constitute a high-powered committee to evaluate the role, powers and authority of RBI in its entirety, while also appraising the economic impact of the various NPA resolution norms/schemes formulated by RBI. The proposed Committee should look provi-

The Committee received suggestions that the floor price could be at 50 per cent or such other number the Committee of Creditors thinks appropriate. For assets where the bid price falls below the floor price, they could be taken over by an asset reconstruction company. **ENS**

sions of the RBI Act, Banking (Regulation) Act and other relevant statutes to ensure "the accountability of RBI as the regulator of the banking sector including the matter of having RBI nominees on the Boards of banks". The Parliamentary committee, chaired by M Veerappa Moily, also sought a review of whether the RBI has used its powers effectively in case of digressions by private banks ICICI Bank and HDFC.

In its submissions to the Parliamentary Committee, the RBI maintained that its "supervisory process does not constitute an audit of banks and does not seek to replace it" and with the number of commercial bank branches being more than 1.16 lakh in the country, it would be impossible to cover each and every branch of banks under the RBI's supervisory process. The RBI also maintained that it doesn't have various powers with respect to public sector banks, which it enjoys for regulating private banks. These include the power to remove chairman and managing director and to appoint them, call a meeting of directors of the bank concerned, appoint observers, remove managerial and other persons from office, supersede the Board of Directors and make application for winding up and amalgamation, among others.

The finance ministry listed out the numerous powers the RBI enjoys over PSBs. While asking the government to critically

examine these issues for empowering the RBI with respect to the PSBs, the Committee noted: "It also needs an objective appraisal as to the extent to which RBI has been enforcing their assigned authority and powers with respect to digressions by private banks such as ICICI and HDFC etc."

Interestingly, in submission before the Committee, the Department of Financial Services Secretary Rajiv Kumar also argued that the government does not have powers to seek fraud details from the regulator.

"There is also a problem with the Government and the Regulator ... all the powers of inspection of audit, deciding the credit, keeping the loan details above Rs. 5 crore, getting the reports on fraud is with the Regulator. It is not with the Government. Under the RBI Act, the Government, under Section 45, cannot even ask the details of an account because of the privacy issues involved," Kumar told the Parliamentary panel.