Financial Stability and Regulatory Architecture

Securities Market perspective

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Outline

- Regulatory Architecture
- FSDC – Objectives and Structure
- Tools
- Interconnectedness
- Systemic risk monitoring – Securities markets
- Discourse & Outcomes
- Takeaways
Regulatory Architecture – Existing

- Monetary policy
- Banking / Non-banking Regulations
- FOREX Market
- Public debt Management
- Securities Market
- Commodities Market (w.e.f. Sept 28, 2015)
- Insurance Market
- Pension Funds

Appellate Mechanism: Securities Appellate Tribunal
Regulatory Architecture – Proposed by FSLRC

**Part Consolidation/ Part Split**

**Consolidation - UFA**
- SEBI*
- IRDA
- PFRDA

**Split**
- RBI
- PDMA
- FRA

**Appellate Mechanism – FSAT**

*FMC merged with SEBI
Set up by the Government as the apex level forum in December 2010
FSDC - Objectives

Financial Stability

Inter Regulatory Coordination

Financial Sector Development
FSDC – Structure

FSDC
- Chaired by FM
- Represented by MoF, RBI, SEBI, IRDA, PFRDA
- DEA, MoF acts as Secretariat

FSDC Sub Committee
- Chaired by RBI Governor
- Represented by MoF, RBI, SEBI, IRDA, PFRDA
- RBI acts as Secretariat

Technical Groups
- IRTG
- TG on Financial Inclusion and Financial Literacy
- Inter Regulatory Forum for Monitoring FCs
- Early Warning Group (EWG)

Working Groups – Issue Specific
- Development of Corporate Bond Market
- Shadow Banking
- Account Aggregation
- Legal Entity Identifier
- FSLRC Implementation
Tools (illustrative)

- Network analysis
- Stress Testing
- Banking Stability indicator / Banking Stability Map
- MoU
- Coordination mechanisms through various groups
- Regular meetings
- Systemic risk survey
Interconnectedness

- MFs and Ins. Cos are the biggest fund provider and SCBs and NBFCs are the biggest receivers
- Banks, MFs and Insurance together account for > 80% of the fin. System
- Exposure of MFs and insurance towards banking – 4.9 trillion INR
- Exposure to banking by MFs– 19% of its AUM; by Ins cos. 10% of its AUM
- Exposure of banking sector towards insurance and MF sector – 176 billion INR
Systemic Risk Monitoring – Securities market

- Post GFC push for Securities Market Regulators
  - Contribute to management of Systemic Risk
  - Review perimeter of regulation regularly
- SEBI has set up SSU which monitors trends in
  - Interconnectivity (percentage of AUM of Mutual Funds invested in securities issued by banks)
  - Market sentiment (average monthly percentage return of the benchmark index)
  - concentration (percentage share of top 5 brokers in turnover)
  - risk management (percentage of promoters’ shares pledged),
  - volatility (average monthly volatility of the index),
  - HFT turnover
  - liquidity (impact cost of the index)
Financial stability

- Global & domestic developments impinging on financial stability
  - Review of stressed assets in banking sector
  - Brexit
  - Impending US Fed hike rate
  - Concerns on slowing down of the Chinese economy

- Financial Conglomerates
  - Criteria for identification of FCs
  - FCs identified
  - MoU for supervisory cooperation

- Resolution Regime

- Fintech and Digital innovations

- Cyber Risks
Inter Regulatory Coordination

- Collective Investment Schemes
  - Amendment of SEBI Act in 2014 to enhance regulatory perimeter and strengthen enforcement
  - Strengthening of SLCC mechanisms
  - Proposed law to strengthen the law and fill the regulatory gap

- Central KYC

- Stewardship Code in India

- Extra-territorial implications of international regulations

- Entry of Banks into Insurance Broking business

Discourse and Outcomes (illustrative)
Financial Sector Development

- Development of Corporate Bond markets
- National Strategy for Financial Education
- Development of currency and interest rate futures
- Orderly growth of pension sector
Quick Takeaways

- FSDC structure is well set
- A wide range of financial stability issues are discussed
- Tangible and timely outcomes
- Regulators are talking – improved coordination
- Tool kit is expanding with greater use of quantitative techniques and stress tests
Thank You