



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
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RBI/2014-2015/164

DNBS (PD) CC. No. 41/ SCRC / 26.03.001/ 2014-2015

August 05, 2014

The Chairman/ Managing Director/ Chief Executive Officer

All registered Securitisation Companies (SCs)/ Reconstruction Companies (RCs)

Dear Sir,

**Regulatory framework for SCs/RCs – Certain amendments**

Please refer to “The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003” dated April 23, 2003 (herein after called Directions).

2. In order to tone up the regulatory framework pertaining to SCs/RCs, in the light of experience gained, it has been decided to make certain modifications to the existing Directions as under:

- a. **Investment of SCs / RCs in Security Receipts (SRs)** - At present, SCs/RCs have to mandatorily invest and hold minimum 5% of the SRs issued by them against the assets acquired on an ongoing basis. Henceforth, SCs/RCs shall, by transferring funds, invest a minimum of 15% of the SRs of each class issued by them under each scheme on an ongoing basis till the redemption of all the SRs issued under such scheme.
- b. **More time for due diligence** - Before bidding for the stressed assets, SCs/RCs may seek the auctioning banks to give adequate time, not less than 2 weeks, to conduct a meaningful due diligence of the account by verifying the underlying assets.
- c. **Change in definition of Planning period** - Planning period will mean a period not exceeding six months (instead of twelve months as at present) allowed for SCs / RCs to formulate a plan for realization of non-performing assets of the selling bank acquired for the purpose of reconstruction.
- d. **Valuation of SRs** -The initial valuation of SRs should be done within a period not exceeding six months of acquiring the underlying asset (instead of one year as at

present) to enable all the stake holders to realistically assess the value of SRs at an earlier date.

- e. **Management fees** - Management fees should be calculated and charged as percentage of the net asset value (NAV) at the lower end of the range of the NAV specified by the Credit Rating Agency (CRA) (rather than on the outstanding value of SRs as at present), provided that the same is not more than the acquisition value of the underlying asset. However, management fees are to be reckoned as a percentage of the actual outstanding value of SRs, before the availability of NAV of SRs.
- f. **Membership in Joint Lenders' Forum (JLF)** - In terms of [Circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated Feb. 26, 2014](#) on 'Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)', the banks have been advised that as soon as an account is reported by any of the lenders to 'Central Repository of Information on Large Credits' (CRILC) as SMA-2, they should mandatorily form a committee to be called JLF if the aggregate exposure (AE) [fund based and non-fund based taken together] of lenders in that account is Rs 100 crore and above. SCs/RCs also should be members of JLF and should be a part of the process involving the JLF with reference to such stressed assets.
- g. **Reporting to Indian Banks' Association (IBA)** - In terms of the same circular, banks are to report to IBA the details of the recalcitrant CAs, Advocates and Valuers who have committed serious irregularities in course of rendering their professional services. Likewise, the SCs / RCs are to report to IBA the details of such CAs, Advocates and Valuers for placing it on the IBA database of Third Party Entities involved in fraud. However, the SCs/RCs will have to ensure that they follow meticulously the procedural guidelines issued by IBA (Circ. No. RB-II/Fr./Gen/3/1331 dated August 27, 2009) and also give the parties a fair opportunity to explain their position and justify their action before reporting to IBA. If no reply / satisfactory clarification is received from them within one month, the SCs/RCs may report their names to IBA. SCs / RCs should consider this aspect before assigning any work to such parties in future.
- h. **Additional disclosure**
  - i. At present it is mandatory for the SCs / RCs to disclose in their balance sheet the value of financial assets acquired during the financial year either

on its own books or in the books of the trust. In addition, SCs / RCs will have to mandatorily disclose the basis of their valuation if the acquisition value of the assets is more than the Book Value (the value of the assets as declared by the seller bank in the auction). Similarly, SCs / RCs will have to disclose the details of the assets disposed off (either by write off or by realisation) during the year at substantial discount (say more than 20% of valuation as on the previous year end) and the reasons therefor. SCs / RCs are, also, to declare upfront the details of the assets where the value of the SRs has declined substantially below the acquisition value.

- ii. SCs / RCs should put up in their website the list of wilful defaulters, (by adopting the process as defined in [DBOD Master Circ. No. CID.BC.3/20.16.003/2014-15 dated July 1, 2014](#)) at quarterly intervals. Further, in terms of [DNBS \(PD-SC/RC\).CC.No.23/26.03.001/2010-11 November 25, 2010](#), each SC / RC is required to become a member of at least one credit information company (CIC) and provide to the CIC periodically accurate data/history of the borrowers. In this case, also, they should furnish the data of wilful defaulters to the CIC in which they are members.

3. SCs / RCs may note the above instructions for meticulous compliance.

4. A Notification DNBS (PD-SC/RC) No. 11 /PCGM (KKV)/-2014 dated August 05, 2014 amending 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003' is enclosed.

Yours sincerely,

(K.K. Vohra)  
Principal Chief General Manager

**Reserve Bank of India  
Department of Non-Banking Supervision  
Central Office  
World Trade Centre  
Mumbai 400 005**

**Notification DNBS(PD-SC/RC) No.11 / PCGM (KKV)-2014 dated August 05, 2014**

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Reserve Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Securitisation Company (SC) or Reconstruction Company (RC) from being conducted in a manner detrimental to the interest of investors or in any manner prejudicial to the interest of such SC or RC, in exercise of the powers conferred by Section 3, 9, 12 and 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, hereby directs that 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003' contained in [Notification No. DNBS 2/CGM\(CSM\) - 2003 dated April 23, 2003](#) (hereinafter called directions) shall stand amended with immediate effect, as follows:-

**2. Amendment of paragraph 3**

In clause (ix) for the words, "twelve months", the words, "six months", shall be substituted.

**3. Amendment of paragraph 5**

For clauses (v) and (vi) the following new clause shall be substituted

"(v) the Securitisation Company or Reconstruction Company shall, by transferring funds, invest in the security receipts of each class issued by the trust set up for the purpose of securitisation, an amount not less than 15% under each scheme and shall continue to hold the same on an ongoing basis till the redemption of all the Security Receipts issued under such schemes."

**4. Amendment of paragraph 7(1)**

**After clause (iii), the following clause (iv) shall be inserted:**

"(iv) Before bidding for the stressed assets, SCs/RCs may seek the auctioning banks to give adequate time, not less than 2 weeks, to conduct a meaningful due diligence of the account by verifying the underlying assets."

## **5. Amendment of paragraph 14**

In Clause (iii) the following shall be inserted at the beginning.

“Management fees should be calculated and charged as a percentage of the Net Asset Value (NAV) at the lower end of the range of the NAV specified by the Credit Rating Agency (CRA) provided that the same is not more than the acquisition value of the underlying asset. However, management fees are to be reckoned as a percentage of the actual outstanding value of SRs, before the availability of NAV of SRs.”

## **6. Amendment of paragraph 15**

After clause (xi) the following new clauses shall be inserted.

“(xii) The basis of valuation of assets if the acquisition value of the assets is more than the BV.

(xiii) The details of the assets disposed of (either by write off or by realisation) during the year at a discount of more than 20% of valuation as on the previous year end and the reasons therefor.

(xiv) The details of the assets where the value of the SRs has declined more than 20% below the acquisition value.”

## **7. Substitution of paragraph 20:**

For the existing paragraph 20 the following shall be substituted.

“20. SCs/RCs shall place on their website the list of willful defaulters, at quarterly intervals. Every SC / RC shall become a member of at least one credit information company (CIC) and provide to such CIC periodically accurate data / history of the borrowers and the data of wilful defaulters.

## **8. Insertion of new paragraphs 22 and 23**

After paragraph 21, the following paragraphs shall be inserted

“22. Membership of Joint Lenders’ Forum (JLF)

SCs/RCs shall become members of JLF as described in [Circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated Feb. 26, 2014](#) on ‘Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP)’ and shall be a part of the process involving the JLF with reference to such stressed assets.

**23. Reporting to Indian Banks' Association (IBA)** - The SCs / RCs shall report to IBA the details of Chartered Accountants, Advocates and Valuers (who have committed serious irregularities in the course of rendering their professional services) for including in the IBA database of Third Party Entities involved in fraud. However, the SCs/RCs will have to ensure that they follow meticulously the procedural guidelines issued by IBA (Circ. No. RB-II/Fr./Gen/3/1331 dated August 27, 2009) and also give the parties a fair opportunity to explain their position and justify their action before reporting to IBA. If no reply/satisfactory clarification is received from them within one month, the SCs/RCs shall report their details to IBA. SCs/RCs should consider this aspect before assigning any work to such parties in future.

**9. Amendment of Guidance Notes for SC/RCs attached to the Directions**

**For the existing clause (vi) of paragraph 2 the following shall be substituted:**

“(vi) Every SC/RC shall obtain initial rating / grading of SRs from an approved credit rating agency within a period of six months from the date of acquisition of assets and declare forthwith, the Net Asset Value of the security receipts issued by it. Thereafter, rating / grading of SRs shall be got reviewed from an approved CRA as on June 30 and December 31 every year and declare the NAV of SRs forthwith to enable the qualified institutional buyers to value their investment in SRs. For arriving at NAV, SC/RC shall get the SRs rated on 'recovery rating scale' and require the rating agencies to disclose the rationale for rating.

(K K Vohra)  
Principal Chief General Manager



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DNBS (PD) CC. No. 42/SCRC/26.03.001/2014-2015

August 07, 2014

The Chairman/Managing Director/Chief Executive Officer

All registered Securitisation Companies (SCs)/Reconstruction Companies (RCs)

Dear Sir,

**Certain amendments in Regulatory framework for SCs/RCs – Clarifications**

Please refer to our [circular DNBS \(PD\) CC No.41/ SCRC / 26.03.001/ 2014-2015 dated August 5, 2014](#).

2. We have received a number of queries in the matter from the industry and in response it is clarified as under:

i) All the provisions in the said Circular will be applicable from the date of the notification i.e. August 5, 2014.

ii) Paragraph 2 h (ii) may be read as follows:

“ii. SCs / RCs should put up in their website, at quarterly intervals, the list of suit filed accounts of wilful defaulters (the current definition of wilful defaulters and the procedure to be followed are in [DBOD Master Circ. No. CID.BC.3/20.16.003/2014-15 dated July 1, 2014](#)). Further, in terms of [DNBS \(PD-SC/RC\).CC.No.23/26.03.001/2010-11 November 25, 2010](#), each SC / RC is required to become a member of at least one credit information company (CIC) and provide to the CIC periodically accurate data/history of the borrowers. In this case, also, they should furnish the data of wilful defaulters (both suit filed and non-suit filed accounts) to the CIC in which they are members.”

3. There shall be no change in the other provisions of the said circular.

4. Amended Notification DNBS (PD-SC/RC) No. 12 /PCGM (KKV)-2014 dated August 07, 2014 is enclosed.

Yours faithfully,

(K.K. Vohra)  
Principal Chief General Manager

**Reserve Bank of India  
Department of Non-Banking Supervision  
Central Office  
World Trade Centre  
Mumbai 400 005**

**Notification DNBS (PD-SC/RC) No.12 / PCGM (KKV) - 2014 dated August 07, 2014**

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Reserve Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Securitisation Company or Reconstruction Company from being conducted in a manner detrimental to the interest of investors or in any manner prejudicial to the interest of such Securitisation Company or Reconstruction Company, in exercise of the powers conferred under Section 3, 9, 12 and 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, hereby directs that 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003' contained in [Notification No. DNBS 2/CGM\(CSM\) - 2003 dated April 23, 2003](#) (hereinafter called directions) shall stand amended with immediate effect, as follows:-

**2 Amendment of paragraph 20**

**For the existing paragraph 20, the following paragraph shall be substituted :**

**"20. Wilful Defaulters:-** (1) Every SC / RC shall become a member of at least one credit information company (CIC) which has obtained certificate of registration from RBI in terms of Section 5 of the Credit Information Companies (Regulation) Act, 2005.

(2) SC / RC shall provide periodically to the CIC of which it is a member, accurate data/history of the borrowers.

(3) SCs / RCs should submit the list of wilful defaulters as at end of March, June, September and December every year to the CIC of which it is a member.

(4) Every SC/RC shall place on its website the list of suit filed accounts of wilful defaulters.



Explanation: For the purposes of this paragraph, the expression, 'wilful defaulter' shall have the same meaning as is assigned to that expression in the circulars issued to banks by DBOD from time to time."

(K K Vohra)  
Principal Chief General Manager