

**Draft of the General Guidelines for Securitisation Companies / Reconstruction  
Companies proposed to be issued by the Reserve Bank of India**

To,

All Registered Securitisation Companies/ Reconstruction Companies

Dear Sir,

**General Guidelines for Securitisation  
Companies / Reconstruction Companies**

As you are aware, the Government of India has promulgated 'The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002, which came into effect from June 21, 2002. The Ordinance, which has since been passed by both the houses of the Parliament is awaiting Presidential assent. The Bank has framed Directions to Securitisation Companies/ Reconstruction Companies relating to registration and other matters pertaining to their working viz; Prudential Norms relating to income recognition, classification of assets, provisioning, accounting standards, capital adequacy, measures for the purpose of asset reconstruction, deployment of funds, acquisition of any type of financial assets, their valuation and aggregate value of financial assets that can be acquired.

2. The Bank recognizes the fact that since the asset reconstruction activity mainly centers around impaired assets, the whole process of asset reconstruction and matters related thereto has to be initiated with due diligence and care warranting the existence of a set of clear instructions which shall be complied with by all Securitisation / Reconstruction Companies so that the process of asset reconstruction proceeds on smooth and sound lines. The need for some healthy and uniform guidelines has been further necessitated by the fact that there is no prior experience as to the functioning of these companies. Accordingly, the Bank has framed a set of guidelines as detailed below, which are recommendatory in nature .

3. **Guidelines**

(1) **Acquisition of Financial Assets**

- i. The Asset Acquisition Policy shall provide that the transactions take place in a transparent manner and at a true price in a well informed market, and the transactions are executed at arm's length in exercise of due diligence;
- ii. The Policy so framed should provide for checks in the matter of acquiring assets from a single Bank/FI, own sponsors and any single entity upto a desirable level of ceiling so that possible departures from desirable practices are avoided;
- iii. The percentage of financial assets to be acquired should be appropriately and objectively worked out keeping in view the fact that the percentage of ownership stake has a bearing on the speed with which security interest rights can be enforced in accordance with the provisions of the Ordinance;
- iv. For easy and faster realisability, financial assets due from a single debtor to various banks / FIs may be considered for acquisition. Similarly, financial

assets having linkages to the same collateral may be considered for acquisition to ensure relatively faster and easy realisation ;

- v. Both fund and non-fund based financial assets may be included in the list of assets for acquisition. Standard Assets likely to face distress prospectively may also be acquired ;
- vi. Acquisition of funded assets should not include takeover of outstanding commitments, if any, of bank / FI to lend further. Terms of acquisition of security interest in non-fund transactions, should provide for the relative commitments to continue with bank/FI, till demand for funding arises;
- vii. Loans not backed by proper documentation should be avoided;
- viii. The valuation process should be uniform for assets of same profile and a standard valuation method should be adopted to ensure that the valuation of the financial assets is done in scientific and objective manner. Valuation may be done internally and or by engaging an independent agency, depending upon the value of the assets. Ideally, valuation may be entrusted to an asset acquisition committee, which shall carry out the task in line with an Asset Acquisition Policy laid down by the Board in this regard;
- ix. A record indicating therein the details of deviations made from the prescriptions of the Board in the matter of asset acquisition, pricing, etc. should be maintained;
- x. To ensure functioning of Securitisation Companies/ Reconstruction Companies on healthy lines, the operations and activities of such companies may be subjected to periodic audit and checks by internal / external agencies.

(2) **Engagement of Outside Agency**

Securitisation Companies/ Reconstruction Companies may engage the services of reputed specialised external agencies to handle the task of taking possession of secured assets in pursuance of its right to enforce security interest.

(3) **Sale Committee**

It is desirable that the Sale Committee authorises in case of joint / consortium financing, the secured creditor with the highest outstanding, or more preferably, the Securitisation Company/ Reconstruction Company as the designated secured creditor to arrange for the sale of secured assets.

(4) **Issue of security receipts**

- (i) The parties in question may finalise the price at which security receipt will be issued as per the mutually agreed terms and on assessment of the risks involved;
- (ii) In cases where security receipts are issued involving transfer of risks to the full extent and rewards to a limited extent, there could be a possibility of sharing of surplus between the issuer and the investors;
- (iii) The issuer may consider obtaining credit rating from any of the recognised credit rating agencies.
- (iv) The matters relating to charging of 'management fee' by the Securitisation Company/ Reconstruction Company, for managing schemes floated by it, may be as per the mutually agreed terms.

4. This is for your information and appropriate action.

Yours faithfully,