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, it is necessary to issue the guidelines and directions relating to registration, measures of asset reconstruction, functions of the company, prudential norms, acquisition of financial assets and matters related thereto, as set out below hereby, in exercise of the powers conferred by Sections 3, 9, 10 and 12 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, issues to every Securitisation Company or Reconstruction Company, the guidelines and directions hereinafter specified.

**Short title and commencement**

1. (1) These guidelines and directions shall be known as ‘The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003’.

   (2) They shall come into force with effect from April 23, 2003 and any reference in these guidelines and directions to the date of commencement thereof shall be deemed to be a reference to that date.

**Applicability of the Directions**

2. The provisions of these guidelines and directions shall apply to Securitisation Companies or Reconstruction Companies registered with the Reserve Bank of India under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. However, in respect of the trust/s mentioned in paragraphs 8 herein, the provisions of paragraphs 4, 5, 6, 9, 10(i), 10(iii) 12, 13, 14 and 15 shall not be applicable.
3. **Definitions**

(1) (i) "Act" means the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;

(ii) “Bank” means the Reserve Bank of India constituted under Section 3 of the Reserve Bank of India Act, 1934;

(iii) "Date of acquisition" means the date on which the ownership of financial assets has been acquired by Securitisation Company or Reconstruction Company;

(iv) "Deposit" means deposit as defined in the Companies (Acceptance of Deposits) Rules 1975 framed under Section 58 A of the Companies Act, 1956;

(v) Fair value means the mean of the earning value and the break up value;

(vi) “Non-performing Asset” (NPA) means an asset in respect of which:

   a) Interest or principal (or instalment thereof) is overdue for a period of 180 days or more from the date of acquisition or the due date as per contract between the borrower and the originator, whichever is later;

   b) Interest or principal (or instalment thereof) is overdue for a period of 180 days or more from the date fixed for receipt thereof in the plan formulated for realisation of the assets referred to in paragraph 7(1)(6) herein;

   c) Interest or principal (or instalment thereof) is overdue on expiry of the planning period, where no plan is formulated for realisation of the assets referred to in paragraph 7(1)(6) herein; or

   d) Any other receivable, if it is overdue for a period of 180 days or more in the books of the Securitisation Company or Reconstruction Company.

Provided that the Board of Directors of a Securitisation Company or Reconstruction Company may, on default by the borrower, classify an asset as a non-performing asset even earlier than the period mentioned above (for facilitating enforcement as provided for in Section 13 of the Act).

(vii) “Overdue” means an amount which remains unpaid beyond the due date;
(viii) “Owned Fund” means the aggregate of paid up equity capital, paid up preference capital to the extent it is compulsorily convertible into equity capital, free reserves (excluding revaluation reserve), credit balance in Profit and Loss Account as reduced by the debit balance on the profit and loss account and Miscellaneous Expenditure (to the extent not written off or adjusted), book value of intangible assets and under / short provision against NPA / diminution in value of investments, and over recognition of income, if any; and further reduced by the book value of the shares acquired in a Securitisation Company or Reconstruction Company, and other deductions required on account of the items qualified by the auditors in their report on the financial statements;

(ix) "Planning period" means a period not exceeding twelve months allowed for formulating a plan for realization of non-performing assets (in the books of the originator) acquired for the purpose of reconstruction;

(x) “Standard asset” means an asset, which is not an NPA.

(xi) "Trust" means trust as defined in Section 3 of the Indian Trusts Act, 1882.

(2) Words or expressions used but not defined herein and defined in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, shall have the same meaning as assigned to them in that Act. Any other words or expressions not defined in that Act shall have the same meaning as assigned to them in the Companies Act, 1956.

4. Registration and matters incidental thereto

(i) Every Securitisation Company or Reconstruction Company shall apply for registration in the form of application specified vide Notification No.DNBS.1/CGM(CSM)-2003, dated March 7, 2003 and obtain a certificate of registration from the Bank as provided under Section 3 of the Act;

(ii) A Securitisation Company or Reconstruction Company, which has obtained a certificate of registration issued by the Bank under Section 3 of the Act, can undertake both securitisation and asset reconstruction activities;
(iii) Any entity not registered with the Bank under Section 3 of the Act may conduct the business of securitisation or asset reconstruction outside the purview of the Act.

5 Owned Fund

Every Securitisation Company or Reconstruction Company seeking the Bank’s registration under Section 3 of the Act, shall have a minimum Owned Fund of Rs. 2 crore.

6. Permissible Business

(i) A Securitisation Company or Reconstruction Company shall commence/undertake only the securitisation and asset reconstruction activities and the functions provided for in Section 10 of the Act.

(ii) A Securitisation Company or Reconstruction Company, which is carrying on any other business, shall cease to do such business by June 20, 2003;

(iii) A Securitisation Company or Reconstruction Company shall not raise monies by way of deposit.

7 Asset Reconstruction

(1) Acquisition of Financial Assets

(i) Every Securitisation Company or Reconstruction Company shall frame with the approval of its Board of Directors, a ‘Financial Asset Acquisition Policy’, within 90 days of grant of Certificate of Registration, which shall clearly lay down the policies and guidelines covering, inter alia,

(a) norms and procedure for acquisition,

(b) types and the desirable profile of the assets;

(c) valuation procedure ensuring that the assets acquired have realisable value which is capable of being reasonably estimated and independently valued;

(d) in the case of financial assets acquired for asset reconstruction, the broad parameters for formulation of plans for their realisation.

(ii) The Board of Directors may delegate powers to a committee
comprising any director and/or any functionaries of the company for taking decisions on proposals for acquisition of financial assets;

(iii) Deviation from the policy should be made only with the approval of the Board of Directors.

(2) **Change or take Over of Management/ Sale or Lease of Business of the Borrower**

No Securitisation Company or Reconstruction Company shall take the measures specified in Sections 9(a) and (b) of the Act, until the Bank issues necessary guidelines in this behalf.

(3) **Rescheduling of Debts**

(i) Every Securitisation Company or Reconstruction Company shall frame a policy, duly approved by the Board of Directors, laying down the broad parameters for rescheduling of debts due from borrowers;

(ii) All proposals should be in line with and supported by an acceptable business plan, projected earnings and cash flows of the borrower;

(iii) The proposals should not materially affect the asset liability management of the Securitisation Company or Reconstruction Company or the commitments given to investors;

(iv) The Board of Directors may delegate powers to a committee comprising any director and/or any functionaries of the company for taking decisions on proposals for rescheduling of debts;

(v) Deviation from the policy should be made only with the approval of the Board of Directors.

(4) **Enforcement of Security Interest**

While taking recourse to the sale of secured assets in terms of Section 13(4) of the Act, a Securitisation Company or Reconstruction Company may itself acquire the secured assets, either for its own use or for resale, only if the sale is conducted through a public auction.
(5) **Settlement of dues payable by the borrower**

(i) Every Securitisation Company or Reconstruction Company shall frame a policy duly approved by the Board of Directors laying down the broad parameters for settlement of debts due from borrowers;

(ii) The policy may, interalia, cover aspects such as cut-off date, formula for computation of realisable amount and settlement of account, payment terms and conditions, and borrower’s capability to pay the amount settled;

(iii) Where the settlement does not envisage payment of the entire amount agreed upon in one instalment, the proposals should be in line with and supported by an acceptable business plan, projected earnings and cash flows of the borrower;

(iv) The proposal should not materially affect the asset liability management of the Securitisation Company or Reconstruction Company or the commitments given to investors;

(v) The Board of Directors may delegate powers to a committee comprising any director and/or any functionaries of the company for taking decisions on proposals for settlement of dues;

(vi) Deviation from the policy should be made only with the approval of the Board of Directors.

(6) **Plan for realisation**

(i) Every Securitisation Company or Reconstruction Company may, within the planning period, formulate a plan for realisation of assets, which may provide for one or more of the following measures:

(a) Rescheduling of payment of debts payable by the borrower;

(b) Enforcement of security interest in accordance with the provisions of the Act;

(c) Settlement of dues payable by the borrower;

(d) Change or take over of the management, or sale or lease of the whole or part of business of borrower after formulation of necessary guidelines in this behalf by the Bank as stated in paragraph 7(2)
herein above.

(ii) The plan for realisation shall clearly spell out the steps proposed to reconstruct the assets and realise the same within a specified timeframe, which shall not in any case exceed five years from the date of acquisition.

8 Securitisation

(1) **Issue of Security Receipts**

A Securitisation Company or Reconstruction Company shall give effect to the provisions of Sections 7(1) and (2) of the Act through one or more trusts set up exclusively for the purpose. The Securitisation Company or Reconstruction Company shall transfer the assets to the said trusts at the price at which those were acquired from the originator;

(i) The trusts shall issue Security Receipts only to qualified institutional buyers; and hold and administer the financial assets for the benefit of the qualified institutional buyers;

(ii) The trusteeship of such trusts shall vest with the Securitisation Company or Reconstruction Company;

(iii) A Securitisation Company or Reconstruction Company proposing to issue Security Receipts, shall, prior to such an issue, formulate a policy, duly approved by the Board of Directors, providing for issue of security receipts under each scheme formulated by the trust;

(iv) The policy referred to in sub-paragraph (iv) above shall provide that the security receipts issued would be transferable/assignable only in favour of other qualified institutional buyers.

(2) **Disclosures**

Every Securitisation Company or Reconstruction Company intending to issue Security Receipts shall make disclosures as mentioned in the annexure.

9. **Requirement as to capital adequacy**
Every Securitisation Company or Reconstruction Company shall maintain, on an ongoing basis, a capital adequacy ratio, which shall not be less than fifteen percent of its total risk weighted assets. The risk-weighted assets shall be calculated as the weighted aggregate of on balance sheet and off balance sheet items as detailed hereunder:

Weighted risk assets

<table>
<thead>
<tr>
<th>On-Balance Sheet items</th>
<th>Percentage risk weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash and deposits with scheduled commercial banks</td>
<td>0</td>
</tr>
<tr>
<td>(b) Investments in Government securities</td>
<td>0</td>
</tr>
<tr>
<td>(c) Other assets</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Off- Balance Sheet Items</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Contingent Liabilities</td>
<td>50</td>
</tr>
</tbody>
</table>

(2) Shares held in other Securitisation Companies or Reconstruction Companies shall not attract any risk weight.

10. Deployment of Funds

(i) A Securitisation Company or Reconstruction Company, may as a sponsor and for the purpose of establishing a joint venture, invest in the equity share capital of a Securitisation Company or Reconstruction Company formed for the purpose of asset reconstruction;

(ii) A Securitisation Company or Reconstruction Company may deploy any surplus available with it only in Government securities and deposits with scheduled commercial banks in terms of a policy framed in this regard by its Board of Directors;

(iii) No Securitisation Company or Reconstruction Company shall invest out of its owned fund in land and building, provided that this restriction will not apply to funds borrowed as also to owned fund in excess of the minimum prescribed.
11. **Accounting Year**

Every Securitisation Company or Reconstruction Company shall prepare its balance sheet and profit and loss account as on March 31 every year.

12. **Asset Classification**

(1) **Classification**

   (i) Every Securitisation Company or Reconstruction Company shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify the assets into the following categories, namely:

   (a) Standard assets
   (b) Non-Performing Assets.

   (ii) The Non-Performing Assets shall be classified further as

   (a)  `Sub-standard asset' for a period not exceeding twelve months from the date it was classified as non-performing asset;
   (b)  `Doubtful asset' if the asset remains a substandard asset for a period exceeding twelve months;
   (c)  `Loss asset' if the asset is non-performing for a period exceeding 36 months or if the asset is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or if it has been identified as loss asset by the Securitisation Company or Reconstruction Company or its internal or external auditor.

   (iii) Assets acquired by the Securitisation Company or Reconstruction Company for the purpose of asset reconstruction may be treated as standard assets during the planning period, if any.

(2) **Asset Reconstruction : Renegotiated / Rescheduled assets**

   (i) Where the terms of agreement regarding interest and/or principal relating to standard asset have been renegotiated or rescheduled by a Securitisation Company
or Reconstruction Company (other wise than during planning period) the asset concerned shall be classified as substandard asset with effect from the date of renegotiation / reschedulement or continue to remain as a doubtful asset as the case be.

(ii) The asset may be upgraded as a standard asset only after satisfactory performance for a period of twelve months as per the renegotiated / rescheduled terms.

(3) Provisioning requirements

Every Securitisation Company or Reconstruction Company shall make provision against Non Performing Assets, as under:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Provision Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard Assets</td>
<td>A general provision of 10% of the outstanding;</td>
</tr>
<tr>
<td>Doubtful Assets</td>
<td>(i) 100% provision to the extent the asset is not covered by the estimated realisable value of security;</td>
</tr>
<tr>
<td></td>
<td>(ii) In addition to item (i) above, 50% of the remaining outstanding.</td>
</tr>
<tr>
<td>Loss Assets</td>
<td>The entire asset shall be written off. (If, for any reason, the asset is retained in the books, 100% thereof shall be provided for).</td>
</tr>
</tbody>
</table>

13. Investments

All investments should be valued at lower of cost or realisable value. Where market rates are available, the market value would be presumed to be the realisable value and in cases where market rates are not available, the realisable value should be the fair value. However, investments in other registered Securitisation Company or Reconstruction Company shall be treated as long term investments and valued in
accordance with the Accounting Standards and guidance notes issued by the Institute of Chartered Accountants of India.

14. **Income recognition**

(i) The income recognition shall be based on recognised accounting principles;

(ii) All the Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India shall be followed in so far as they are not inconsistent with the guidelines and directions contained herein;

(iii) Interest and any other charges in respect of all the NPAs shall be recognised only when they are actually realised. Any such unrealised income recognised by a Securitisation Company or Reconstruction Company before the asset became non-performing and remaining unrealised shall be derecognised.

15. **Disclosures in the balance sheet**

(1) Every Securitisation Company or Reconstruction Company shall, in addition to the requirements of schedule VI of the Companies Act, 1956, prepare the following schedules and annex them to its balance sheet:

   (i) the names and addresses of the banks/financial institutions from whom financial assets were acquired and the value at which such assets were acquired from each such bank/financial institutions;

   (ii) Dispersion of various financial assets industry-wise and sponsor-wise. (dispersion is to be indicated as a percentage to the total assets);

   (iii) Details of related parties as per Accounting Standard and guidance notes issued by the Institute of Chartered Accountants of India and the amounts due to and from them; and

   (iv) A statement clearly charting therein the migration of financial assets from standard to non-performing.
(2) (i) The accounting policies adopted in preparation and presentation of the financial statements shall be in conformity with the applicable prudential norms prescribed by the Bank.

(ii) Where any of the accounting policies is not in conformity with these directions, the particulars of departures shall be disclosed together with the reasons therefor and the financial impact on account thereof. Where such an effect is not ascertainable, the fact shall be so disclosed citing the reasons therefore.

(iv) An inappropriate treatment of an item in Balance Sheet or Profit and Loss Account cannot be deemed to have been rectified either by disclosure of accounting policies used or by disclosure in notes to balance sheet and profit and loss account.

16. Internal Audit

Every Securitisation Company or Reconstruction Company shall put in place an effective Internal Control System providing for periodical checks and review of the asset acquisition procedures and asset reconstruction measures followed by the company and matters related thereto.

17. Exemptions

The Bank may, if it considers it necessary for avoiding any hardship to Securitisation Company or Reconstruction Company, or for any other just and sufficient reason exempt all Securitisation Companies or Reconstruction Companies or a particular Securitisation Company or Reconstruction Company or class of Securitisation Companies or Reconstruction Companies, from all or any of the provisions of these guidelines and directions either generally or for any specified period, subject to such conditions as the Bank may impose.

(C.S.Murthy)
Chief General Manager-in-Charge
Annexure

(1) **Disclosure in Offer Document**

**A** Relating to the Issuer of Security Receipts

i. Name, place of Registered Office, date of incorporation, date of commencement of business of the Securitisation Company or Reconstruction Company;

ii. Particulars of sponsors, shareholders, and a brief profile of the Directors on the Board of the Securitisation Company or Reconstruction Company with their qualifications and experience;

iii. Summary of financial information of the company for the last three years or since commencement of business of the company, which ever is shorter;

iv. Details of Securitisation / Asset Reconstruction activities handled, if any, in the last three years or since commencement of business, which ever is shorter.

**B** Terms of Offer

i. Objects of offer;

ii. Description of the instrument giving particulars relating to its form, denomination, issue price, etc together with an averment that the transferability of security receipts is restricted to the qualified institutional buyers;

iii. Arrangements made for management of assets and extent of management fee charged by Securitisation Company or Reconstruction Company;

iv. Interest rate / probable yield;

v. Terms of payment of principal / interest, date of maturity / redemption;

vi. Servicing and administration arrangement;

vii. Details of credit rating, if any, and a summary of the rationale for the rating;

viii. Description of assets being securitised;

ix. Geographical distribution of asset pool;

x. Residual maturity, interest rates, outstanding principal of the asset pool;

xi. Nature and value of underlying security, expected cash flows, their quantum and timing, credit enhancement measures;

xii. Policy for acquisition of assets and valuation methodology adopted;

xiii. Terms of acquisition of assets from banks /financial institutions;
xiv. Details of performance record with the Originators;

xv. Terms of replacement of assets, if any, to the asset pool;

xvi. Statement of risk factors, particularly relating to future cash flows and steps taken to mitigate the same;

xvii. Arrangements, if any, for implementing asset reconstruction measures in case of default

xviii. Duties of the Trustee;

xix. Specific asset reconstruction measures, if any, on which approvals will be sought from investors;

xx. Dispute Redressal Mechanism.

(2) Disclosure on quarterly basis

i. Defaults, prepayments, losses, if any, during the quarter;

ii. Change in credit rating, if any;

iii. Change in profile of the assets by way of accretion to or realisation of assets from the existing pool;

iv. Collection summary for the current and previous quarter;

v. Any other material information, which has a bearing on the earning prospects affecting the qualified institutional buyers;