Report of the In-house Working Group on Asset Securitisation

December 29, 1999

The Reserve Bank of India had set up an in-house Working Group to examine securitisation as a process of financial engineering and its applicability to the Indian financial system, especially in the mortgage and infrastructure sectors. The Working Group, with Shri V.S.N. Murty, Chief General Manager In-Charge of Department of Non-Banking Supervision as the Chairman and Shri K.K. Vohra, Deputy General Manager as Member-Secretary, had, as members, senior officers drawn from Legal Department, Department of Banking Operations and Development, Internal Debt Management Cell and Industrial and Export Credit Department. The Working Group had the benefit of presentations from and interaction with other regulators, market intermediaries, Institute of Chartered Accountants of India, experts in finance and international agencies on various aspects encompassing securitisation. The Group submitted its report to the Governor last week.

In its report, the Group has categorised the recommendations into short-term, medium-term and long-term, with a definite timeframe for implementation in each category. It has suggested that securitisation should be appropriately defined to lend uniformity of approach and restrict the benefits provided by law/regulation for genuine securitisation transactions. The recommendations also include rationalisation/reduction of stamp duties, inclusion of securitised instruments in Securities Contract Regulation Act, removal of prohibition on investment in mortgage backed securities by mutual fund schemes, tax neutrality of SPV, etc. The recommendations for tax reforms include the spread of upfront income received by the originator over the tenure of the loan securitised and extension of benefits under Section 88 of the Income Tax Act for repayment on housing loans, etc.

The Working Group has suggested as medium-term measures increased flow of information through credit bureau, standardisation of documents, improvement in the quality of assets, upgradation of computer skills and exploring the possibilities of securitising non-performing assets. The need to develop some insurance/guarantee institutions to give comfort to investors, especially in infrastructure and mortgage sectors has been underscored by the Working Group as a long-term measure. According to the Working Group, there is also a need for developing a host of financial intermediaries with specialised skills and sophistication to provide the building blocks for market growth. The report has suggested that the Government of India may consider bringing out an umbrella legislation covering all aspects of securitisation.

The Group has also identified various impediments, viz., lack of investor base, capital market infrastructure, regulatory framework, legal provisions, accounting and taxation issues, besides good quality assets, upgradation of systems and standardisation for securitisation to take off in the country. The Working Group has also opined that the training institutes of the financial institutions should attempt to spread awareness of the benefits and scope of securitisation increasingly among financial community.

While identifying the key characteristics of Special Purpose Vehicle (SPV), the Group has recommended flexibility in the structure of SPV. The report has suggested prudential guidelines for banks, development financial institutions and nonbank finance companies, including broad criteria for a true sale. Adequate disclosure norms have also been suggested to facilitate an informed decision by investors. A model offer document has also been suggested furnishing information on description of assets, historical performance, transaction structure, end-use of funds, statement of risk factors, rating rationale, etc.

The report will be shortly placed on the Reserve Bank website (www.rbi.org.in). Suggestions/comments, if any, may please be sent to Shri V.S.N. Murty, Chief General Manager-in-Charge, Department of Non-Banking Supervision, Reserve Bank of India, World Trade Centre I, `B' Wing, 2nd Floor, Cuffee Parade, Colaba, Mumbia-400 005. (E-mail : rbidnbs@vsnl.com Fax Nos.2150540, 2162768)

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