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# "Assessing the Viability of Securitization for Stressed Assets in the Indian Market - A Critical Analysis"

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**Abstract**

Stressed Assets and Non-Performing Loans (NPLs) have long been a significant burden on economies worldwide, impeding growth and financial stability. Governments globally have introduced various schemes and initiatives to address the resolution and recovery of NPLs. In alignment with this trend, the Reserve Bank of India (RBI) has proposed the Securitization of Stressed Asset Framework (SSAF) through a Discussion Paper (DP) released on 25 January 2023, particularly addressing India's $15 billion NPL market.

The SSAF aims to establish a secondary market for stressed assets and facilitate the securitization of NPLs through the Asset Reconstruction Company (ARC) route. The DP comprehensively outlines the potential opportunities for expanding the NPL market and the mechanisms by which this can be achieved. It delves into the viability of the proposed scheme, carefully analyzing the nuances and challenges within the Indian legal system that could impact its implementation. Key considerations include the absence of a stable investor base, the lack of unified legislation, and limited judicial precedent, all of which are crucial in evaluating SSAF's feasibility.

To gain insights into effective strategies, the DP examines foreign jurisdictions such as Europe, China, and Korea, studying their approaches to stressed asset securitization. By elucidating the fundamental principles of NPL securitization, the paper endeavours to assess its potential efficacy within the Indian context. Moreover, it meticulously examines the potential roadblocks hindering the successful implementation of securitization of stressed assets, ranging from regulatory complexities to market dynamics.

The author proposes a pragmatic framework aimed at expediting the implementation of SSAF. Addressing pertinent questions regarding the framework's scope and the responsibility of Minimum Risk Retention (MRR), the paper strives to provide actionable recommendations. It advocates for the adaptation of existing laws, such as the Insolvency and Bankruptcy Code, 2016, to accommodate SSAF's objectives seamlessly. Overall, the DP serves as a comprehensive exploration of SSAF's practicality and efficient functioning, offering valuable insights into its potential impact on India's financial landscape.

*Keywords:* Stressed Assets, Non-Performing Loans, RBI, Securitization, Stressed Asset Framework, Asset Reconstruction Company

## Introduction

The Non-Performing Asset (NPA) market in India, valued at approximately 15 billion US dollars, serves as a significant indicator of the potential for both distressed asset opportunities and foreign investment within the country's economic landscape. This valuation is substantiated by RBI' Financial Stability Report of June 2023, which highlighted a Gross Non-Performing Assets (GNPA) ratio of 3.9% and a declining NPA ratio of 1.0%.[1] While the reduction in these ratios can be attributed to enhanced recovery rates, the persistently high numbers underscore the inefficiencies of existing strategies in addressing stressed assets. Stressed assets are loans that fail to meet their repayment obligations, leading to an accumulation of outstanding balances exceeding the sanctioned amounts. As these stressed assets evolve into NPAs, they impose a substantial burden on India's economy.

NPAs are further categorized into sub-standard assets, doubtful assets, and loss assets, each representing varying degrees of financial risk and potential loss for lending institutions. The accumulation of unpaid interest and principal amounts contributes to a credit crunch, diminishing the overall efficiency of the financial system.[2] In response, India has established a prudential framework for the identification and recovery of stressed assets, enabling the early detection of defaulting large borrowers. Among the primary mechanisms for NPA recovery is IBC, 2016 designed to facilitate the resolution of insolvent entities.[3] However, challenges such as judicial resource constraints and the overwhelming caseload on NCLT have underscored the necessity of exploring alternative avenues for stressed asset recovery beyond the IBC framework.

One such underutilized approach is the securitization of stressed assets, which involves aggregating non-performing loans and selling them to a Special Purpose Entity (SPE), which in turn issues securities backed by the loan pool. While securitization has been widely adopted for dealing with standard assets, its potential remains largely untapped in the context of stressed assets. This process can be executed either directly through Specific Purpose Vehicles (SPVs) or through registered ARCs. The transformation of NPAs into performing assets or the maximization of recoverable principal amounts is facilitated by SARFAESI Act, 2002.

However, the absence of a corresponding securitization mechanism for NPAs through the SPE route has been a notable gap in the current regulatory framework. Recognizing this deficiency, the RBI recently released a Discussion Paper (DP) outlining the key features of the proposed SSAF, aimed at addressing this gap and promoting the effective securitization of stressed assets.[4] Through initiatives like the SSAF, India seeks to optimize the recovery process for NPAs, thereby enhancing the resilience and stability of its financial sector while unlocking the latent value within its distressed asset market.

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[1] RBI releases the Financial Stability Report, June 2023, 2023-2024/493 (2023) https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=55943.

[2] *Stressed Assets in India - Opportunity for Investors*, Nangia Anderson LLP (Feb. 2022), https://nangia-andersen.com/wp-content/uploads/2022/02/Stressed-assets-in-India-Opportunity-for-investors.pdf.

[3] Harinakshi and Dr. Narayan Kayarkatte, *The Emergence of the Concept of 'Bad Banks' - A Boost to Strengthen the Indian Economy* 14 J. OF MAN. R. 29,40 (2022).

[4] Discussion Paper on Securitisation of Stressed Assets Framework (SSAF) (2023) https://rbi.org.in/Scripts/PublicationsView.aspx?id=21728.

**Evolutionary Progression in NPA Recovery**

Stressed assets resolution in India has been a journey marked by legislative endeavours and iterative approaches in response to the evolving challenges. The initial foray into addressing stressed assets began with the enactment of the Sick Industrial Companies (Special Provisions) Act (SICA) in 1985. However, this legislation proved ineffective due to its cumbersome and protracted procedures, coupled with extensive court interventions. Recognizing the need for a more efficient mechanism, the government introduced the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, aimed at expediting asset recovery processes.[5]

Despite these efforts, the escalating burden of NPAs necessitated further reforms. The establishment of DRTs aimed to streamline the recovery process, yet it fell short in alleviating the strain on the banking sector. Consequently, the SARFAESI Act, 2002 was enacted to empower banks to swiftly realize and resolve stressed assets through private auctions, thereby reducing reliance on judicial intervention.

Moreover, recognizing the need for pre-insolvency resolution mechanisms, the Indian government experimented with initiatives like Corporate Debt Restructuring (CDR) and Strategic Debt Restructuring (SDR). However, these schemes were short-lived and failed to address the underlying issues comprehensively.[6] The Scheme for Sustainable Structuring of Stressed Assets (S4A) introduced in 2014 aimed to provide a specific focus on stressed assets, but its efficacy was hindered by challenges such as lack of credit flow and viable buyers. Consequently, the scheme was withdrawn, paving the way for the enactment of IBC in 2016.[7]

The IBC represents a paradigm shift in the resolution framework, primarily emphasizing the debtor-creditor relationship and facilitating successful resolution plans to revive financially distressed companies. However, despite these legislative advancements, the private ARC model, currently employed in India, has encountered limitations. Private players and Special Purpose Vehicles (SPVs) often face constraints such as insufficient capital and a limited investor base, resulting in suboptimal recovery rates.

The shortcomings of the existing framework have underscored the imperative for further reforms in the reconstruction ecosystem for stressed assets. Addressing these challenges requires a holistic approach encompassing regulatory enhancements, institutional capacity building, and fostering a conducive environment for distressed asset resolution.

The onset of the COVID-19 pandemic served as a catalyst, accentuating the pressing need for a robust resolution mechanism for NPAs within India. Responding to this imperative, the Government took proactive measures by establishing the 'National Asset Reconstruction

[5] Dixit Yadav, *Evolution of Resolution Framework for NPAs in India: A Study of Asset Reconstruction Companies and Bad Bank Proposal* 42 BuS. ANALYST 142, 153 (2012).
[6] Rekha Mishra, Rajmal & Radheshyam Verma, *Determinants of Recovery of Stressed Assets in Inda: An Empirical Study* 51 EPW 62, 68 (2016).
[7] *Scheme For Sustainable Structuring Of Stressed Assets*, Mondaq (Nov. 22, 2016) https://www.mondaq.com/india/financial-services/546436/scheme-for-sustainable-structuring-of-stressed-assets.

Company Ltd.' (NARCL), colloquially known as the Bad Bank, to address the burgeoning NPAs in the Indian banking sector. Bad banks, operating under the ambit of the SARFAESI Act, function as ARCs, which are specialized entities set up by governments, banks, or private investors to acquire distressed assets, predominantly impaired loans, for specific purposes such as restructuring or eventual sale to investors.[8]

Distinguished from conventional ARCs, bad banks facilitate the direct transfer of stressed assets from banking institutions, assuming the management and resolution responsibilities thereafter. However, the mere transfer of these assets from balance sheets does not inherently alleviate their burden on the national economy. As of the end of 2022, statistics from the Central Bank reveal that only a marginal 3.2% of total bad loans had been successfully sold to ARCs, indicating the inefficacy of existing mechanisms within the Indian financial framework.[9]

Moreover, while the proposed framework alleviates the immediate burden on financial institutions, it lacks a comprehensive strategy for efficient recovery. The prevailing frameworks, primarily reliant on restructuring and liquidation avenues, have exacerbated the strain on resources, notably evidenced by the proliferation of cases converging towards the IBC. This congestion within the NCLTs is exemplified by the staggering backlog of unresolved cases, with over 36% lingering beyond the 270-day threshold, as of September 2019.[10]

The failure of resolution schemes is starkly illustrated by the case of Gujarat NRE Coke Ltd., which unsuccessfully sought recovery under both Sect. 230 of Companies Act, 2013 & Sec. 10 of IBC, ultimately culminating in liquidation in 2018. Despite its status as a "Going Concern" until 2021, the company's protracted struggle underscores the challenges inherent in resolving NPAs within the Indian context.[11]

To address these challenges, the RBI has periodically issued guidelines aimed at facilitating the resolution of stressed assets. Loan restructuring initiatives have been proposed, offering defaulters opportunities to renegotiate repayment terms, including adjustments to payment schedules and interest rates. Additionally, mechanisms such as the Joint Lenders Forum have been established to formulate actionable plans for distressed entities.[12]

While these guidelines and legislative interventions have endeavoured to modernize the stressed asset market, their efficacy in fostering a robust secondary market for NPAs or enhancing shareholder confidence remains uncertain. The RBI's recent discussion paper on SSAF represents a promising stride towards fostering a more conducive environment for the

[8] Reserve Bank of India, *Report of the Committee to Review the Working of Asset Reconstruction Companies* 36 (2021), https://ibbi.gov.in/uploads/whatsnew/fba385910d34d21ebc14549ae5e4a41e.pdf.
[9] *Foreign investors, others edge out ARCs in India's bad loan market*, Economic Times (Dec. 29, 2022) https://economictimes.indiatimes.com/markets/stocks/news/foreign-investors-others-edge-out-arcs-in-indias-bad-loan-market/articleshow/96582435.cms.
[10] *Ibid*.
[11] Ravi Prakash Mundhra & Saurabh Agarwal, *Gujarat NRE Coke Ltd.: Revival of Companies in Distress*, EMERGING ECON. J., 35 (2021).
[12] *Context to the Supreme Court Order on stressed assets of banks*, PRS Legislative Research (Apr. 3, 2019) https://prsindia.org/theprsblog/context-to-the-supreme-court-order-on-stressed-assets-of-banks.

securitization of stressed assets, potentially heralding a new era in the management and resolution of NPAs in India.

**Proposed Regime of Securitization**

The RBI has recently unveiled a DP outlining the parameters of the proposed SSAF. This initiative aims to address the absence of a mechanism for the securitization of NPAs through SPVs. The DP elucidates the broad framework and features of the SSAF, offering a structured approach towards resolving stressed assets plaguing the banking sector.

At the heart of the framework lies the establishment of an independent SPV tasked with purchasing NPAs from banks and issuing securitization notes against these assets upon acquisition. The SPV's issuance of notes is contingent upon the liquidity and nature of the NPA, with older assets commanding lower securitization returns.[13] Once stressed assets are categorized into securitization notes, the SPV proceeds to sell them in the market, utilizing the revenue generated to write off stressed assets from the economy. Additionally, the SPV levies fees for asset maintenance and resolution, while a RM oversees asset classification, management, and accounting.

To ensure the credibility of securitization notes, their valuation is determined according to board-approved policies, with a mandated minimum 20% write-down of the outstanding value. A five-year base period is allotted for successful resolution, acknowledging the deteriorating value of assets over time. The concept of MRR is introduced to allocate a minimum of 55% credit risk to sponsors, promoting accountability and maximizing recovery.[14]

However, the inherent credit risk and uncertainty surrounding stressed asset securitization pose challenges to the framework's effectiveness. The DP poses critical questions to refine the framework further, emphasizing the need to incorporate standard assets to bolster investor confidence and expand the buyer base. The inclusion of re-performing loans, particularly those from small enterprises and retail businesses, injects vitality into the framework, offering a pathway to rejuvenate distressed sectors of the economy.

Drawing insights from successful global experiences in developing stressed asset securitization frameworks, valuable lessons can be gleaned to enhance the effectiveness and resilience of the proposed SSAF. By addressing complexities and incorporating best practices, the RBI endeavours to foster a robust mechanism for resolving NPAs and revitalizing the banking sector's health.

**Global Perspective:**

**European Stressed-Asset Securitizations**

Europe has long been at the forefront of pioneering financial mechanisms to address the challenges posed by NPLs. The continent's robust infrastructure for NPL securitization and

[13] *Supra* note 4.
[14] Abizer Diwanji, *Evolving Landscape of Corporate Stress Resolution*, E&Y 34 (2019).

secondary markets has set a precedent for global initiatives in this realm. Within Europe, several countries have developed sophisticated systems to manage NPLs effectively, with Italy and Greece being notable examples.

**Garanzia sulla Cartolarizzazione delle Sofferenze (GACS)**

Italy's entry into the realm of NPL securitization through the GACS scheme marked a significant milestone in the country's efforts to tackle its distressed asset problem. Launched in February 2016, GACS represented a concerted effort by the Italian government to provide a safety net for investors by guaranteeing the repayment of senior notes in rated NPL securitization transactions. This initiative was pivotal in stimulating investor confidence and fostering liquidity in the secondary market for distressed assets.[15]

**Hercules Scheme**

Similarly, Greece's introduction of the Hercules Scheme mirrored Italy's approach, demonstrating a comparable commitment to addressing NPLs through innovative financial instruments. These initiatives underscore the recognition among European nations of the importance of leveraging securitization mechanisms to alleviate the burden of NPLs on their economies.

The success of schemes like GACS and Hercules lies in their ability to incentivize investor participation while simultaneously mitigating risk. By offering government guarantees for senior-level notes and tranches, these schemes effectively reduce the perceived risk associated with investing in distressed assets. This, in turn, facilitates the sale of lower-grade notes and the creation of a secondary market for stressed assets, thereby enhancing liquidity and promoting price discovery.

Furthermore, the extension of GACS multiple times, most recently under new regulatory waves, highlights its adaptability and continued relevance in addressing Italy's NPL challenges. By allowing for increased participation of special servicers in upcoming transactions, the scheme demonstrates a commitment to refining and optimizing its operations to better serve the needs of the economy.

The success of GACS and similar initiatives extends beyond their immediate economic impact. They serve as inspirational models for other countries grappling with NPLs, offering valuable lessons on the potential of government-backed securitization schemes to unlock value from distressed assets and stimulate economic recovery.

**Chinese Stressed-Asset Securitizations**

China has cultivated one of the most extensive securitization markets for NPLs. The inception of this scheme originated with a group of registered and government-backed Asset Management Companies, which subsequently evolved into a platform facilitating exchanges

[15] KPMG, *GACS tool in the Italian Non-Performing Loans space* 8 (2019), https://assets.kpmg.com/content/dam/kpmg/it/pdf/2019/07/GACS-crediti-deteriorati.pdf.

between private entities and potential investors. The growth trajectory has been remarkable, especially since 2012, with the Chinese market witnessing a significant surge in issuance, reaching US$65.8 billion in 2015, marking a substantial 30.7% increase from the previous year, as per data from the SIFMA Securitization Group. Since its establishment in 2016, approximately 243 NPL transactions have been successfully executed.[16] As of July 31, 2022, currency notes worth CNY 130 billion have been issued, aiding in the clearance of an outstanding balance of CNY 32 billion. China is ambitiously aiming to broaden the scope of the NPL market by incorporating joint-stock banks into the securitization schemes, indicative of its intention to further enhance market liquidity and efficiency.

Despite its remarkable progress, the journey of Chinese securitization has been characterized by intermittent challenges and impediments. While the concept of securitization was introduced in China back in 1996, concrete guidelines for Pilot Projects were not issued until 2005, causing a significant lag in the market's development. These guidelines, equating SPVs with trusts, offered flexibility in their powers and duties, albeit lacking precise definition. China's legal framework concerning trusts only materialized in October 2001, further complicating the process of securitization and contributing to its underperformance.[17] Moreover, the country's customary legal system presents another hurdle, with political factors often complicating the structuring of SPVs. This confluence of factors, including an outdated legal system and limited market depth, exacerbates the challenges faced by Chinese securitization initiatives, serving as a cautionary tale for other jurisdictions embarking on similar endeavours.[18]

**Korean Stressed-Asset Securitizations**

The Korean Government took a significant stride forward by introducing measures aimed at addressing the issue of stressed assets within the financial system. Central to this initiative was the establishment of a dedicated entity tasked with managing and improving these assets: the Korea Asset Management Corporation (KAMCO). This move marked a pivotal shift towards a more structured approach to asset management and liquidity enhancement. By creating a specialized body like KAMCO, the government sought to not only streamline the management of stressed assets but also alleviate the burden on banks, which had previously struggled to deal with such assets effectively.[19]

[16] Deloitte, NPL securitisations and related governmental guarantee schemes in Europe 29 (Oct., 2020), https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/corporate-finance/deloitte-uk-npl-securitisation-report.pdf.
[17] Nidhi Bothra, DEVELOPMENTS IN THE SECURITIZATION MARKETS IN INDIA, Vinod Kothari & Co., https://vinodkothari.com/wp-content/uploads/2015/11/Developments_in_Securitization_India_Nidhi-Bothra.pdf (last visited June 7, 2024).
[18] *Ibid*.
[19] *The NPA problem: Lessons from South Korea*, Live Mint (Aug. 16, 2017) https://www.livemint.com/Opinion/y0YcQqmanqipOLXJ6ZblOI/The-NPA-problem-Lessons-from-South-Korea.html.

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KAMCO's role extended beyond mere asset management; it also played a crucial role in fostering liquidity and promoting competition within the market for stressed assets. Through various mechanisms, including the creation of a secondary market, KAMCO facilitated the exchange of distressed assets, thereby enhancing market efficiency. By introducing transparency and standardized procedures, KAMCO addressed the issue of price asymmetry, which had previously deterred potential buyers from participating in the market. This transparent approach, coupled with a centralized pricing mechanism, attracted investors and bolstered market confidence, ultimately leading to a more vibrant secondary market for distressed assets.

The impact of KAMCO's interventions was evident in the transformation of the market dynamics surrounding stressed assets. Prior to KAMCO's active involvement, investors often overpaid for bad loans due to a lack of transparency and reliable information. However, with KAMCO's intervention, market participants were able to access accurate data and realistic pricing, which not only mitigated investment risks but also expanded the scope of the secondary market. This shift towards standardized data transactions and centralized pricing mechanisms not only improved liquidity but also aligned with broader economic objectives aimed at promoting stability and growth.

Furthermore, KAMCO's efforts were not confined to domestic markets; they also had significant implications on the international stage. The successful securitization of NPLs between Korea and the Cayman Islands marked a milestone in KAMCO's journey towards establishing itself as a global player in asset management. What began as a government-backed initiative to address distressed companies through restructuring or winding-up evolved into a dynamic entity with a multifaceted approach to asset management and market development. Through sustained government support and private investment, KAMCO has not only transformed the landscape of distressed asset management in Korea but has also emerged as a model for effective asset resolution and market development on a global scale.[20]

**Challenges in Implementations**

The journey towards establishing a robust Stressed Asset Securitization framework in India resembles navigating through a labyrinth of challenges and uncertainties, akin to the complexities faced by Chinese Securitization endeavours. At the heart of this struggle lies an inadequate legislative framework ill-equipped to grapple with the multifaceted nature of stressed asset securitization. The legal landscape, burdened by archaic laws and a sluggish judicial system, impedes the healthy evolution of stressed asset markets within the country.

One pivotal factor contributing to the sluggishness in India's securitization sector is the dearth of appropriate legislation and legal clarity. The ambiguity surrounding accounting treatments, coupled with exorbitant stamp duties, renders transactions economically unviable. Moreover, there exists a glaring gap in understanding among investors and originators regarding the

[20] Ibid.

intricacies of securitization instruments. Consequently, the majority of market transactions occur through privately arranged, bilateral agreements, placing early adopters such as ICICI, TELCO, and Citibank in precarious positions. The absence of a structured legal framework tailored to bolster financial markets further underscores the necessity for implementing a comprehensive scheme for stressed asset securitizations.[21]

Compounding these challenges is the absence of specific regulations governing revenue recognition for entities involved in securitization transactions. The opaque nature of some trust Special Purpose Entity (SPE) arrangements may lead to instances of double taxation, potentially rendering transactions unprofitable. The impending enactment of the Securitization Act is anticipated to address these tax-related concerns comprehensively. Nonetheless, the absence of legislation not only hinders the development of a stable domestic investor base but also acts as a formidable barrier for foreign investors seeking entry into the Indian market.

The level of government involvement in economic activities is a critical factor that significantly impacts the smooth functioning of financial markets. In India, where government regulations still heavily influence various sectors, including finance, the process of revenue generation and allocation faces several challenges. Unlike in developed economies where market forces play a more dominant role, the Indian economy continues to grapple with bureaucratic hurdles and red tape, making the process of expansion and innovation in financial instruments like securitization more cumbersome.

One major obstacle to the expansion of securitization in India is the absence of robust foreclosure legislation. This legal deficiency complicates the transfer of properties in cases of default, thereby making foreclosure regulations less favourable to lenders. Consequently, the perceived risks associated with securitizations increase, deterring potential investors and hindering market growth.

Furthermore, the proposal for securitizing stressed assets faces challenges related to the erosion of capital cushion. Depending on the nature and severity of the stressed assets, the resolution process can be prolonged, leading to a gradual depreciation in the market value of capital. This erosion of capital value over time undermines the incentives for banks to pursue asset resolution methods, as they may prefer to hold onto NPAs rather than risk further losses through resolution efforts.

India’s financial landscape also lacks a stable investor base, which is essential for fostering the growth of stressed asset securitizations. The presence of such a base, comprising institutional investors and other stakeholders, is believed to help stabilize bond prices and yields, thereby enhancing market confidence and liquidity. However, India’s investor base remains

[21] *RBI diktat on stressed assets sees ICICI Bank slippages surging*, The Hindu Business Line (May 17, 2018), https://www.thehindubusinessline.com/money-and-banking/rbi-diktat-on-stressed-assets-sees-icici-bank-slippages-surging/article23805030.ece.

underdeveloped, with a significant portion of the population still grappling with poverty and lacking the financial literacy necessary to participate effectively in capital markets.

To overcome these challenges, India must prioritize efforts to educate and empower its population, particularly in financial matters, to cultivate a more informed investor base. Additionally, regulatory reforms aimed at streamlining foreclosure procedures and reducing bureaucratic impediments could incentivize banks to engage more actively in securitization and asset resolution processes. Overall, addressing these obstacles is crucial for unlocking the full potential of securitization as a tool for managing financial risk and promoting economic growth in India.

**The Way Forward**

The characteristics of SSAF lack clarity and coherence, leaving certain questions unanswered within the proposed framework by RBI. This section endeavours to address two primary uncertainties delineated by the RBI. Firstly, it delves into the scheme's potential to maximize revenue generation and establish a definitive Market Reference Rate (MRR), offering a suggestive framework to navigate these complexities.

The current paradigm governing stressed assets in India predominantly relies on the involvement of private entities. However, the absence of a robust market for these assets can be ascribed to a pervasive lack of confidence and security in their sale and subsequent resale. In this context, incentivizing the resolution of stressed assets emerges as a pivotal starting point for fostering the development of a viable market. Government backing not only serves to attract investors and instil a sense of security but also serves as a catalyst for banks to actively engage in resolving stressed assets.

Drawing parallels with initiatives like the Chinese Securitizations and the Hercules Scheme, the government can delineate clear guidelines for funding the securitization of stressed assets. Emulating the model where 50% of senior-level tranches are supported by the Government through schemes like the GACS, can catalyse the sale of lower-level tranches, thereby enhancing market liquidity. However, the efficacy of such initiatives hinges upon a meticulous valuation of assets, necessitating a structured categorization of notes to streamline governmental involvement and facilitate efficiency.

It is imperative that in this process, the role of private players is not undermined but rather augmented through strategic government assistance. The success of securitization of stressed assets hinges upon a synergistic collaboration between governmental bodies and private entities. Therefore, a concerted effort that leverages the strengths of both sectors is indispensable for realizing the full potential of this endeavour.

To ensure the optimal functioning of the framework, it is imperative to define the scope of the scheme meticulously. The framework must strike a balance between focusing solely on stressed assets or broadening its horizon to encompass standard assets as well. Stressed assets inherently lack revenue generation potential, making it challenging to attract investors willing to invest in assets with minimal performance prospects. Therefore, confining the framework solely to stressed assets and NPLs might not be conducive to the Indian economy's needs. India's economic landscape is characterized by instability, with a significant portion of the population remaining outside the purview of traditional banking institutions. This lack of financial inclusion complicates the investment landscape further, as the uncertain cash flows and heightened liquidity risks associated with stressed assets make them unviable without the support of standard assets.

However, including all standard assets indiscriminately in the SSAF presents its own set of challenges. Such a move might incentivize investors to focus solely on standard assets, diverting attention and resources away from stressed assets and impeding their resolution. Consequently, the primary objective of the SSAF, to address the challenges posed by stressed assets, would be defeated.

To strike a balance between these competing interests and ensure the scheme's efficiency and efficacy, a judicious selection of standard assets is necessary. India can draw insights from global practices, such as the inclusion of re-performing real estate and asset-backed securities in the GACS scheme. These assets, characterized by their size and potential for growth, attract a wide array of investors without overshadowing the distressed asset market. For instance, allowing the inclusion of Real Estate Operating Companies (ReoCos) alongside SPVs to manage real estate assets under the GACS scheme demonstrates how incorporating lucrative standard assets can enhance the scheme's appeal and broaden its investor base.

Furthermore, the inclusion of standard assets backed by mortgages and commercial real estate loans can inject much-needed liquidity into the asset pool. Leveraging regulatory capital requirements against these assets can bolster the scheme's financial inventory, while taking cues from the success of mortgage-backed securities in the United States can guide India's efforts to cultivate an investor culture. By incorporating mortgage-backed loans as standard assets, India can consolidate its existing structural framework and leverage the existing investor base to attract capital for stressed assets. Initiatives such as the National Housing Bank guaranteeing senior Residential Mortgage-Backed Securities (RMBS) can provide crucial support to the SSAF, enhancing its credibility and attractiveness to investors.

The SSAF delineates the MRR, an essential parameter. Stressed assets, having ceased performing, absolve the originator of responsibility. Consequently, the originator's economic interests may not align with investors', and origination requirements might not indicate recovery likelihood. Investors typically ascertain asset quality and loan types through due diligence. When originators are not linked to assets, responsibility falls to the RM. Incentivizing RM for early resolution is crucial, possibly through increased securitization sales. However, MRR cannot mirror that of standard SARFAESI Act transactions. Clear guidelines from the government on MRR for Stressed Assets are imperative. A shared MRR between originators and RM seems appropriate, akin to the approach by KAMCO. RM's proximity to assets makes them pivotal in framework efficacy. Aligning RM incentives with existing liquidator fee structures, possibly modifying liquidator fee regulations for stressed assets, could

Volume 33, July 2024 ISSN 2581-5504

boost performance. Priority payments to RM, in line with legal precedents, could underpin incentivized perks. To align incentives, RMs might invest in securitization notes, sharing risks. Government guarantees for senior-level notes alongside an enabling mechanism for RMs could facilitate strategic securitization. RM's independence, akin to liquidators, inspires investor trust. Their role in SSAF mirrors that of liquidators in traits and management. Understanding RM's rewards and risks parallels liquidation recovery dynamics.

**Conclusion**

Stressed Assets have posed significant challenges to the Indian economy, impeding its growth trajectory. The current regulatory framework has been insufficient in effectively addressing this issue. In response, the Reserve Bank of India (RBI) has proposed the Securitization of Stressed Assets Framework, which aims to achieve a dual objective: resolving Non-Performing Assets (NPAs) in the market and fostering the development of a secondary market for securities in India. The proposed framework, though comprehensive, requires careful consideration of its scope and the associated credit risk to ensure successful securitization. It is noteworthy that India has previously attempted NPA securitization, as evidenced by the IDBI Stressed Asset Stabilization Fund in 2004. This initiative, which involved a bailout package supported by the government but managed independently by market entities, saw mixed success, recovering only a portion of the NPAs initially targeted. Therefore, laying down specific guidelines for the stressed asset framework is imperative to enhance the efficacy of the proposed regime.

An in-depth analysis of the proposed Securitization of Stressed Assets Framework reveals its underlying necessity, historical context, and key features. Understanding these fundamentals is crucial for stakeholders to grasp the intricacies of securitization in the stressed asset market. Moreover, examining international experiences and challenges underscores the fact that no scheme is flawless, and each country has encountered its unique set of obstacles. Hence, it becomes imperative for India to glean relevant lessons from various jurisdictions and tailor its scheme accordingly. Furthermore, the suggestive framework outlined in the paper aims to refine and streamline the RBI's proposed framework. The successful implementation of such a framework holds promise for transforming the Indian economy and providing a more efficient mechanism for resolving stressed assets.