

'Develop a U.S.-style online platform to sell bad loans'

Banks have over ₹10 tn in dud assets

PRESS TRUST OF INDIA
MUMBAI

The Reserve Bank of India (RBI) has called for putting in place an online trading platform on the lines of the system in the U.S., to sell distressed assets to ensure more transparency and better price-discovery.

Deputy Governor Viral Acharya has opined that such a platform could help create a thriving market for selling bad loans, which is plaguing the domestic banking system, and asked all the stakeholders to come together to develop such a mechanism.

The banking system is saddled with more than ₹10 trillion worth of bad loans as of September, 2017.

Following a massive spike in stressed assets, the RBI has, since last June, identified 40 largest stressed accounts and asked banks to refer them to various debt recovery tribunals.

These 40 accounts, which include Essar Steel, Bhushan Steel, Bhushan Power, Amtek Auto, Videocon Industries and JP Infra among others, constitute as much as 40% of this ₹10 trillion dud loans.

In the financial stability report released recently, the central bank had warned that the bad loans could spike to 10.8% by March and 11.1% by September, 2018.

"The Indian Banks Association, Association of Asset Reconstruction Companies [Arcon] and the credit rating agencies can come together to set up what could be the equivalent to the Loan Syndication and Trading Association (LSTA) in the United States," Dr. Acharya told a summit hosted by the indus-



Viral Acharya

try lobby Assocham here.

The Loan Syndication and Trading Association is a loan syndication and trading system which provides disclosure on credit events, digitisation of loans and legal documents apart from providing an online bidding platform for the sale of such assets, Dr. Acharya said.

Industry standard

"My recommendation to you, or at least what I would encourage you, is to discuss whether there is value to building something like this or not. The U.S. and South Korea have built such platforms during their banking crises and then it became an industry standard for doing loan sales thereafter," the Deputy Governor noted.

Dr. Acharya said it was in the interest of banks to create primary market liquidity to offload loans and probably in the interest of asset reconstruction companies to have a secondary market for such assets.

If such a platform is developed, then loan sales can occur for risk transfer, perhaps, prior to default or becoming an NPA because, maybe somebody wants to come in even before an (Insolvency and Bankruptcy Code (IBC) filing takes place.

RBI favours US-style online platform to sell bad loans

Such a platform can help create a thriving market for selling bad loans, says RBI deputy governor

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The banking system is saddled with over Rs 10 trillion of bad loans, which is over 10.2 per cent system wide, as of the September 2017 quarter.

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MOVE TO ENSURE BETTER PRICE DISCOVERY

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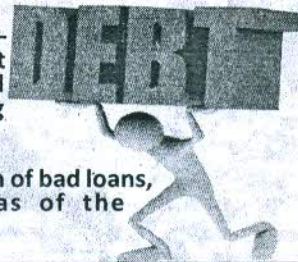
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to set up what could be the equivalent to the Loan Syndication and Trading Association (LSTA) in the United States," Mr Acharya told an ARC summit hosted by the industry lobby Assocham over the weekend here.

The Loan Syndication and Trading Association or LSTA is a loan syndication and trading system which provides disclosure on credit events, digitisation of loans and legal documents apart from providing an online bidding platform for the sale of such assets, Mr Acharya said.



"My recommendation to you, or at least what I would encourage you, is to discuss whether there is value to building something like this or not. The US and South Korea have built such a platform during their banking crises and then it became an industry standard for doing loan sales thereafter," the deputy governor said.

Mr Acharya said it is in the interest of banks to create primary market liquidity in the interest of asset reconstruction companies to have

a secondary market for such assets.

The deputy governor also said if such a platform is developed then loan sales can occur for risk transfer, perhaps prior to default or becoming an NPA because, maybe somebody wants to come in even before an Insolvency and Bankruptcy Code (IBC) filing takes place.

"So, now you don't have a measure of recovery only at the outcome of the IBC, you could have a measure of recovery even at stress because that will be reflected in the loan sale." "I think if that is the point at which banks are going to be selling loans then that would be a relevant figure for calculating the expected credit losses and so on," Mr Acharya said.

He said over time with experience and learnings, credit rating agencies can aggregate all these information across the sectors, across companies and can also provide quarterly reports that could help guide banks in calculations of expected credit losses.

RBI moots US-style platform to sell bad loans

Mumbai: The Reserve Bank has called for putting in place an online trading platform on the lines of the system in the US, to sell distressed assets to ensure more transparency and better price-discovery.

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PNS ■ MUMBAI

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