



Date: 07.10.2024

To,
Department of Regulations
Reserve Bank of India

Subject: Simple, Transparent and Comparable (STC) securitisation: Discrepancy in risk weights needing urgent remedy

Dear Ma'am,

On behalf of the Indian Securitisation Foundation (ISF), a not-for-profit entity representing the securitisation industry in India, we hereby submit our representation to consider and take necessary steps for carrying out regulatory amendments with respect to the criteria prescribed for a securitisation to be classified as a Simple, Transparent and Comparable (STC) Securitisation Transaction.

ISF was incorporated with the objective of promoting and representing the industry to government, regulators, the public, investors and others who have an interest or potential interest, both, in India and overseas, regarding the benefits of securitisation in India and aspects of the securitisation industry. Our members include banks, NBFCs, microfinance institutions. A detailed profile of ISF forms a part of the enclosures as **Annexure II**.

On behalf of the ISF, we hereby submit our representation for your kind consideration. Our representation on the matter has been enclosed with this letter as **Annexure I**.

Should you need any further clarification, we would be glad to provide the same. In case there is a discussion required on the matter, we will be happy to come down to your office. Kindly look into the matter and oblige.

For Indian Securitisation Foundation

Vinita Nair
Director
DIN: 08067063

Annexure I:

Provisions of Law:

The [Securitisation of Standard Assets Directions, 2021](#) ('SSA Directions') prescribes different capital treatments for transactions classified as Simple, Transparent, and Comparable (STC). According to para 108 of the SSA Directions, such transactions are eligible for lower risk weights. Consequently, investors in STC transactions can apply reduced risk weights, thereby benefiting from capital relief.

Annex I of the SSA Directions outlines the criteria for classifying a transaction as STC. One such criterion is detailed in para 37 of Annex I, which reads as follows:

“At the portfolio cut-off date the underlying exposures have to meet the conditions under the Standardised Approach for credit risk, and after taking into account any eligible credit risk mitigation, for being assigned a risk weight equal to or smaller than:

- 1. 40% on a value-weighted average exposure basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans;*
- 2. 50% on an individual exposure basis where the exposure is a loan secured by a commercial mortgage;*
- 3. 75% on an individual exposure basis where the exposure is a retail exposure; or*
- 4. 100% on an individual exposure basis for any other exposure.”*

Accordingly, the underlying loans must qualify for the respective risk weights as mentioned above.

Issue Statement:

The risk weights currently prescribed for loans advanced by NBFCs and HFCs do not align with these requirements. The applicable risk weights for loans advanced by NBFCs are 100 and 125 for secured loans and consumer credit exposure, respectively. Further, for HFCs, the risk weights range from 35 to 100 based on the LTV and loan amount sanctioned. Except for loans advanced by HFCs up to ₹30 lakh and those between ₹30 lakh and ₹75 lakh with an LTV ratio not exceeding 80%, none of the loans originated by NBFCs and HFCs would qualify for STC.

Also, it is important to note that the RBI, by its circular dated November 16, 2023, on [regulatory measures towards consumer credit and bank credit to NBFCs](#), further increased the risk weight on consumer credit to 125%. However, the SSA Directions still prescribe a risk weight of 75% for all retail exposures for being classified as an STC transaction.

Resolution Sought:



The RBI's primary intent in issuing specific guidelines for STC transactions was to promote securitisation structures that are Simple, Transparent, and Comparable. However, establishing criteria that cannot be met by any NBFC or HFC discourages these entities from adopting structures that comply with STC standards, ultimately impeding the shift towards more simplified, transparent, and comparable structures.

Due to the discrepancy in meeting the risk weight requirements, transactions that meet all other STC criteria fail to qualify for lower capital treatment because of the risk weights specified under paragraph 37 of Annex I of the SSA Directions.

Therefore, we respectfully request the RBI to consider and align the risk weights mentioned in the SSA Directions for STC transactions with the risk weights prescribed for NBFCs and HFCs under the applicable RBI regulations. This will further encourage investments in transactions classified as STC by investors, thereby promoting the growth of the securitisation market in India.

Annexure II: About Indian Securitisation Foundation

Indian Securitisation Foundation (ISF) is a not-for-profit organisation incorporated under section 25 of the Companies Act, 1956, a representative body of the securitisation industry in India. ISF is formed with the objective of developing, promoting and protecting the securitisation, structured finance markets in India in particular, and market for fixed income securities in general.

Securitisation in India is not just a fixed-income investing instrument, but essential for the idea of financial inclusion, in the form of priority sector lending. Banks meet their priority sector targets partly through portfolio acquisitions and securitisation, thereby putting securitisation at par with the banking book.

Infrastructure sector also depends substantially on securitisation for equity extraction. In essence, the significance of securitisation to India's financial sector cannot be under-estimated. Over time, credit default swaps are also expected to be prevalent as ways of synthetically replicating credit risk.

It is a clear policy choice to have a strong market for fixed income securities in India: structured finance securities are an essential part of that market, to provide variety, choice and alignment to investor needs.

In this background, ISF was conceptualised to provide direction, leadership, advocacy and support to the securitisation and structured finance industry.

Some of the functions of the Foundation include:

- a. **Advocacy** – making representation to various authorities from time to time on matters as may concern securitisation and similar capital market instruments.
- b. **Industry forums and networking** - holding periodic conventions and educational courses.
- c. **Development of industry standards** - framing self-regulatory standards on disclosures, reporting, servicing reporting, DOs and DONTs for securitisation and direct assignment transactions, etc. Development of standards such as standard assignment agreements, assignment procedures, notification procedures, etc. on the lines of ISDA agreements and encouraging members over period to start using such standard templates.
- d. **Information exchange** – on matters of common interest, collateral performance, etc.



Board of Directors

Mr. Vinod Kothari

Mr. Kothari is a noted scholar on securitisation and has lectured all over the World on securitisation. Vinod Kothari has been consulted by regulators in various countries, and has structured transactions in several markets. Vinod Kothari is the author of several books on the subject including Securitisation: Financial Instruments of Future, Introduction to Securitization (co-author with Frank Fabozzi), Credit Derivatives, Structured Credit Trading and Guide to Structured Finance etc. See full profile of Ms. Vinod Kothari [here](#).

Ms. Vinita Nair

Ms. Vinita Nair is the Director of the Indian Securitisation Foundation. Her expertise lies in the field of Corporate Laws, Corporate Restructuring, Merger/Amalgamation and general corporate advisory matters, incorporation of companies including section 25 companies, FEMA matters and compliances. Vinita has also taken lectures on related topics. See full profile of Ms. Vinita Nair [here](#).