



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-2014/460

DNBS (PD) CC. No. 35 / SCRC / 26.03.001/ 2013-2014 January 23, 2014

The Chairman/Managing Director/Chief Executive Officer
All registered Securitisation Companies/Reconstruction Companies

Dear Sir,

Conversion of debt into shares, consent level of security enforcement actions and permission to acquire debt from other SC/RCs

Please refer to “The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003” dated April 23, 2003 (herein after called Guidelines) and [DNBS.PD \(SC/RC\) CC.No.13/26.03.001/2008-09 dated April 22, 2009](#).

2. Pursuant to the amendments made in Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) and on the recommendations of the Key Advisory Group (KAG) constituted by the Government of India on the Asset Reconstruction Companies (ARCs), Reserve Bank of India advises as under:

- a) Securitisation Companies / Reconstruction Companies (SC/RCs) are permitted to convert a portion of debt into shares of the borrower company as a measure of asset reconstruction provided their shareholding does not exceed 26% of the post converted equity of the company under reconstruction.
- b) Securitisation Companies / Reconstruction Companies (SC/RCs) are required to obtain, for the purpose of enforcement of security interest, the consent of secured creditors holding not less than 60% of the amount outstanding to a borrower as against 75% hitherto.

c) Securitisation Companies / Reconstruction Companies (SC/ RCs) are permitted to acquire debt from other SC/ RCs on following conditions:

- i. The acquisition is for the purpose of debt aggregation for the enforcement of security interest and as such the acquiring SC/RC's (herein after referred as aggregating SC/RC) existing holdings at the time of acquisition are less than 60% and with the further proposed acquisition from other SC/ RCs, the total debt in the books of the aggregating SC/RC shall add up to 60% or more of the total secured debt.
- ii. The transaction is settled on cash basis.
- iii. The selling SC/RC will utilize the proceeds so received, for the purpose of redemption of underlying Security Receipts.
- iv. The acquisition of debt from other SC/RC, shall not
 - a) result in extension of the date of redemption of the SRs issued by the aggregating SC/RC for the assets acquired from banks/FIs.
 - b) extend the period of realization of assets including that acquired from other SC/RCs beyond eight years from the date of acquisition of the asset by the aggregating SC/RC from the banks/FIs concerned.

3. A Notification DNBS (PD-SC/RC) No. 10 /PCGM (NSV)/-2014 dated January 23, 2014 amending paragraph 7 of 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003' is enclosed.

Yours sincerely,

(N.S. Vishwanathan)
Principal Chief General Manager

**Reserve Bank of India
Department of Non-Banking Supervision
Central Office
World Trade Centre
Mumbai 400 005**

Notification DNBS(PD-SC/RC) No.10/PCGM (NSV)-2014 dated January 23, 2014

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, in exercise of the powers conferred under Section 3, 9, 12 and 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, hereby directs that 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003' contained in Notification No. DNBS 2/CGM(CSM) - 2003 dated April 23, 2003 (hereinafter called directions) shall stand amended with immediate effect, as follows:-

2. In sub-paragraph (1) of paragraph 7, the following new clause (iv) shall be inserted :

“(iv) Permission to SC/RCs to acquire financial assets from other SC/RCs.

Securitisation Companies / Reconstruction Companies (SC/ RCs) are permitted to acquire debt from other SC/ RCs on following conditions:

- i. The acquisition is for the purpose of debt aggregation for the enforcement of security interest and as such the acquiring SC/RC's (herein after referred as aggregating SC/RC) existing holdings at the time of acquisition are less than 60% and with the further proposed acquisition from other SC/ RCs, the total debt in the books of the aggregating SC/RC shall add up to 60% or more of the total secured debt.

- ii. The transaction is settled on cash basis.
- iii. The selling SC/RC will utilize the proceeds so received, for the purpose of redemption of underlying Security Receipts.
- iv. The acquisition of debt from other SC/RC, shall not
 - a) result in extension of the date of redemption of the SRs issued by the aggregating SC/RC for the assets acquired from banks/FIs.
 - b) extend the period of realization of assets including that acquired from other SC/RCs beyond eight years from the date of acquisition of the asset by the aggregating SC/RC from the banks/FIs concerned.”

3. The following sub-paragraph (5-A) shall be inserted after sub-paragraph (5) in Paragraph 7:

“(5-A) Conversion of any portion of debt into shares of a borrower company

- (i) Every Securitisation Company or Reconstruction Company shall frame a policy, duly approved by the Board of Directors, laying down the broad parameters for conversion of debt into shares of the borrower company ;
- (ii) In cases of the Financial Assets which have turn around potential after restructuring but normally with huge default and unsustainable level of debt, it will be necessary to arrive at sustainable level of debt, on the basis of evaluation of detailed business plan with projected level of operations, which can be serviced by the company. A part of residual unsustainable debt may have to be converted to equity for an optimal debt equity structure. While SC/RCs are permitted to have significant influence or have a say in decisions surrounding the borrower company’s turn around through conversion of debt into shares, they should not be seen to be running the companies. The shareholding of the SC/RC shall not exceed 26% of the post converted equity of the company under reconstruction.”

4. In clause (i) of sub-paragraph (6) of paragraph 7, the following new sub-clause(e) shall be inserted after sub-clause (d)

“(e) conversion of any portion of debt into shares of a borrower company.”

(N.S.Vishwanathan)
Principal Chief General Manager