

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

Viral Acharya

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 Rs. 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 Rs. 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 industry 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.

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