touches..

Vinod Kothari & Company

Vinod Kothari Consultants P Ltd

Academy of Financial Services P Ltd

1012 Krishna
224 AJC Bose Road
Kolkata – 700017.

September, 2011

Contents of this Issue:

Editorial

Highlights of September 2011:

Various articles of Vinod Kothari & Co associates published in leading journals.

Vinod Kothari and Nidhi Bothra's remarks on the revised guidelines on securitisation transactions were carried in press.

Vinod Kothari has been appointed as director in a bank subsidiary .. read more.

Recognition for one's hard work is what every individual desires. Once again we are proud to share with you the recognitions gained by our dedicated associates. We, the team of Vinod Kothari & Company, strive to make value additions to our knowledge and share it with you through our work one way or the other.

This edition of "touches.." is entirely dedicated to our hard working associates who are constantly working to achieve some benchmarks set by our entities and to attain great heights in their professional career. Your support and encouragement inspires us in our endeavors.

Bijoyeta Chakrabarty who so efficiently and ably edited "touches.." since its inception a year back has passed on the mantle to me. It is a tough job and I hope to be able to keep to the standards set by my predecessor.

As always stay in touch with "touches..." and keep motivating us.

Monica Chandak
monica@vinodkothari.com

Ideas For Life

Go ahead...

Inspire others

Our Articles Published

microfinance focus

Home News Expert Talk Buzz Participate

Home » Securitisation business will be back with a bang; Microfinance securitisations to still remain subdued

HDFC Vacancies Oct 2011
7500+ P.O. Job Openings in Oct Upload Resume.Apply to HDFC Now!

Jobs in Micro Finance
100s of Jobs in Micro Finance Submit Resume to Apply

AdChoices

Securitisation business will be back with a bang; Microfinance securitisations to still remain subdued

in column Featured Latest News India Microfinance Securitization top

By Vinod Kothari,

Microfinance Focus, September 27, 2011: The RBI released on 27th September the much awaited revised draft of the securitisation guidelines. The first draft was proposed long time back in April 2010.

By way of quick comments, the revised draft guidelines have reduced the required minimum holding period (MHP) and minimum risk retention (MRR) requirements proposed in the April 2010 draft. In addition, the revised draft has permitted upfront recognition of the cash profit made by the seller in securitisation as well as bilateral sales, thereby the RBI sitting in the capacity, with several conflicts, of an accounting standards body. The revised guidelines have retained the bar in the April 2010 draft in respect of both synthetic transactions as well as revolving securitisation – the basis for which is completely ununderstandable.

The initial feedback of the author is securitisation players in India, armed with the RBI guidelines, will perhaps ignore accounting standards, and use premium structures to book upfront profits in securitisations. It is notable that accounting standards do not go by true sale as the basis for off balance sheet treatment as well as booking of gain on sale, while the RBI seems to have been overwhelmed by so-called true sale requirements. Thus, securitisation market may get a shot in the arm and may be back with a bang. Microfinance securitisations as well as portfolio sales – which have been recognized as priority sector exposures in the hands of the buying banks – will still remain subdued to the impractical MHP requirement, and almost a mindless bar on revolving transactions.

The Minimum risk retention: international and Indian norms:

MRR in securitisations is an international regulatory trend to impose the so-called "skin in the game" requirements on originators. EU regulators have recently enforced the MRR requirements at

"Securitisation business will be back with a bang; Microfinance securitisations to still remain subdued"

-Vinod Kothari, published in microfinance focus (website-http://www.microfinancefocus.com/)

The Reserve Bank of India issued Draft Revised Guidelines on Securitisation Transaction on 27th September, 2011 to regulate the growth in securitisation of bank loans. The article highlights the major changes in the revised guideline in the light of the old one. It also discusses the major impact of such amendments on securitisation market.

Vinod Kothari is one of the pioneers in the field of Securitisation. The article can be viewed in the following link:

http://www.microfinancefocus.com/securitisation-business-will-be-back-bang-microfinance-securitisations-


ARTICLE

Guide to External Commercial Borrowings and Foreign Direct Investments

ICSI-EIRC NEWSLETTER : JULY 2011

Guide to External Commercial Borrowings and Foreign Direct Investments

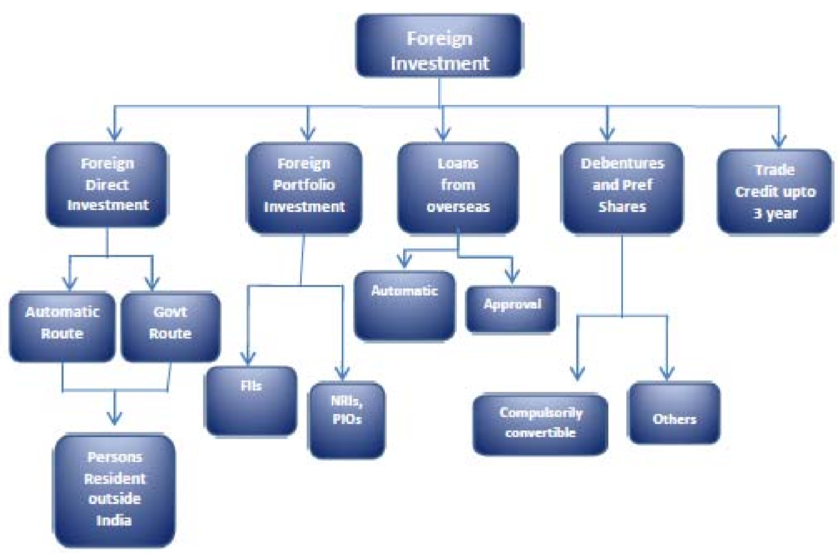
-Vinod Kothari, published in ICSI EIRC Newsletter

With increasing integration of India with the global economy, the relevance of capital inflows (that is, investments by way of equity or debt) into the country has increased tremendously. However, India continues with limited capital account convertibility – hence, capital account transactions are still not free from controls.

The article discusses the two sets of regulations application on capital account inflows – Foreign Direct Investments (FDI), and External Commercial Borrowings and Trade Credits (ECBs). Very common misconceptions exist as to what transactions are covered under which Regulation, and whether the transaction in question is covered by either of these Regulations. This article is intended to be a simplified guide to the FDI and ECB Regulations.

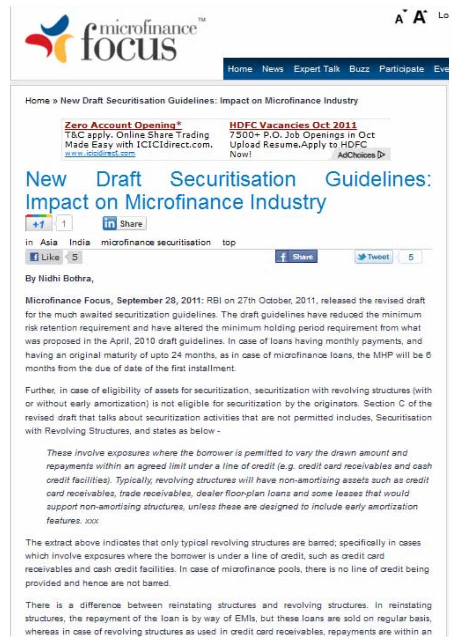
The article can be viewed in the following link:

http://www.india-financing.com/Article-%20Guide%20to%20ECB%20and%20FDI.pdf



New Draft Securitisation Guidelines: Impact on Microfinance Industry

- Nidhi Bothra, published in microfinance focus (website- http://www.microfinancefocus.com/)



microfinance focus

Home News Expert Talk Buzz Participate Eve

Home » New Draft Securitisation Guidelines: Impact on Microfinance Industry

New Draft Securitisation Guidelines: Impact on Microfinance Industry

+1 1 Share

in Asia India microfinance securitisation top

Like 5 Share Tweet 5

By Nidhi Bothra,

Microfinance Focus, September 28, 2011: RBI on 27th October, 2011, released the revised draft for the much awaited securitization guidelines. The draft guidelines have reduced the minimum risk retention requirement and have altered the minimum holding period requirement from what was proposed in the April, 2010 draft guidelines. In case of loans having monthly payments, and having an original maturity of upto 24 months, as in case of microfinance loans, the MHP will be 6 months from the due of date of the first installment.

Further, in case of eligibility of assets for securitization, securitization with revolving structures (with or without early amortization) is not eligible for securitization by the originators. Section C of the revised draft that talks about securitization activities that are not permitted includes, Securitisation with Revolving Structures, and states as below -

These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities). Typically, revolving structures will have non-amortising assets such as credit card receivables, trade receivables, dealer floor-plan loans and some leases that would support non-amortising structures, unless these are designed to include early amortization features. xxx

The extract above indicates that only typical revolving structures are barred; specifically in cases which involve exposures where the borrower is under a line of credit, such as credit card receivables and cash credit facilities. In case of microfinance pools, there is no line of credit being provided and hence are not barred.

There is a difference between reinstating structures and revolving structures. In reinstating structures, the repayment of the loan is by way of EMIs, but these loans are sold on regular basis, whereas in case of revolving structures as used in credit card receivables, repayments are within an

The draft guideline related to securitisation was amended and issued on 27th September, 2011 by Reserve Bank of India.

Nidhi Bothra's article focuses on the major amendments to the earlier guideline and also how it differs from the latest one. It also focuses on its impact that the new changes would have on the Microfinance Industry.

The article can be viewed in the following link:

RBI Gets Stringent on Overseas Business of NBFCs: Regulator puts restrictions on overseas subsidiaries and JVs of NBFCs

CS Aditi Jhunjhunwala

Guide RBI Gets Stringent on Overseas Business of NBFCs: Regulator puts restrictions on overseas subsidiaries and JVs of NBFCs

- Aditi Jhunjhunwala, published in ICAI EIRC Newsletter

With an aim to regulate the credit system to the advantage of the country, the Reserve Bank of India vide [notification no. RBI/2010-11/566](#), dated June 14, 2011 stated that the NBFC requires the prior approval of the concerned regulatory authorities both in India and abroad, to make an investment in an entity outside India engaged in financial services activities.

RBI issued to all NBFCs wherein it was advised that all NBFCs desirous of making any overseas investment must obtain 'No Objection' (NoC) of the DNBS of Reserve Bank before making such investment, from the Regional Office of the Bank in whose jurisdiction the head office of the company is registered. The amount of investment in financial sectors shall not exceed 100% of Net Owned Funds(NOF) of the NBFCs. RBI intends to control the

What's happening at VK & Co

National Housing Bank has taken Vinod Kothari as a member on a group on Covered Bonds and Securitisation. The Group includes dignitaries from SEBI, RBI, Ministry of Finance, banks, and rating agencies.

Vinod Kothari has been appointed as a Director in AllBank Finance Limited (ABFL), a wholly owned subsidiary of 146 year old **Allahabad Bank**. Vinod Kothari had earlier served as an independent director in the same company for several years – this is his second stint as such.

Vinod Kothari was the speaker at 10th National Conference on Corporate Laws of the Institute of Chartered Accountants of India (ICAI). Mr. Kothari talked critically about the impact of recent MCA circulars. The audience was overwhelmed with the in-depth knowledge of Mr. Kothari. It was incredible how he had covered some 38 circulars, 68 notifications and 5 amendments to Rules in the 9-month period from January to September 2011 in just a time span of 2 hours.
See here for the PPT on the recent developments in company law by Mr. Kothari.

Vinod Kothari was invited by Bharat Chamber of Commerce to address the Taxation and Company Affairs Standing Committee of the Chamber at an Interactive Session on "Recent Developments in Company law".

What's happening at VK & Co

The Press Trust of India covered Nidhi Bothra's comments on the revised guidelines on securitisation transaction. The comment got published on 2nd October 2011, Hyderabad. The extract of the comments are as follows:

"There will be certainly some impact on the MFI industry. Only tail of the loan can be securitised. There is refinancing possible with a constraint that you will have to hold it at least for six months."

http://www.hindustantimes.com/RBI-s-new-securitisation-guidelines-will-hurt-us-MFI-industry/Article1-752671.aspx and http://www.business-standard.com/india/news/rbis-new-guidelines-will-hurt-mfi-industry/148051/on

hindustantimes
Tue,04 Oct 2011
focus business

news | views | business | cricket | cl t20 | entertainment | lifestyle | tech | travel | books | photos | videos | blogs | weather |
markets | economy | corporate news | interviews | utility bytes | focus business

banking

RBI's new securitisation guidelines will hurt us: MFI industry

Press Trust Of India
Hyderabad, October 02, 2011

First Published: 13:48 IST(2/10/2011)
Last Updated: 13:56 IST(2/10/2011)

The cash-starved microfinance sector will be severely hit by if the new draft guidelines issued by the Reserve Bank of India on securitisation of loan portfolios are implemented, according to the microfinance industry. Last week, the RBI released a revised draft of the securitisation guidelines.

In the case of microfinance loans, the minimum holding period of the loan before securitisation will be six months from the due date of the first installment. Securitisation is the process of converting existing assets, or future cash flows, into marketable securities.

The microfinance industry has been in the practice of assigning repayments from borrowers to investors in securities. Currently, RBI allows securitisation of loans held by the NBFCS after three months from the first installment. A typical MFI loan spreads across one year, with a monthly or weekly repayment cycle.

The MFIN board that is meeting on October 10 will discuss the impact of the new guidelines and will give representation to the RBI to reconsider its decision, said Ashok Mahajan, the President of the Microfinance Institutions Network (MFIN), a self-regulating body of MFIs. "From the point of view of risk management, it definitely is ok. However, the RBI has to balance between some additional liquidity facilities for MFIs at this stage. As long as the quality of the asset is good, three months or six months does not make that much of difference," Mahajan told PTI.

"We will be requesting the RBI, for the transitional period, till the banking sector lending to MFIs is restored to normalcy -- at least one to two years -- they should consider three months' tenure for a year-long loan and six months for a longer tenure," sad Padmaja Reddy, the promoter of Spandana Sphoorty Financial. In this regard, Reddy pointed out that the microfinance sector has been feeling the heat from banks and other financial institutions after the Andhra Pradesh government introduced a Microfinance Act regulating the sector last year. Andhra Pradesh accounted for almost 30 per cent of the microfinance lending in the country before the new Microfinance Act was implemented in the state.

"The new guidelines of the RBI would not really help the MFI sector, it would rather curb the MFIs in terms of raising loans. Post-AP crisis, our (microfinance companies) rating has been deteriorated.

We cannot even look at even other instruments, such as commercial paper and all," Reddy said. Mahajan said one of the RBI's responsibilities is to ensure that enough credit is available to MFIs at a lower level of interest. "There will be certainly some impact on the MFI industry. Only tail of the loan can be securitised. There is refinancing possible with a constraint that you will have to hold it at least for six months," Nidhi Bothra, the Vice-President of securitisation consultant Vinod Kothari, said on the new giodellines.

It is an immense pleasure to present our first issue of **Samagrata** –a newsletter on corporate law affairs and updates. Samagrata, focuses on recent developments in corporate laws, measures taken by the Ministry, their impact, regulatory aspects and so on. Reading every issue would be worth your valuable time. http://india-financing.com/Company_law_newsletter_Samagrata.pdf

Also see a Consolidated note on MCA Circulars: Since January, 2011 till 25th September, 2011. Click here to view the same.

Our Corner

We welcome Sikha Bansal to the family. Sikha is undergoing her CS training with us. She has secured 9th All India Rank in Executive Programme and 13th All India Rank in Professional Programme in CS course. She is keen in creative writing and loves painting and singing. Sikha is also a poet. In this issue, you will be happy to read Sikha's poem.

THE HIDDEN PEARL

-by Sikha Bansal

Somewhere amidst the tangles of troubles
Is hidden a pearl pure and subtle……
That enlightens our heart
To feel the untouched, unknown and unheard
In which burns the flame of spirituality
To reduce into ashes the crave for materiality….
Leading the way to ourselves, crossing the bars, piercing through the curtain….
gives a life more calm and plain.
Keeping the ray of hope alive
in the thunderstorm of disappointment and frustration,
defines true illumination.
Behind all that is beautiful…..
is hidden a pearl-
The omnipotent immortal in mortals.

1012 Krishna
224 AJC Bose Road
Kolkata – 700017. India
Ph: 91-33-22817715/ 1276/ 3742
Mail to:
nidhi@vinodkothari.com;
vinod@vinodkothari.com
Our Website:
www.vinodkothari.com
www.india-financing.com