

RBI constitutes Task Force on the Development of Secondary Market for Corporate Loans

Secondary loan market in India is largely restricted to sale to Asset Reconstruction Companies and ad hoc sale to other lenders including banks, and no formalised mechanism has been developed to deepen the market. A vibrant, deep and liquid secondary market for debt would go a long way in increasing the efficiencies of the debt market in general and would aid in resolution of stressed assets in particular.

A well-developed secondary market for debt would also aid in transparent price discovery of the inherent riskiness of the debt being traded. Additionally, such price discovery would spur innovations in the securitisation market as well as invigorate dormant markets such as corporate credit default swaps (CDS). These would in turn provide with early warning signals regarding the riskiness of the debt being held by the banks which would incentivize improving the underwriting and origination standards.

As part of the Statement on Developmental and Regulatory Policies issued along with the First Bimonthly Monetary Policy for the year 2019-20 on April 4, 2019, it was announced that the Reserve Bank will constitute a Task Force on development of secondary market for corporate loans.

Accordingly, the Reserve Bank of India has constituted a Task Force on the Development of Secondary Market for Corporate Loans. The Terms of Reference of the Task Force are to review the existing state of the market for loan sale/transfer in India as well as the international experience in loan trading and, to make recommendations on:

- required policy/regulatory interventions for facilitating development of secondary market in corporate loans, including loan transaction platform for stressed assets;
- creation of a loan contract registry to remove information asymmetries between buyers and sellers, its ownership structure and related protocols such as standardization of loan information, independent validation and data access;
- design of the market structure for loan sales/auctions, including online platforms and the related trading and transaction reporting infrastructure;
- need for, and role of, third party intermediaries, such as servicers, arrangers, market makers, etc.;
- appropriate measures for enhanced participation of buyers and sellers in loan sale/transfer; and,
- any other matter incidental to the issue.

The Task Force will submit its report by the end of August 2019.

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