After going through the chapter student will be able to understand:

- Capital Adequacy including RBI & Basel Norms
- Asset Reconstruction
- Asset – Liability Management

1. CAPITAL ADEQUACY INCLUDING RBI & BASEL NORMS

1.1 Concept of Capital Adequacy

Capital adequacy measures the adequacy of the capital i.e. how much capital should be adequate to tackle the riskiness of the loans (assets) given by the bank. This ratio is also called capital to risk weighted asset ratio (CRAR). This ratio is basically used to protect the interest of depositors and promote the stability of the financial system. Capital Adequacy ratio is calculated as follows:

\[
\text{CAR} = \frac{\text{tier 1 capital} + \text{tier 2 capital}}{\text{Risk Weighted Assets}}
\]

**Tier 1 capital** is the capital which provides a cushion to the Banks against losses up to the date of its winding up. For example, company’s equity share capital can be earmarked as tier 1 capital. **Tier 2 capital** is the capital which gives a cushion to the banks after the date of winding up of the company. So, this capital is used to absorb losses after the tier 1 capital is fully utilized. Therefore, it provides a lesser degree of protection to depositors and creditors.
Risk Weighted Assets refer to the fund based assets such as Cash, Loans, Investments and other assets. They are the total assets owned by the Banks. However, the value of each asset is assigned a risk weight. For example, if the bank has given loans to the government by investing in government securities like government bonds, it need not keep any capital. The reason is that, in case of loans given to government in the form of government securities, the risk is zero. Therefore the risk weight for government securities is zero. On the other hand, risk weight assigned in case of corporate loan is 100%.

The degree of % weights risk assigned by the Reserve Bank of India.

The following table shows the Risk weights for some important assets assigned by RBI.

<table>
<thead>
<tr>
<th>Asset</th>
<th>Weighted Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0%</td>
</tr>
<tr>
<td>Balance with Reserve Bank of India</td>
<td>0%</td>
</tr>
<tr>
<td>Central/ state Government Guaranteed advances</td>
<td>0%</td>
</tr>
<tr>
<td>SSI advances up to CGF guarantee</td>
<td>0%</td>
</tr>
<tr>
<td>Loans against FD (Fixed Deposits), LIC Policy</td>
<td>0%</td>
</tr>
<tr>
<td>Government approved Securities</td>
<td>2.50%</td>
</tr>
<tr>
<td>Balance with Banks other than RBI which maintain the 9% CRAR</td>
<td>20%</td>
</tr>
<tr>
<td>Secured Loan to the Staff Members</td>
<td>20%</td>
</tr>
<tr>
<td>Housing Loans</td>
<td>50%</td>
</tr>
<tr>
<td>Housing Loans &gt;Rs. 30 Lakhs</td>
<td>75%</td>
</tr>
<tr>
<td>Loans against Gold and Jewellery</td>
<td>50%</td>
</tr>
<tr>
<td>Retail Lending up to Rs. 5 crore</td>
<td>75%</td>
</tr>
<tr>
<td>Loans Guaranteed by DGCAC / ECGC</td>
<td>50%</td>
</tr>
<tr>
<td>Loans to Public Sector Undertakings</td>
<td>100%</td>
</tr>
<tr>
<td>Foreign Exchange and Gold in Open Position</td>
<td>100%</td>
</tr>
<tr>
<td>Claims on unrated corporates</td>
<td>100%</td>
</tr>
<tr>
<td>Commercial Real estate</td>
<td>100%</td>
</tr>
<tr>
<td>Consumer Credit</td>
<td>125%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>125%</td>
</tr>
<tr>
<td>Exposure to Capital Markets</td>
<td>125%</td>
</tr>
<tr>
<td>Venture Capital Investment as a part of Capital Market exposure</td>
<td>150%</td>
</tr>
</tbody>
</table>

From the above table, we have some sort of idea about the assets which are in the form of Cash, Government Securities; loans against FDs etc. which are among the safest of all assets with 0% Risk weight assigned to them. On the other hand, the venture Capital Investment as a part of Capital Market exposure has the maximum risk weight of 150% assigned to them.
Explanation of Risk Weighted Assets with the help of an example

Let's take an example to explain the concept of Risk Weighted Assets. In case of housing loans, the risk weight is 50%, which means banks have to set aside its own capital of ₹ 4.5 for every ₹ 100 loan (this means 50 % of 9% of ₹100). Presently, the CAR as prescribed by RBI is 9%. Similarly, in case of 100% risk weight (such as Loans to Public Sector Undertakings), banks have to keep aside its own capital of ₹ 9 (100 % of 9% of Rs.100) on the loan.

Benefits of Capital Adequacy Ratio

- Provides cushion against possible future losses.
- Motivate banks towards greater efficiency and could force the banks to reduce their operating costs.
- Enable banks to strengthen their fundamentals which in turn motivate them to show their balance sheet in a better way and help them to raise capital at lower cost.

1.2 Basel Norms

1.2.1 Introduction

The Basel Banking Accords are norms issued by the Basel Committee on Banking Supervision (BCBS), formed under the auspices of the Bank of International Settlements (BIS), located in Basel, Switzerland. The committee formulates guidelines and makes recommendations on best practices in the banking industry. The Basel Accords, which govern capital adequacy norms of the banking sector, aim to ensure financial stability and thereby increase risk absorbing capability of the banks.

The first set of Basel Accords, known as Basel I, was issued in 1988, with primary focus on credit risk. It laid the foundation of risk weighting of assets and set objective targets of capital to be maintained. Basel II was issued in 2004 with the objective of being more comprehensive. It aimed at increasing capital adequacy by imposing a buffer for a larger spectrum of risk. With the passage of time, it has been witnessed that the Basel norms failing to restrict two major crisis during its tenure, the South Asian Crisis in 1998 and Sub-prime Mortgage Crisis in 2007, which raises questions about its effectiveness. As the banking world has started complying with Basel III, the effectiveness of the Basel accord has been subject to criticism.

1.2.2 Basel I: Capital adequacy against credit risk

Basel I Accord attempts to create a cushion against credit risk. It comprises of four pillars, namely :

(i) **Nature of Capital**: It prescribes the nature of capital that is eligible to be treated as reserves i.e. reserves to be set aside to tackle any credit risk in future. As mentioned above capital to be treated as reserve has been classified into Tier I and Tier II Capital. Tier I is the capital that has the high capacity to absorb losses. Tier II capital comes into picture only when the company is wound up.

(ii) **Risk Weighting**: Risk Weighting means creating a systematic mechanism to provide weights to different categories of bank's assets (on balance sheet as well as off balance sheet assets) on the
basis of their relative riskiness. Risk Weighting has been discussed above under the heading ‘The degree of % weights risk assigned by the Reserve Bank of India’.

(iii) **Target Standard Ratio**: It provides unification of the first two pillars. It prescribes that Tier I and II capital should cover at least 8% of risk-weighted assets of a bank, with at least 4% being covered by Tier I capital alone.

(iv) **Transitional & implementing arrangements**: It sets different stages of implementation of the Basel I accord in a phased manner. Due to undercapitalization of the banking sector at that time, a phased manner of implementation was agreed upon, wherein a target of 7.25 percent was to be achieved by the end of 1990 and 8 percent by the end of 1992.

### 1.2.3 Basel II: Comprehensive framework with buffer for larger spectrum of risks

Basel II retained the ‘pillar’ framework of Basel I, yet crucially expanded the scope and specifics of Basel I.

The 4 pillars were amended as follows:

(i) **Minimum Capital Requirements, risks & target adequacy ratio**: The first task was to define reserve which is as follows:

    \[
    \text{Reserves} = 8\% \times \text{Risk-Weighted Assets} + \text{Operational Risk Reserves} + \text{Market Risk Reserves}
    \]

    The above formula has been defined with the help of an example:

    The term ‘Risk Weighted Assets’ has already been discussed in the preceding paragraphs. Operational Risk relates to breakdown in internal procedures, people and systems. Examples of operational risks include hiring of substandard people at work at lower salary, inappropriate maintenance of equipment and machinery and fraudulent practices employed by people at work. Lastly, market risk is the risk that the company’s investors may suffer loss due to turbulence in the financial market.

(ii) **Regulator-Bank Interaction**: This gave power to the regulators in supervision and dissolution of banks, giving them freedom to set buffer capital requirement above the minimum capital requirement as per pillar I.

(iii) **Banking Sector Discipline**: It aims to foster discipline by prescribing adequate disclosures about capital and risk profile to the regulators and public.

**Limitations of Basel II norms which lead to the introduction of Basel III norms**

Although Basel II was a comprehensive capital regulations framework, it failed to combat the circumstances which surfaced after the 2007-08 financial crises. The **limitations of Basel II norms** have been briefed in the following paragraph in order to have a better understanding as to why Basel III norms have been introduced:

- There was no stipulation for additional buffer capital. Only during stressed situations banks are asked to bring in additional capital. Failure on the part of the banks to bring in additional capital
when required may lead an economy into a recession. The reason is that industry may not get the required additional capital when required.

- Most of the assets of the banks were securitized bonds, derivatives products and other toxic assets (such as mortgage backed securities for e.g. collaterised debt obligations) which cannot be liquidated at the time of crises.
- Banks were high on debt and there was no regulation for limiting the debt.
- Basel II also failed to address liquidity risk which may ultimately lead to solvency risk.
- The focus of Basel II was basically on individual financial institutions. It ignored the interconnection among various financial markets.

### 1.2.4 Basel III norms

Basel III is a comprehensive set of reforms which aims to strengthen the regulation, supervision and risk management of the banking sector.

The Reserve Bank issued Guidelines based on the Basel III reforms on capital regulation on May 2, 2012 which have been implemented from April 1, 2013 in India in phases and it will be fully implemented as on March 31, 2019.

*The basic structure of Basel III remains similar with three pillars which are briefly discussed as below*

**Pillar 1:** Minimum Regulatory Capital Requirements based on Risk Weighted Assets (RWAs): Maintaining capital calculated through credit, market and operational risk areas.

**Pillar 2:** Supervisory Review Process: Regulating tools and frameworks for dealing with peripheral risks that banks face.

**Pillar 3:** Market Discipline: Increasing the disclosures that banks must provide to increase the transparency of banks.

Basel III is an improvement over earlier Accords i.e. Basel I and Basel II which can be clarified by going through the following characteristics of Basel III:

*Major characteristics of Basel III*

(a) **Better Capital Quality:** One of the major changes made in Basel III is the introduction of stricter definition of capital. Better quality capital leads to higher loss-absorbing capacity.

(b) **Capital Conservation Buffer:** Another major change in Basel III is that now banks will be required to hold a capital conservation buffer of 2.5%. The purpose of maintaining conservation buffer is to make sure that banks maintain a balance of capital that can be used to absorb losses during periods of financial and economic stress.

(c) **Countercyclical Buffer:** This is also one of the important points of Basel III. The countercyclical buffer has been introduced with the objective to enhance capital requirements in good times and reduce the same in bad times. The buffer will slow banking activity when surplus money is flowing into the
system and will encourage lending when times are tough i.e. in times of credit squeeze (shortage of money). The buffer will range from 0% to 2.5%, consisting of common equity or other fully loss-absorbing capital.

**d) Minimum Common Equity and Tier 1 Capital Requirements:** The minimum requirement for common equity, the highest form of loss-absorbing capital, has been raised under Basel III from 2% to 5.5% of total risk-weighted assets. The overall Tier 1 capital requirement, consisting of not only common equity but also other qualifying financial instruments, will also increase from the current minimum of 4% to 7%. Although the minimum total capital requirement will remain at the current 9% level, yet the required total capital will increase to 11.5% when combined with the capital conservation buffer (maximum prescribed limit is 2.5% of RWAs).

**e) Leverage Ratio:** A review of the financial crisis of 2008 has indicted that the value of many assets fell quicker than assumed from historical experience. Thus, now Basel III rules include a leverage ratio to serve as a safety net. A leverage ratio is the relative amount of capital to total assets (not risk-weighted). This aims to put a cap on unnecessary increase of leverage in the banking sector on a global basis. 3% leverage ratio of Tier 1 will be tested before a mandatory leverage ratio is introduced in January 2018.

**f) Liquidity Ratios:** Under Basel III, a framework for liquidity risk management will be created. A new Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are to be introduced in 2015 and 2018, respectively.

### 1.2.4.1 Composition of Capital in the Capital Adequacy Ratio (CAR) under Basel III norms

Banks are required to maintain a minimum CAR of 9%. Further, the RBI will judge whether the capital held by the bank is commensurate with the risk profile of the bank. So, RBI ensures this by vetting the effectiveness of the bank in identifying, measuring, monitoring and managing various risks. This includes interest rate risk and liquidity risk. Hence, RBI will consider prescribing a higher level of minimum capital ratio for each bank on the basis of their risk profile and risk management systems.

Capital Adequacy Ratio requirements shall be complied with by a bank at two levels:

(i) **The consolidated Capital Adequacy Ratio Requirements** – It measures the capital adequacy of a bank after consolidating the assets and liabilities of its subsidiaries, joint ventures and associates.

(ii) **The standalone Capital Adequacy Ratio Requirements**– As the name indicates, it measures the capital adequacy of a bank only on the basis of its sole capital and risk profile.

Now, computation of ratios under various segregation of regulatory capital in the capital adequacy ratio is as follows:

\[
\text{Common Equity Tier 1 capital ratio} = \frac{\text{Common Equity Tier 1 Capital}}{\text{Credit Risk RWA} + \text{Market Risk RWA} + \text{Operational Risk RWA}}
\]
Equity Tier 1 Capital ratio = \frac{Equity\ Tier\ 1\ Capital}{Credit\ Risk\ RWA + Market\ Risk\ RWA + Operational\ Risk\ RWA}

Total capital ratio (CRAR) = \frac{Equity\ Total\ Capital}{Credit\ Risk\ RWA + Market\ Risk\ RWA + Operational\ Risk\ RWA}

Here, RWA = Risk Weighted Assets

CRAR = Capital to Risk Weighted Asset Ratio

1.2.4.2 Segregation of Regulatory Capital – Capital in the CAR will consist of the sum of following categories:

(i) Tier 1 Capital
   (a) Common Equity Tier 1
   (b) Additional Tier 1

(ii) Tier 2 Capital

1.2.4.3 Limits of Segregated Regulatory Capital

(i) Capital Adequacy Ratio of 9% is prescribed by RBI.

(ii) Further, Common Equity Tier 1 must be atleast 5.5% of risk weighted assets which includes credit risk, market risk and operational risk.

(iii) And, additional tier 1 capital must be at the maximum 1.5% of RWA. Therefore, total Tier 1 capital must be atleast 7% (5.5 + 1.5) of RWAs.

(iv) Lastly, Tier 2 Capital can be admitted maximum upto 2 percent.

(v) Therefore, total prescribed limit of Tier 1 capital and Tier 2 Capital is 9% (7% tier 1 and 2% tier 2). This leads to a minimum CAR of 9% as mentioned in point (i) above.

Tier 1 capital is the core measure of a bank’s financial strength. It is composed of core capital, which consists primarily of equity share capital and retained earnings.

Tier 2 capital is the supplementary capital which can be utilized after the winding up of the company. It includes Perpetual Non-Cumulative Preference Shares and debt capital.

1.2.4.4 Conclusion

The basic aim of Basel norms is to create a global banking system that is fairly at the same level. This helps to create a strong financial system worldwide. However, it is not free from some of the limitations.

In this context, Persaud (2000, 2001) had remarked that a market being large is not sufficient for it to be highly stable and liquid. It must also show a broad range of participants having different objectives as one of the key characteristics. He further expressed that local knowledge is a key competitive advantage to a bank.
The Basel norms tend to overlook national competencies. If we take into account the global scenario there is a vast difference in the extent of development of individual countries. In the present global situation, international banks continue to overshadow the local banks. So, the differences across geographies can be a tricky issue to handle. Therefore, the Basel norms need to include some form of national competencies so as to create level playing field.

While the Basel norms strive to bring a lot of benefits, they generate high costs for the nations adopting such norms. This is especially true because there is no single set of dates for the implementation of a particular Basel regulation (such as Basel III) worldwide.

2. ASSET RECONSTRUCTION

Asset Reconstruction means to manage and recover Non Performing Assets (NPA’s) purchased from the banks. The job is to bail out banks from the pile of bad loans in which it is sitting.

So, here comes the Asset Reconstruction Companies (ARC’s). Their job is to clear the bad assets (NPA’s) from the books of companies. For example, it can handle some of the cases of home loan defaults and pursue the defaulters to pay the sum due. If they do not respond then ARC’s may start foreclosing and selling the properties to extract cash from the defaulted loan amount. They specialize in such activity and can handle them more efficiently because they have the required manpower, experience and support network to do so.

Now, whether ARC’s always make profits. Not always. They purchase bad loans from the banks at a discount and then they take steps to recover that money. If they able to recover the money, they make a profit, otherwise they lose money.

How ARC’s purchase assets?

The Asset Reconstruction Companies purchase assets in the following manner and the whole process is closely monitored by the banking regulator:

(i) Raising Funds - Asset Reconstruction Companies are allowed to raise funds from Qualified Institutional Buyers only in order to make payment to buy discounted debts from banks. They raise fund through the issue of security receipts to QIB’s. The security receipt gives the QIB a right, title or interest in the financial asset that is brought by the ARC. ARC’s also issues debt instruments or even sells equity to raise funds. Further, they have to take a special precaution that retail investors are excluded from it. The reason is that ARC’s are highly risky and only QIB’s are able to withstand such risk in case of a loss.

(ii) Partnership Method – Many times, ARC’s do not directly buy debts from the banks. They remain on the banks books. And, the bank hires the ARC to do the debt recovery process. Whatever revenue generated is divided between banks and ARC in a predetermined manner.

Evolution of Asset Reconstruction Companies in India

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 has come into force with effect from 21st June, 2002 for establishment and
operation of the Asset Reconstruction Companies. The main aim of the act is to empower banks and financial institutions to take the possessions of the securities and sell them without the intervention of the court.

Steps to be taken by ARCs against defaulting borrowers?

Following steps are to be taken by ARCs against defaulting borrowers in accordance with the guidelines issued by RBI:

- Change or take-over of the management of the borrower.
- Sale or lease of a part or whole of the business of the borrower.
- Re-scheduling of payment of debts payable by the borrowers.
- Enforcement of security interest in accordance with the provisions of the Act.
- Settlement of dues payable by the borrowers.
- Taking the possession of secured asset in accordance with the provision of the Act.

Benefits of Asset Reconstruction:

- The task of ARCs is to purchase and pool the NPAs of various lenders to quicken the process of recovering dues defaulted by the borrowers.
- So, the next benefit is to quickly liquidate the NPAs.
- Cleaning of books of account by reducing NPAs.
- Provide a way out to deal with defaulting clients (borrowers).

3. Asset Liability Management (ALM)

Asset liability management (ALM) is a process through which a bank manages its balance sheet. It is basically a tool of liquidity management. So, Asset Liability Management is a process of planning, organizing and controlling asset and liability volumes. Information system and organizational structure are the key factors in asset liability management. Banks need information regarding assets and liabilities in different branches. Moreover, it is easier to collect information in case of foreign exchange, investment portfolio and money market operations because these functions are centralized.

Further, asset liability management is a process by which banks measure and monitor risks and also provides suitable strategies to manage risk. As mentioned above, ALM basically includes liquidity management. It also covers currency risk management and interest rate risk management.

On the advice of RBI in February 1999, banks have to set up internal asset liability management committees (ALCO). The task of the committee is to decide the risk management policy of the bank and
set limits for liquidity, interest rate, foreign exchange and equity price risks. The responsibilities of ALCO are as follows:

(i) Pricing of deposits and advances i.e. fixing the rate of exchange.
(ii) Supervising the risk levels of the bank.
(iii) Review the progress made in the implementation of decisions made in the previous meetings.
(iv) Decide on sources and mix of assets and liabilities.

The Objectives or Scope of ALM

(i) Liquidity Risk Management—Measuring and managing liquidity needs are important for the survival of a commercial bank. Bank’s liquidity management not only includes measuring the liquidity position of a bank on a continuous basis but also assessing how liquidity requirements will evolve under different situations. Further, it is a myth that Government securities and money market instruments are always liquid. They can be illiquid when the market and the market players are moving in only one direction. Therefore, liquidity can be tracked through maturity and cash flow mismatches.

What is a liquidity risk?
The term ‘liquidity’ in banks basically refers to the ability of a bank to funds its asset and any increase in its assets and able to meet its obligations as they come without incurring any major loss. So, liquidity risk is a risk that banks may not be able to meet its obligations in time without affecting the financial conditions of a bank in a major way. Therefore, effective liquidity management refers to meeting the obligations in time and reduces the chances of occurring any adverse situation.

Factors leading to liquidity risk management

• Heavy reliance of banks on short term corporate deposits
• Gaps in the maturity dates of assets and liabilities
• Heavy increase in banks asset which surpasses its liabilities by a fair margin
• Sudden and heavy withdrawals from the depositors
• Slow economic growth also perpetuates liquidity problems

Measurement, governance and management of liquidity management

• Banks should maintain a cushion of non-mortgaged/non-pledged high quality liquid assets to ward off a series of stress events.
• A bank should also put in place a risk tolerance system.
• Senior management should on continuous basis review information on the bank’s liquidity developments and report to the board of directors on a regular basis.
• A bank should have a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process should include a good technique forecasting cash flows arising from assets, liabilities and off-balance sheet items over a period of time.

• A bank should form a funding strategy that provides effective diversification in the sources and tenure of funding. It should maintain a continuous presence in already existing markets and also maintain good relationships with providers of fund to have a mix of various forms of funding sources.

• A bank should have the ability to access funds quickly from each source as mentioned above.

• A bank should manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis.

• A bank should manage collateral in an efficient manner.

(ii) Currency Risk – Managing currency risk is a big task of Banks. Currency risk includes changes in one currency in relation to another currency. Floating exchange rate movements has brought in its fold new dimension to the risk profile of banks’ balance sheets. Large flows of foreign capital from different countries have rendered the banks’ balance sheet exposed to exchange rate movements.

(iii) Interest Rate Risk (IRR) – Interest risk is the change in prices of bonds that could occur because of change in interest rates. It also considers change in impact on interest income due to changes in the rate of interest. In other words, price as well as reinvestment risks require focus. In so far as the terms for which interest rates were fixed on deposits differed from those for which they fixed on assets, banks incurred interest rate risk i.e., they stood to make gains or losses with every change in the level of interest rates.

Techniques to manage IRR -

a) Maturity gap analysis: (to measure the interest rate sensitivity of earnings)

Gap is a static report showing Balance Sheet and off Balance Sheet position on a particular day. It determines number of time buckets and the length of each time bucket. It means putting every asset, liabilities and off balance sheet item into a time bucket. For instance, one year loan that shows price changes every three months should be put in a three month bucket.

b) Duration (to measure the interest rate sensitivity of capital) – is a measure of % change in economic value of a position that may happen if there is a small change in level of interest rate.

c) Simulation – It attempts to remove the disadvantages of Gap and Duration approach by Computer Modeling the bank’s interest rate sensitivity. Modeling assumes future path of interest rate charges in business activity, pricing and hedging strategies.

d) Value at Risk - As per Wikipedia, VAR is a measure of risk of investment. Given the normal market condition in a set of period, say, one day it estimates how much an investment might lose. This investment can be a portfolio, capital investment or foreign exchange etc., VAR answers two basic questions –

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(i) What is worst case scenario?
(ii) What will be loss?

It was first applied in 1922 in New York Stock Exchange. It entered the financial world in 1990s and become world’s most widely used measure of financial risk.

The role of securitization in ALM

With the help of securitization, financial institutions and banks can convert mortgaged backed assets into securities which would have otherwise been held till maturity. It acts as an alternative route for asset/liability restructuring. Securitization can also be viewed as a direct form of financing in which investors directly lend to the borrowers.

The process of Securitization also has the additional advantage of balance sheet cleaning by converting highly complex and illiquid assets into marketable securities. Another benefit of securitization is that it transfers risk such as interest rate risk, credit risk and pre-payment risk to the ultimate investors of the securitized assets. Further, Securitization increases the liquidity (because money is coming to the financial institution in form of issuance of securities with the help of mortgaged backed assets) and diversification (because securities offer various options to the investors) of the loan portfolio. Also, it allows a financial institution to regain some part of the profits of lending and reduction of cost in intermediation (i.e. in the process of converting the illiquid assets into marketable securities).