

Webinar for Bank Branch Statutory Auditors

Prudential Norms on Income Recognition,  
Asset Classification and Provisioning  
*with special focus on Covid 19 circulars &  
Interim order of Supreme Court*

Organised by: J B Nagar CPE Study  
Circle of WIRC of ICAI

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**Coverage**

- Objective
- Identification of Account as NPA
- Exceptions / Clarifications
- Relief to MSME borrowers
- Covid 19 related Circulars
- Projects under Implementation
- Asset Classification and Provisioning
- Guidelines on Restructuring of Advances
- Prudential Framework for Resolution of Stressed Assets (RBI Circular dated 07.Jun.2019)
- Points to ponder

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**RBI Circulars Reference**

- Master Circular dated July 01, 2015 on IRAC Norms
  - Part A – General Guidelines
  - Part B – Prudential Guidelines on Restructuring
  - Part C – Early recognition of financial distress
- Master Direction – RBI (Relief Measures by Banks in Areas affected by natural calamities) Directions, 2018 dated October 17, 2018
- Prudential Framework for Resolution of Stressed Asset –Circular dated June 07, 2019
- Relief for MSME Borrowers: 07.Feb.18, 08.Jun.18, 01.Jan.19, 11.Feb.20 & 06.Aug.20

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### Covid19 related RBI Circulars

Date	Circular
27.Mar.2020	Covid-19 Regulatory Package
17.Apr.2020	Covid-19 Regulatory Package – Asset Classification & Provisioning
17.Apr.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
23.May.2020	Covid-19 Regulatory Package
23.May.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
06.Aug.2020	Resolution Framework for Covid-19 related stress
17.Sep.2020	Resolution Framework for Covid-19 related stress – Financial Parameters
13.Oct.2020	FAQs

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### Objective

- The classification of assets of banks has to be done on the basis of objective criteria, which would ensure a uniform and consistent application of the norms.
- The provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

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### Asset Types

Standard Assets Performing Assets (PA)	Non-Performing Assets (NPAs)
Not Non-Performing	Ceases to generate income
Do not carry risk more than normal banking risk	Higher risk than normal banking risk
	NPA as per various criteria defined

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**Criteria for NPA**

Loans or Advance	<ul style="list-style-type: none"> <li>▪ Interest and/or installment remains overdue for a period of more than 90 days in respect of a term loan.</li> <li>▪ <i>As per para 2.1.3, an account is classified as NPA only if <u>interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.</u></i></li> </ul>
Exceptions	<ul style="list-style-type: none"> <li>▪ Loans with moratorium for payment of interest</li> <li>▪ Housing Loan or similar advance to staff</li> </ul>

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**Criteria for NPA**

Bills Purchased and discounted	Bill remains overdue for a Discounted period of more than 90 days.
Agricultural Advances	Interest or installment remains overdue for two crop seasons for short duration crop, one crop season for long duration crop.
	<p><i>*Definitions</i>  <i>crop season – 'period up to harvesting of crops raised' as determined by SLBC</i>  <i>Long duration crop – Crops wherein crop season is more than 12 months</i></p>

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**Criteria for NPA**

Agricultural Advances	Banks have <u>discretion of rescheduling</u> the agricultural advances <u>in case of natural calamities</u> , which impair repaying capacity
Reference Circulars of Reserve Bank of India	FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015 FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015 Master Direction dated July 01, 2016, July 03, 2017, October 17, 2018
FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015	Defines 'Farm Credit'

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<b>Criteria for NPA</b>	
FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015 Guidelines for relief measures by banks in areas affected by natural calamity	
Natural Calamity	12 types of natural calamities are defined
Institutional framework	The Banks to have blueprint of action plan with adequate delegation of powers with discretionary powers granted to Divisional / Zonal Managers, to ensure assistance provided without loss of time.
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<b>Criteria for NPA</b>	
Guidelines for relief measures by banks in areas affected by natural calamity	
Meeting of SLBC / District Consultative Committee	<i>Immediate conveying of meeting by:</i> If calamity covers entire state .... SLBC If small part of the state .... District Consultative Committee
Declaration of natural calamity	Domain of Sovereign (Central / State Government) <u>Assessed Crop loss should be 33% or more</u>
Restructuring / rescheduling of existing loans	Agricultural Loans - Short Term - Long Term Other Loans
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<b>Criteria for NPA</b>	
Guidelines for relief measures by banks in areas affected by natural calamity <b>Short Term Agricultural Loans</b>	
<i>Eligibility:</i> Loan should not be overdue at the time of occurrence of natural calamity	
<i>Crop Loss</i>	<i>Maximum repayment period extension (incl. of moratorium period)</i>
33% to 50%	2 Years
50% or more	5 Years
<ul style="list-style-type: none"> <li>• Moratorium period – at least 1 year</li> <li>• Principal and interest due in the year of natural calamity to be converted into Term Loan</li> <li>• Additional collateral security not to be insisted upon</li> </ul>	
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**Criteria for NPA**

Guidelines for relief measures by banks in areas affected by natural calamity	
<b>Long Term Agricultural Loans</b>	
<i>Only Crop for that year is damaged and not the productive assets</i>	
<ul style="list-style-type: none"> <li>- Reschedule installment during the year of natural calamity and extension of loan period by one year</li> <li>- Willful defaulted installments not eligible for rescheduling</li> <li>- Payment of interest may be postponed</li> </ul>	
<i>Productive Assets are damaged (partially / totally)</i>	
Repayment period can be restructured provided generally it shouldn't exceed 5 years	

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**Criteria for NPA**

Guidelines for relief measures by banks in areas affected by natural calamity	
Asset Classification	<ul style="list-style-type: none"> <li>- Restructured portion to be considered as current dues</li> <li>- Un-restructured portion to be governed by original terms and conditions</li> <li>- Additional finance to be treated as 'Standard Asset'</li> <li>- Second restructuring would not be considered as 'repeated restructuring'</li> </ul>
Insurance Proceeds	To be adjusted against restructured loans wherein fresh loans are granted

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**Criteria for NPA**

Derivative Transaction	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.
Liquidity facility	Remains outstanding for more than 90 days in respect of Securitisation transaction.
Credit Card dues	The minimum amount payable is not paid within 90 days from the next statement date

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**Criteria for NPA**

Cash Accounts	Credit	If the account is 'out of order'
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Conditions for out of order status

- Outstanding Balance remains continuously in excess of sanctioned limit / drawing power for more than 90 days
- No credit continuously for 90 days as on the date of Balance Sheet
- Credits in the account are not sufficient to cover interest debited during the same period

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**Criteria for NPA**

What is 'Overdue'?

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If an amount due to bank under any credit facility is not paid on the due date fixed by the bank.

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**Criteria for NPA**

Accounts with Temporary Deficiencies

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Outstanding Balance in account based on the drawing power calculated from stock statements older than 3 months would be deemed as irregular & if such irregular drawing are permitted for a period of 90 days, account needs to be classified as NPA

*Note: The leverage is applicable only for large borrowers*

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Non-renewal/ Non-regularisation of regular / adhoc limit within 180 days from the due date

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**Criteria for NPA**

Exceptions / Clarifications
<ul style="list-style-type: none"> <li>▪ Advances against term deposits, NSCs, IVPs, KVPs and Life Insurance Policies need not be treated as NPAs, till security cover is sufficient to cover outstanding balance.</li> <li>▪ Income to be recognised subject to availability of margin</li> </ul>
Advance against gold ornaments / Government securities not exempt.
Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

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**Criteria for NPA**

Exceptions / Clarifications
<p><b>Classification Qua Borrower</b></p> <p>All facilities granted to a borrower shall be treated as NPA &amp; not only that facility which has become irregular</p>
<p><b>Exception</b></p> <p>(i) Credit facility to Primary Agricultural Credit Society (PACS) and Farmers Service Societies (FSS) under on lending arrangement;</p> <p>(ii) Bill Discounted against accepted LC</p>

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**Criteria for NPA**

Exceptions / Clarifications
<p><b>Consortium Advances</b></p> <ul style="list-style-type: none"> <li>▪ Member banks shall classify the accounts according to their own record of recovery.</li> <li>▪ Bank needs to arrange to get their share of recovery or obtain an express consent from the Lead Bank otherwise the account in such deprived banks might be treated as NPA for non-servicing.</li> </ul>

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### Criteria for NPA

Exceptions / Clarifications
<p><u>Straightaway Classification (Potential threat of recovery)</u></p> <ul style="list-style-type: none"> <li>▪ Erosion in Value ..... Where realisable value of security is less than 50% of the value assessed (<i>by bank or value accepted in last RBI Inspection</i>), account to be straightaway classified as <b>Doubtful Asset</b>.</li> <li>▪ Where realisable value (<i>as assessed by Bank / Valuator / RBI Inspector</i>) of security is less than 10% of <u>outstanding balance</u>, account to be straightaway classified as <b>Loss Asset</b>.</li> </ul>
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### Criteria for NPA

Exceptions / Clarifications
<p><u>Straightaway Classification (Potential threat of recovery)</u></p> <ul style="list-style-type: none"> <li>▪ Fraud .....             <ul style="list-style-type: none"> <li>▪ 100% to be provided irrespective of security spread over 4 quarters commencing from the quarter in which fraud has been detected.</li> <li>▪ If not reported to RBI, 100% to be provided instantly</li> </ul> </li> </ul>
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### Criteria for NPA

Exceptions / Clarifications					
<p><u>Solitary or few credit entries recorded before Balance Sheet to regularise the account</u></p> <p>Whether the account is having inherent weakness?</p> <div style="text-align: center;"> </div> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 50%; text-align: center;">Yes</td> <td style="width: 50%; text-align: center;">No</td> </tr> <tr> <td>Mark the account as NPA</td> <td>The bank to evidence the auditors about manner of regularisation of account</td> </tr> </table>		Yes	No	Mark the account as NPA	The bank to evidence the auditors about manner of regularisation of account
Yes	No				
Mark the account as NPA	The bank to evidence the auditors about manner of regularisation of account				
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**Criteria for NPA**

Mandatory Valuation of Securities
Applicable only if balance in NPA is Rs. 5 crores & above
<ul style="list-style-type: none"><li>▪ Annual Stock Audit by external agencies</li><li>▪ Immovable Properties – Valuation to be carried out once in three years by approve valuer</li></ul>

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**Criteria for NPA**

Two quick questions
<ul style="list-style-type: none"><li>▪ In case of Term Loans, the account was having 4 instalments overdue during the year but is having only 2 instalments as at year-end ..... Whether the account identification / classification is to be done only at year-end or during the year?</li><li>▪ The account is regularised after the year end either during the audit process or before signing of balance sheet of the bank</li></ul>

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**Criteria for NPA**

Quick Reference to Para 4.2.5
If <u>arrears</u> of interest and principal <u>are paid</u> by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.
Quick Reference to Para 4.2.2
The system should ensure that <u>doubts in asset classification</u> due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines

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### Relief for MSME Borrowers

Date of Circular	Details of Circular	PA cut-off date
07.Feb.2018	One time restructuring of MSME Advances	31.Aug.2017
06.Jun.2018	Encouraged formalisation of MSME Sector	
01.Jan.2019	Scheme extended (31.Mar.2020)	01.Jan.2019
11.Feb.2020	Scheme extended (31.Dec.2020)	01.Jan.2020
06.Aug.2020	Scheme extended (31.Mar.2021)	01.Mar.2021

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### Relief for MSME Borrowers

Circular dated August 06, 2020
MSME Sector restructuring of advances (in continuation of 11.Feb.2020 circular)
One time relaxation given for restructuring of MSME standard accounts without downgrade subject to conditions

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### Relief for MSME Borrowers

Circular dated August 06, 2020
1. Aggregate exposures (FB + NFB) of banks and NBFCs should not exceed Rs. 25 crores as on 01.Mar.2020
<i>Exposure need not be balance outstanding</i>
2. Borrower account should be 'Standard Asset' as on 01.Mar.2020 and till date of implementation of restructuring
<ul style="list-style-type: none"> <li>• An account not marked as NPA but fulfilling NPA criteria to become ineligible</li> <li>• An account which is NPA as on 01.Mar.20 but upgraded subsequently ineligible</li> </ul>

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### Relief for MSME Borrowers

Circular dated August 06, 2020

3. Borrower entity should be registered on the date of implementation of restructuring (except for MSMEs exempt from GST Registration)

*A borrower entity can opt for GST registration during the phase of implementation*

4. Restructuring of borrower accounts to be implemented on or before March 31, 2021

*No apparent eligibility criteria defined for which accounts can be restructured besides no criteria defined as regards no. of years criteria for restructuring / reschedulement*

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### Relief for MSME Borrowers

Circular dated August 06, 2020

5. Asset Classification to be retained even if the account slips into NPA category between 02.Mar.2020 and date of implementation

6. Additional provision of 5% to be made and retained till end of specified period or account demonstrating satisfactory performance *(no payment should be overdue for more than 30 days during the period of one year from the date when first interest / installment is due)*

7. Account restructured earlier under MSME is ineligible.

8. Post restructuring usual NPA norms to apply

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### Relief for MSME Borrowers

Circular dated August 06, 2020

9. Disclosure in Notes on accounts required for MSME restructured accounts specifying no. of accounts and Amount

10. If restructured accounts is downgraded as NPA as per IRAC norms, the same would be eligible for upgradation only if it demonstrates satisfactory performance during the specified period

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

RBI Circular dated March 27, 2020
<p><b>Purpose</b></p> <p>To mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses.</p>
<p><b>Relief:</b></p> <ul style="list-style-type: none"> <li>i) Rescheduling of Payments – Term Loans and Working Capital Facilities</li> <li>ii) Easing of working capital financing</li> <li>iii) Relaxation from Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)</li> </ul>

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

<b>Rescheduling of Payments – Term Loans and Working Capital Facilities</b>
<p>Term Loan (Includes EMIs, Interest / Principal, Bullet Payment, Credit Card dues)</p>
<p><b>Relief:</b></p> <ul style="list-style-type: none"> <li>i) permitted to grant a moratorium period of three months on payment of all instalments to all types of term loans which are falling due between March 01, 2020 and May 31, 2020</li> <li>ii) accordingly the residual tenor of the account would be extended to the extent of such moratorium period granted</li> </ul>

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

<b>Rescheduling of Payments – Term Loans and Working Capital Facilities</b>
<p>Working Capital Facilities (Not to include LCBD)</p>
<p><b>Relief:</b></p> <ul style="list-style-type: none"> <li>i) permitted to defer the recovery of interest applied on working capital finance facilities during the period March 01, 2020 upto May 31, 2020, which would thus be considered as 'accrued but not due'</li> </ul> <p><i>Application of 'out of order' status to get impacted</i></p>

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

<b>Easing of Working Capital Financing</b>
Relaxation in margins, etc.
Relief:
i) The circular grants discretion to the lending institutions regarding reduction in margin and reassessment of working capital cycle, during the period upto May 31, 2020.
ii) The said relief will have limited impact to the extent of change in method of calculation of drawing power to the extent of reduction in margin and relaxation in consideration of working capital cycle

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

<b>Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)</b>
The relief granted by banks to the borrower as specified and permitted under the said circular, will not be considered as concession or change in terms and conditions of loan agreements. Thus, no downgrading is required.
Anything beyond the relief specified in the circular will result in restructuring and thus would be required to be downgraded
There is no relaxation on NPA norms specified in the circular

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

<b>Points to ponder upon</b>
Whether the circular is applicable only to borrowers which are affected by COVID 19?
Whether the circular will be applicable to all borrowers or only to borrowers who opt for availing this benefit?
If it is selectively applied, whether the same requires any documentation to ensure legal compliance?

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**COVID-19 – Regulatory Package (Circular dated 27.Mar.20)**

Points to ponder upon
Due to extension of repayment schedule, the EMI will undergo a change due to interest charged for the moratorium period of 3 months which will practically affect ECS, SIs besides requirements to update documentation
No specifications given as regards relaxation of working capital drawing power calculation
e.g.: book debts to be considered upto 120 days / 180 days / 365 days, etc.?

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**COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)**

RBI Circular dated April 17, 2020
<b>Purpose</b> To issue detailed instructions with regard to asset classification and provisioning, consistent with the globally coordinated action committed by the Basel Committee on Banking Supervision.
<b>Relief:</b> i) Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC) a) Term Loans b) Working Capital Facilities ii) Provisioning iii) Disclosure in Notes on Accounts & other matters

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**COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)**

Relief granted to Term Loan
<b>Eligibility:</b> i) Term Loan account is standard as on 29.Feb.2020 ii) Moratorium period as per circular dated 27.Mar.2020 is availed by the borrower
<b>Relief:</b> i) while calculating the delinquency w.r.t. asset classification norms, exclude the period to the extent of moratorium period granted
<b>Other Points:</b> i) The benefit will not be available for accounts wherein repayment moratorium is not availed ii) Upgradation of account is possible

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<b>COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)</b>	
Relief granted to Working Capital Facilities	
Eligibility:	
i) All working capital finance facilities	
ii) Account is standard account as on 29.Feb.2020	
Relief:	
i) grants a relief from determination 'out of order' status during the intervening period of March 01, 2020 and May 31, 2020	
Other Points:	
i) The account classification of the standard asset will not deteriorate but can upgrade during the said period	

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<b>COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)</b>	
Provisioning	
Applicability	
i) Applicable only in cases wherein the accounts would have otherwise become NPA as per IRAC norms but have retained the class of asset as PA, availing benefit as per the circular	
Provision requirement:	
i) Quarter ended March 31, 2020 – not less than 5%	
ii) Quarter ending June 30, 2020 – not less than 5%	
Other Points:	
i) Provision is required to be made account-wise and not borrower-wise	

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<b>COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)</b>		
Provisioning – Examples (Term Loan)		
Instalment overdue since	Provision required	Provision required for the quarter
15.Dec.2019	Yes	Mar'20 – 5% Jun'20 – 5%
01.Jan.2020	Yes	Mar'20 – 5% Jun'20 – 5%
15.Jan.2020	Yes	Jun'20 – 10%
29.Feb.2020	Yes	Jun'20 – 10%

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**COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)**

Provisioning – Other matters
i) The provision can be used for slippages of the account wherein such provision made
ii) The residual provision can be adjusted against provision required for all other slippages and balance can be written back
iii) The provision not to reckoned for the purpose of calculation of Net NPA
iv) The provision will not be netted off from Gross Advances but would be shown separately

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**COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)**

Other Considerations
No bar on upgradation of accounts subsequent to 29.Feb.2020 during the intervening period from 01.Mar.2020 to 31.May.2020
In case of existent NPA accounts as at 29.Feb.2020, usual IRAC norms aligned with ageing continue to apply
Circular provides for disclosures in notes on accounts related with FY: 2019-20, 2020-21 and half year ended 30.Sep.2020

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**COVID-19 – Regulatory Package - Asset Classification and Provisioning (Circular dated 17.Apr.20)**

Other Considerations
Documentation requirement w.r.t. the accounts availing benefits including policy approved by competent authorities
Competence of CBS in adopting the RBI regulatory relief measures and its verification by the auditors
Impact on capital adequacy & other matters w.r.t. varied accounting practices followed by bank for CC/OD interest deferment (if separate account is used to part the interest)

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**COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets (RBI Circular dated 17.Apr.2020)**

Relief granted

Existent provision:

As per paragraph 11, lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of Review Period of 30 days.

Relief granted:

Accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to May 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from June 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

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**COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets (RBI Circular dated 17.Apr.2020)**

Other points

The requirement of making additional provisions specified in paragraph 17 of the Prudential Framework shall be triggered as and when the extended resolution period, as stated above, expires.

relevant disclosures in respect of accounts where the resolution period was extended in the 'Notes to Accounts' related with FY: 2019-20, 2020-21 and half year ended 30.Sep.2020

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**COVID-19 – Regulatory Package (Circular dated 23. May.20)**

**Relief Granted in continuation of circular dated 27.Mar.2020 & 17.Apr.2020**

Term Loan

Moratorium period further extended by three months (01.Jun.2020 to 31.Aug.2020)

Working Capital Finance

Interest between the period 01.Mar.2020 to 31.Aug.2020  
 (a) Interest due is deferred till 31.Aug.2020  
 (b) Option given to convert the accumulated interest into a Funded Interest Term Loan (FITL)

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**COVID-19 – Regulatory Package (Circular dated 23. May.20)**

**Relief Granted in continuation of circular dated 27.Mar.2020 & 17.Apr.2020**

Easing of Working Capital Finance  
*(Applicable only to borrowers facing stress on account of pandemic)*

- Reduction of margins permitted till 31.Aug.2020
- If temporary enhancement in drawing power granted, margin to be restored to normal by 31.Mar.2021

Asset Classification

- Benefit of exclusion of the period for counting overdue / out of order status extended till 31.Aug.2020
- Stand-still clause for all PAs as at 29.Feb.2020 till 31.Aug.2020

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**COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets (RBI Circular dated 23. May.2020)**

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**COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets (RBI Circular dated 23.May.2020)**

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Accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

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**Resolution Framework for COVID-19 related stress (RBI Circular dated 06.Aug.2020)**

**Ineligible Exposures**

1. MSME borrowers with aggregate exposure upto Rs. 25 crores as at 01.Mar.2020
2. Farm credits (as Master Directions to apply)
3. Loan Primary Agricultural Credit Societies (PACs), Farmers' Service Providers (FSS), etc. for onward lending to agricultural
4. Exposure to lending institutions to financial service provider
5. Exposures to Central / State / Local Govt. Bodies
6. Exposure to housing finance companies
7. Staff Loans

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**Resolution Framework for COVID-19 related stress (RBI Circular dated 06.Aug.2020)**

**Eligibility Criteria and other conditions – Personal Loans**

1. Applicable only to pandemic affected borrowers
2. Board approved policy is required for implementation
3. Reference date for outstanding amount of debt for resolution shall be 01.Mar.2020
4. Account should be Standard and not in default for more than 30 days as at 01.Mar.2020

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

**Eligibility Criteria and other conditions – Personal Loan**

5. Borrower account is required to be standard as on date of invocation of resolution under this framework
6. Date of invocation = Date on which both borrower and lender agree to proceed with resolution plan
7. Last date of invocation is 31.Dec.2020
8. Resolution to be implemented within 90 days from date of invocation

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

**What can be a resolution plan? (Personal Loan)**

1. Re-schedulement of payment
2. Conversion of interest accrued or to be accrued into another credit facility
3. Moratorium period subject to maximum of upto 2 years
4. Moratorium if granted would be effected immediately upon implementation, thus, would be always prospective

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

**When resolution plan can be said to be implemented?  
(Personal Loan)**

1. All related documentation including execution of required agreements are completed
2. Change in terms & conditions of loan get duly reflected in books of lender
3. Borrower is not in default with lenders as per revised terms

***If there is a breach of the conditions in implementation, usual NPA norms would apply***

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

<u>Other Exposures</u>
If there are multiple lending institutions
Resolution plan would be considered as invoked only if
1. 75% in value terms
2. 60% in number
of lending institutions agree to invoke the same
For single lender exposures, Board approved policy would govern the implementation of resolution
<small>CA Dhananjay J. Gokhale <span style="float: right;">61</span></small>

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

<u>Other Exposures</u>
1. To be invoked upto 31.Dec.2020
2. To be implemented within <b>180 days</b> from date of invocation
3. Moratorium upto two years permitted
4. Sanction of additional credit facilities permitted
For multiple lending institutions, ICA to be signed by all lenders within 30 days from date of invocation or otherwise the invocation is considered as lapsed.
<small>CA Dhananjay J. Gokhale <span style="float: right;">62</span></small>

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

<u>Other Exposures</u>
Expert Committee (Report published vide circular dated 07.Sep.2020)
<i>Provided list of financial parameters &amp; sector-specific desirable ranges of parameters</i>
Vetting required for aggregate exposures above Rs. 1500 crores
<i>Independent Credit Evaluation (ICE) by independent credit rating agency required if exposure is above Rs. 100 crores</i>
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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

Asset Classification and Provisioning
Additional facilities sanction between invocation and implementation to be considered as 'Standard Asset' but if the implementation fails, same to be treated as 'qua-borrower'
Accounts which slip into NPA category in between invocation and implementation, can be upgraded to standard asset category on the date of implementation
Retention of class of asset benefit extended for covid19 resolution framework

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

Asset Classification and Provisioning
<b>Personal Loan – Provision</b>
Provision held as on date of implementation or 10% whichever is higher
<b>Other Exposure – Provision</b>
if ICA signed within 30 days Provision held as on date of implementation or 10% whichever is higher
If ICA signed after 30 days – 20% provision

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

Reversal of Provision
<b>Personal Loan</b>
Half to be reversed once 20% of residual debt is paid without slipping into NPA and balance after repayment of further 10%
<b>Other Exposure</b>
For signatories to ICA – Same like Personal Loans
For non-signatories to ICA – Same but IRAC provision to be continued

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

Post Implementation Performance
Personal Loan : Usual IRAC norms to apply
Other Exposure (during monitoring period) Monitoring Period: Period between implementation and repayment of 10% of residual period, subject of minimum of one year from commencement of first payment of Prin / Int. If there is a default during monitoring period, 30 days review period would be triggered and if the borrower is in default at the end of review period, downgraded to NPA from date of implementation or NPA date before implementation of plan

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**Resolution Framework for COVID-19 related stress  
(RBI Circular dated 06.Aug.2020)**

Disclosures and Credit Reporting
1. Disclosure as per format prescribed in quarterly and annual financials
2. Credit reporting to be made and 'restructured' status would be reflected

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**Few Important Circulars / Issues**

Date	Circular
21.Aug.2020	Ad-hoc / Short Review / Renewal of credit Facilities
21.Aug.2020	New Definition of Micro, Small and Medium Enterprises – Clarifications
14.Sep.2020	Automation of Income Recognition, Asset Classification and Provisioning Process in banks (Cut-off date: 30.Jun.2021)
03.Sep.2020	Interim Order of Supreme Court <i>'the accounts which were not declared NPA till 31.08.2020 shall not be declared NPA till further orders.'</i>

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### Projects under Implementation

#### Essentials

**Project loan** means any term loan which has been extended for the purpose of setting up of an economic venture.

The bank needs to clearly spell out 'Date of Completion' (DC) and 'Date of Commencement of Commercial Operations' (DCCO).

Type of Project Loan:

1. Infrastructure Sector
2. Non-Infrastructure Sector

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### Projects under Implementation

#### When not considered as Restructuring?

If *change in repayment schedule* is caused due to increase in project outlay on account of increase in scope and size of the project & following conditions are fulfilled:

1. The increase in scope and size of the project takes place before commencement of commercial operations of the existing project;
2. The rise in cost excluding any cost-overflow in respect of the original project is 25% or more of the original outlay;
3. The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO;
4. On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

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### Projects under Implementation

#### Deferment of DCCO

If deferent and consequential shift in repayment schedule is for equal or shorter duration, not considered as restructuring if:

Particulars	Infrastructure	Non-Infrastructure
Revised DCCO is within	Two years from original DCCO	One year from original DCCO
Revision due to Court Case	2 + 2 Years from original DCCO	1 + 1 Years from original DCCO
Revision due to any other reason	2 + 1 Years from original DCCO	

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### Projects under Implementation

#### Deferment of DCCO & Retention of Class – Conditions

1. Benefit of asset classification now available to CRE with extension by 1 year as per circular dated 07.Feb.2020
2. Application for restructuring (deferment of DCCO) is received upto to two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
3. Account needs to be standard
4. If moratorium given for interest, income on accrual can be booked till two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
5. Additional provision of 5% if extended beyond two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure

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### Projects under Implementation

#### Deferment of DCCO & Retention of Class – Conditions

6. Additional provision of sacrifice (diminishing in fair value) for standard assets is required to be made for extension of DCCO
7. In case of Infrastructure projects under implementation, appointed date is shifted due to inability of concession authority to comply requisite conditions, the loan need not be treated as 'restructuring' provided:
  - i. Project should be Public Private Partnership model
  - ii. Loan is not yet disbursed
  - iii. Revised date is documented by way of supplementary agreement
  - iv. Viability to be re-assesed and sanctioned

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### Projects under Implementation

#### Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

1. Project is stalled due to inadequacies of the promoters;
2. Change of ownership resulting in high probability of commencement of commercial operations;
3. New promoters need to have sufficient expertise
4. New promoters should own at least 51% of paid up equity
5. Viability of the project to be established
6. Intra-group company take over not eligible

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**Projects under Implementation**

Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

- 7. Asset classification would be as of reference date (date on which preliminary binding agreement is executed)
- 8. Take over to be completed within 90 days
- 9. New promoters to demonstrate commitment by bringing in substantial portion of additional funds
- 10. Repayment schedule not to exceed beyond 85% of economic life
- 11. Facility available only once

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**Projects under Implementation**

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

- 1. Sanctioned at the time of initial financial closure
- 2. Purpose is to fund cost overruns, if required
- 3. To be disbursed only if cost overruns and not otherwise
- 4. Subsequent Standby Credit facility permitted if DCCO extended upto 2 / 1 year for infra and non-infra
- 5. Exemption from definition of restructuring provided:
  - i. Interest during construction due to delay can be funded
  - ii. Other cost overruns limited to 10% of original cost

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**Projects under Implementation**

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

- 5. Exemption from definition of restructuring provided:
  - iii. Debt / Equity Ratio need to be unchanged (promoters to infuse funds)
  - iv. Disbursement only after promoter's contribution
  - v. No other change in terms and conditions
  - vi. 10% cost-over run ceiling is excluding interest but including currency fluctuations

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### Income Recognition

For NPA accounts income should be recognised on realisation basis.

When an account becomes non-performing, unrealised interest / fees / commission of the previous periods should be reversed or provided.

Interest income on additional finance in NPA account should be recognised on cash basis.

In project loan, funding of interest in respect of NPA if recognised as income, should be fully provided.

If interest due is converted into (unlisted) equity or any other instrument, income recognised should be fully provided (if listed, income recognised to the extent of MV)

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### Income Recognition

#### Order of Recovery

Suggested though not mandatory

Unrealised Expenses

Unrealised Interest

Principal Outstanding

Clarification vide Master Circular - in the absence of clear agreement between the Bank and the Borrower, an appropriate policy to be followed in uniform and consistent manner.

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### Classification Norms

- **Standard Asset**  
The account is not non-performing.
- **Sub-Standard Asset**  
A sub standard Asset is one which has remained NPA for a period of less than or equal to 12 months.
- **Loss Assets**  
These are accounts, identified by the bank or internal or external auditors or by RBI Inspectors as wholly irrecoverable but the amount for which has not been written off.

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### Classification Norms

▪ Doubtful Asset - Three Categories	
<u>Category</u>	<u>Period</u>
Doubtful - I	Up to One Year
Doubtful – II	One to Three Years
Doubtful - III	More than Three Years

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### Provisioning Norms

Primary Responsibility is of the Bank Management and Auditors	
<b>Standard Asset</b>	
▪Agricultural and SMEs Sectors	0.25%
▪Commercial Real Estate (CRE) Section	1.00%
▪CRE – Residential Housing Project	0.75%
▪Others	0.40%
▪Housing Loan during teaser rate period	2.00%

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### Provisioning Norms

Sub-standard Asset	
▪15% of total outstanding	
▪25% of total outstanding if loan is unsecured	
▪20% of total outstanding if infrastructure loan provided its backed by escrow facility with first charge	
Definition of Secured Loan:	
If security is not less than 10% of exposure (funded & non-funded) ab initio	

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### Provisioning Norms

Doubtful Assets:

Period	Provision	(Secured + Unsecured)
Up to 1 year	25%	+ 100%
1 to 3 years	40%	+ 100%
More than 3 years	100%	+ 100%

Loss Asset 100% should be provided for

*\*Intangible Security: Considered only if backed by legally enforceable and recoverable right over collection and rest of intangibles like rights, licenses, etc. are considered as 'Unsecured'*

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### Provisioning Norms

Provisioning for Country Risk  
*In respect of a country where its net funded exposure is ≥ 1% of its total assets*

Risk Category	ECGC Classification	Provision % age
Insignificant	A1	0.25
Low	A2	0.25
Moderate	B1	5
High	B2	20
Very High	C1	25
Restricted	C2	100
Off-Credit	D	100

Lower Provision @ 25% w.r.t. short term (180 d) exposures

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### Provisioning Norms

Provisions under Special Circumstances

Advances under rehabilitation program (BIFR)

- Provision to be continued
- Eligible for upgradation if renegotiated terms have worked satisfactorily for one year

For Additional facilities, no provision required for one year

Advances guaranteed by CGTSI/ECGC, Provision should be made only for balance in excess of the amount guaranteed by these corporations

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### Other Aspects

#### Take out Finance



A typical arrangement with other financier about refinancing of a existing infrastructure loans

If repayment cycle is extended, the account will not be considered as restructuring provided ...

- Account should be standard (Project Loan)
- Account should not have been restructured in the past
- Should have been substantially taken over (> 50%)
- Repayment period should be in line with lifecycle of project

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### Other Aspects

#### Post Shipment Suppliers' Credit

Exim Bank has introduced Guarantee-cum-Refinance Scheme  
(Guarantee to settle claim within period of 30 days)

#### Export Project Finance

The lending bank needs establish through documentary evidence that importer has cleared the dues in full in the bank abroad when its PA

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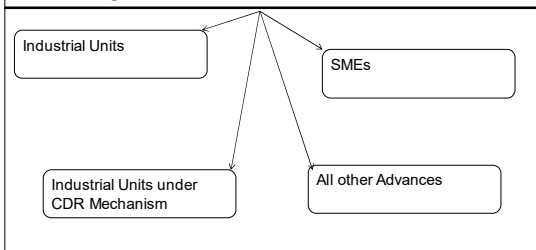
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### Guidelines on Restructuring of Advances

#### Categories of Loan which can be restructured



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**Guidelines on Restructuring of Advances**

- Eligibility**
- Any account classified as standard, sub standard or doubtful.
  - Restructuring cannot be done retrospectively and usual asset classification norms would continue to apply.
  - Restructuring should be subject to customer agreeing to terms and conditions.
  - Financial viability should be established.
  - Borrowers indulging in frauds and malfeasance are ineligible.
  - BIFR cases eligible for restructuring subject to approval from BIFR.

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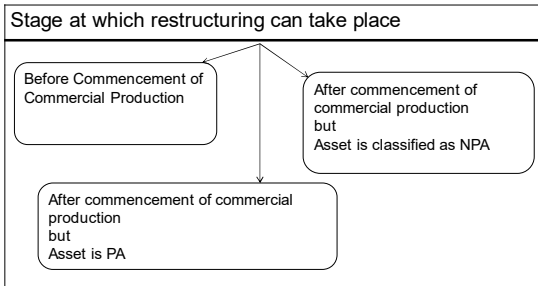
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**Guidelines on Restructuring of Advances**




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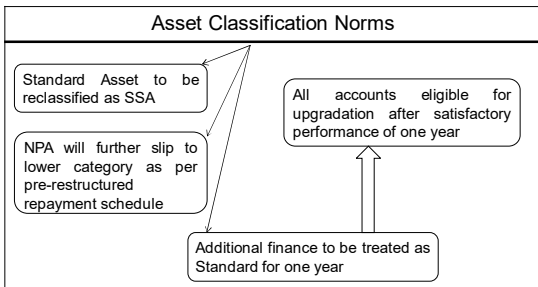
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**Guidelines on Restructuring of Advances**




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### Guidelines on Restructuring of Advances

**Satisfactory Performance**

**Non-Agri CC A/C**  
Account should not be out of order for more than 90 days  
(+)  
No overdue at the end of specified period

**Non-Agri Term Loan A/C**  
No payment remained overdue for more than 90 days  
(+)  
No overdue at the end of specified period

**Agricultural Loans**  
No overdue at the end of specified period

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### Guidelines on Restructuring of Advances

**Provisioning Requirements**

**Normal provision as per Asset Classification**

Provision for diminution in fair value, recomputed at each Balance Sheet date (Sacrifice)  
(If loan exposure is less than 1 crore, provision can be made @ 5% notionally)

**Two years from the date of restructuring**  
Additional provision of 5%

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### Guidelines on Restructuring of Advances

**Calculation of Sacrifice**

**Discounting Rate =**  
BPLR / Base Rate + appropriate Term and Credit Risk premium on the date of restructuring applicable to borrower category

Apply Discounting Rate to future Cash Inflows of principal and interest and calculate NPV as per original and revised repayment schedules

**Working Capital Finance**  
Tenure to be presumed at One Year for calculation of Sacrifice

**Total provision not to exceed 100%**

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### Guidelines on Restructuring of Advances

**Special Regulatory Treatment**

**Not available for**  
Consumer Loans  
Personal Advances  
Capital Market Exposures  
CRE Exposures

Incentive for quick implementation of package withdrawn w.e.f. April 01, 2015 except for change in DCCO (Shri B Mahapatra Working Group)

**Mandatory compliance in restructuring**

- Right to recompense
- To ensure promoters' "skin in the game"

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### RBI Circulars abolished

Date	Circular
30.Jan.2014	Framework of Revitalising Distressed Assets in the Economy
	Flexible Structuring of Long Term Infra / Core Industry Project Loan
	Strategic Debt Restructuring (SDR)
	Scheme for Sustainable Structuring of Stressed Assets (S4A)
12.Feb.2018	Resolution of Stressed Assets – Revised Framework*

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### Early Recognition of Financial Distress

**Framework of Revitalising Distressed Assets in the Economy (30.Jan.2014)**

Setting up of CRILC (Central Repository of Information on Large Credits)

Coverage for Fund and Non-Fund based exposures above Rs. 5 crores excluding crop loans, Inter-Bank / SIDBI / EXIM / NHB / NABARD exposures

Categories	Particulars
SMA 0	Not overdue for more than 30 days but showing signs of incipient stress
SMA 1	Principal / Interest overdue bet. 30-60 days
SMA 2	Principal / Interest overdue bet. 60-90 days

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**Early Recognition of Financial Distress**

<b>Examples of SMA 0 Incipient Stress</b>
<ol style="list-style-type: none"> <li>1. Delay beyond 90 days for submission of stock statements / Financial Statements / Renewal of facility</li> <li>2. Prevention of conduct of stock audit</li> <li>3. Reduction of DP by more than 20% post-stock audit</li> <li>4. Actual sales short of more than 40% as compared to projections</li> <li>5. Return of more than 3 cheques / overdue bills in span of 30 days</li> <li>6. Devolvement of LC / BG and its non-payment beyond 30 days</li> <li>7. Third request for extension of time to create security</li> <li>8. Increase in frequent overdrafts in Current A/C</li> <li>9. Borrower reporting stress in business / financials</li> <li>10. Promoters pledging / selling their shares in the borrower company due to financial stress</li> </ol>

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**Early Recognition of Financial Distress**

<b>Formation of Joint Lender's Forum (JLF)</b>
<p>Trigger</p> <ul style="list-style-type: none"> <li>▪ Reporting under SMA 0 for 3 quarters / year</li> <li>▪ Reporting under SMA 1 for 2 quarters / year</li> <li>▪ Reporting under SMA 2 at any time during the year</li> </ul>
<p>Mandatory</p> <p>If Exposure is above Rs. 100 crores <i>(inclusion of off-shore lender not mandatory)</i></p>
<p>Formulation of Corrective Action Plan (CAP)</p>

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**Early Recognition of Financial Distress**

<b>Corrective Action Plan (CAP)</b>
<p>Step I .... Rectification</p> <ul style="list-style-type: none"> <li>▪ Obtain commitment of identifiable cash flows</li> <li>▪ No sacrifice / loss of lenders</li> <li>▪ Additional finance can be provided but no ever-greening of account</li> </ul>
<p style="font-size: 2em;">↓</p>
<p>Step II .... Restructuring</p> <ul style="list-style-type: none"> <li>▪ Provided its prima facie viable and borrower is not willful defaulter</li> </ul>
<p style="font-size: 2em;">↓</p>
<p>Step III .... Recovery</p> <ul style="list-style-type: none"> <li>▪ If first two options fail, due recovery process to be resorted</li> </ul>

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**Early Recognition of Financial Distress**

**Penal Measures for non-adherence of reporting of SMA status to CRILC / Ever-greening of Accounts**

Asset Classification	Period of NPA	Current Provisioning	Accelerated Provision
Standard	NA		5%
SSA (Secured)	Up to 6 months	15%	No Change
	6 – 12 months	15%	25%
SSA (Unsecured ab-initio)	Up to 6 months	25% (Other than Infra)	25%
		20% (Infra)	25%
	6 – 12 months	25% (Other than Infra)	40%
		20% (Infra)	40%

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**Early Recognition of Financial Distress**

**Penal Measures for non-adherence of reporting of SMA status to CRILC / Ever-greening of Accounts**

Asset Classification	Period of NPA	Current Provisioning	Accelerated Provision
DA – 1	2 <sup>nd</sup> Year	25% (Secured)	40%
		100% (Unsecured)	100%
DA – 2	3 <sup>rd</sup> and 4 <sup>th</sup> Year	40% (Secured)	100%
		100% (Unsecured)	100%
DA – 2	5 <sup>th</sup> Year onwards	100%	100%

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**Early Recognition of Financial Distress**

**Penal Measures for non-adherence of reporting of SMA status to CRILC / Ever-greening of Accounts**

Applicable if the lenders fail to convey the JLF or agree upon common CAP

If escrow maintaining bank does not adhere to terms, lowest NPA status classification amongst the lenders to be adopted

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### Flexible Structuring of Long Term Infra / Core Industry Project Loan

- Loan Sanctioned after July 15, 2014**
- Clarified that RBI does not have any objection for long term projects in Infrastructure and Core Industries
  - Fundamental viability needs to be established (DSCR)
  - Longer tenure for loan amortisation permitted (e.g.:25 years) provided within useful life and periodic refinancing of balance debt permitted (e.g.: Overall loan tenure is 25 years but initial funding can be for first 5 years and then later balance debt is refinanced)
  - Refinancing Debt facility subject to conditions

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### Flexible Structuring of Long Term Infra / Core Industry Project Loan

- Conditions for Refinancing Debt facility**
- Only Term Loans to infrastructure and core industries qualify for refinancing
  - Initial appraisal of loan to ensure viability of overall cash flows of the project even during possible stress period
  - Tenor of amortisation should not be more than 80% of initial concession period for Public Private Partnership (PPP) projects / 80% of economic life of the project
  - The initial tenor (of 5-7 years) to cover initial construction period and at least upto date of DCCO
  - If a loan is classified as NPA, eligibility of refinance would be only after its upgraded to PA

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### Flexible Structuring of Long Term Infra / Core Industry Project Loan

- Loan Sanctioned before July 15, 2014**
- Only to Term Loans to Projects with aggregate exposure of all Institutional Lenders above Rs. 500 crores in Infra / Core industries sector
  - Fresh loan amortisation schedule permissible once in lifetime
  - Not treated as restructuring provided:
    - Loan is standard as on date of change in loan amortisation schedule
    - NPV of revised loan remains same
  - Fresh Loan amortisation period is within 85% of initial concession period for Public Private Partnership (PPP) projects / 85% of economic life of the project
  - Viability is re-assessed and vetted independently

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**Flexible Structuring of Long Term Infra / Core Industry Project Loan**

Exercise of flexible structuring / refinancing should be carried out only after DCCO

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**Early Recognition of Financial Distress**

**Strategic Debt Restructuring (SDR)  
Class of Asset Retention permitted**

1. Initiative by JLF to change the ownership structure
2. Needs to be agreed upon by at least 75 60% of creditors in value terms and 60 50% in number terms
3. Post-conversion (of debt to equity), all lenders under JLF to hold at least 51% or more of equity shares of the company
4. Can be divested in favor of new promoters subsequently
5. JLF must approve SDR package within 90 days from the date of deciding to undertake SDR
6. Existing asset classification norm as on reference date would be retained for a period of 18 months and then normal IRAC

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**Guideline on S4A**

**Scheme for Sustainable Structuring of Stressed Assets (S4A)**

**Eligibility**

1. Projects commenced commercial production
2. Aggregate exposure (incl. interest) of all institutional lenders is more than Rs. 500 crores
3. Debts meet sustainability criteria
  - a. Techno-economic Viability (TEV) study Sustainable debts can be serviced over the same tenor
  - b. Sustainable Debt should not be less than 50% of current funded liabilities

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**Guideline on S4A**

<b>Scheme for Sustainable Structuring of Stressed Assets (S4A)</b>							
<b>Methodology</b>							
1. Bifurcate current dues into Part A and Part B							
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: left;">Part A</th> <th style="text-align: left;">Part B</th> </tr> <tr> <td>Level of debts that can be serviced based on cash flows available</td> <td>Convert into equity, redeemable cumulative optionally convertible preference shares, Optionally Convertible Debentures</td> </tr> <tr> <td>No Fresh Moratorium to be granted</td> <td></td> </tr> </table>	Part A	Part B	Level of debts that can be serviced based on cash flows available	Convert into equity, redeemable cumulative optionally convertible preference shares, Optionally Convertible Debentures	No Fresh Moratorium to be granted		
Part A	Part B						
Level of debts that can be serviced based on cash flows available	Convert into equity, redeemable cumulative optionally convertible preference shares, Optionally Convertible Debentures						
No Fresh Moratorium to be granted							

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**Guideline on S4A**

<b>Asset Provisioning (Change in promoters) same as SDR Scheme</b>
<b>Asset Provisioning (No change in promoters)</b>
<ol style="list-style-type: none"> <li>1. Standstill clause for 90 days from date of lender's decision to resolve account under these guidelines</li> <li>2. If account is standard, provision to be made lower of 40% of Part B or 20% of overall outstanding</li> <li>3. If account is NPA, provision as per IRAC norms</li> <li>4. Lenders can upgrade both Part A and B, subject to satisfactory performance of one year (post-moratorium period) of Part A</li> </ol>

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**Circular dated February 12, 2018**

<b>Resolution of Stressed Assets – Revised Framework</b>
<b>Scrapped concepts</b>
<ol style="list-style-type: none"> <li>1. Corporate Debt Restructuring (CDR) Schemes</li> <li>2. Strategic Debt Restructuring (SDR)</li> <li>3. Change of ownership outside SDR</li> <li>4. S4A</li> <li>5. JLF concept stands discontinued</li> </ol>

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**Circular dated February 12, 2018**

<b>Resolution of Stressed Assets – Revised Framework</b>
<b>Trigger – On default in borrower entity’s account with any lender, all lenders to take steps to cure default by way of Resolution Plan (RP)</b>
<ol style="list-style-type: none"> <li>1. Regularisation of account by way of overdue repayment</li> <li>2. Sale of exposure to other entities / investors</li> <li>3. Change in ownership</li> <li>4. Restructuring</li> </ol> <p><i>Documentation of RP mandatory irrespective of whether there is any change in terms and conditions</i></p>
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**Circular dated February 12, 2018**

<b>Resolution of Stressed Assets – Revised Framework</b>
<b>Implementation conditions for Resolution Plan (RP)</b>
<ol style="list-style-type: none"> <li>1. Borrower is no more in default with any lender</li> <li>2. If RP involves restructuring:             <ol style="list-style-type: none"> <li>a. Documentation must be completed by all lenders</li> <li>b. New capital structure / revised terms &amp; conditions of existing loans to get reflected in books of all lenders and borrower</li> <li>c. If exposure is Rs. 100 crores and above Independent Credit Evaluation (ICE) by Credit Rating Agencies (CRAs) {2 CRAs for exposure above Rs. 500 crores} ... rating should be RA4 or better</li> </ol> </li> </ol>
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**Circular dated February 12, 2018**

<b>Resolution of Stressed Assets – Revised Framework</b>
<b>When to refer to IBC?</b>
<p>Timelines for implementation of RP for exposures above Rs. 2,000 crores</p> <ol style="list-style-type: none"> <li>1. If default as on reference date (01.Mar.2018), within 180 days from reference date</li> <li>2. If default after reference date, then within 180 days from such default</li> </ol> <p>If RP is not implemented as above, lenders to file insolvency application within 15 days from date of expiry of 180 days</p> <p>If RP is implemented, the account should not be in default at any time during 'specified period', otherwise file insolvency application within 15 days from date of default</p>
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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**What is specified period?**

1. Period from date of implementation of RP upto date by which at least 20% of outstanding principal debt as per RP and interest capitalized as per restructuring is repaid
2. Specified period cannot end before one year from commencement of first payment of interest / principal (whichever is later) on credit facility with longest period of moratorium under RP

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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**Prudential Norms applicable**

1. Upon restructuring Standard Assets to be classified as SSA, thus, no retention of class benefit available
2. Upgradation only if satisfactory performance is demonstrated during specified period.
3. If exposure is above Rs. 100 crores, credit rating should be BBB- or above at the end of specified period (Accounts above Rs. 500 crores, would require 2 ratings)
4. Additional Finance to be treated as Standard during specified period, provided the account performs satisfactorily

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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**Prudential Norms applicable**

- In case of change of ownership ....
1. Credit facilities may be continued / upgraded to standard after implementation of change of ownership under RP / IBC subject to certain conditions
  2. Continuation in standard category only if satisfactory performance is demonstrated during specified period

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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**Sale and Lease back transactions**

To be treated as restructuring if ...

1. Seller is in financial difficulty
2. More than 50% revenue of buyer is from leased asset to seller
3. 25% or more loan by buyer for purchase of asset are funded by lenders of seller

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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**Refinancing Exposure to Borrowers in different currency**

To be treated as restructuring (if borrower is under financial difficulty) if FCY borrowings / export advances for repayment / refinancing of Rupee loans are obtained from:

1. Lender who are part of Indian banking system
2. With support of Indian banking system in the form of Guarantees / Standby Letter of Credit (SBLC) / LoC / LoU, etc.

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**Circular dated February 12, 2018**

**Resolution of Stressed Assets – Revised Framework**

**Non-applicability of guidelines**

1. Revival and rehabilitation of MSMEs continued to be guided by circular dated March 17, 2016 (having loan limits upto Rs. 25 crores)
2. Restructuring of loans in the event of a natural calamity shall continue to be as per Master Directions dated July 03, 2017

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**Circular dated June 07, 2019**

<b>Prudential Framework for Resolution of Stressed Assets</b>
<b>Applicability of guidelines &amp; its purpose</b>
<ol style="list-style-type: none"> <li>1. Applicable with immediate effect</li> <li>2. Providing framework for early recognition, reporting and time bound resolution of stressed assets</li> <li>3. These directions are issued without prejudice to issuance of specific directions, from time to time, by the Reserve Bank to banks, in terms of the provisions of Section 35AA of the Banking Regulation Act, 1949, for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC)</li> </ol>

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**Circular dated June 07, 2019**

<b>Prudential Framework for Resolution of Stressed Assets</b>
<b>Framework</b>
<ol style="list-style-type: none"> <li>1. Early identification and reporting of stress</li> <li>2. Implementation of resolution plan</li> <li>3. Implementation of conditions for RP</li> <li>4. Delayed implementation of Resolution Plan</li> <li>5. Prudential Norms             <ol style="list-style-type: none"> <li>a) Supervisory Review</li> <li>b) Disclosures</li> </ol> </li> </ol>

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**Early identification and reporting of stress**

SMA Sub-category	<u>TL - Basis for classification</u> Principal / Interest or any other payment overdue partially or wholly for
SMA-0	1 to 30 days
SMA-1	31 to 60 days
SMA-2	61 to 90 days
SMA Sub-category	<u>CC / OD - Basis for classification</u> Outstanding Balance remains continuously in excess of the sanction limit / drawing power, whichever is lower for a period of
SMA-1	31 to 60 days
SMA-2	61 to 90 days

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**Circular dated June 07, 2019**

**Reporting Requirements**

- 1. CRILC Reporting for borrower accounts above Rs. 5 crores
- 2. CRILC Main report – Monthly Basis
- 3. CRILC Weekly Reporting (Every Friday) – Defaults by all borrowers above Rs. 5 Crores of exposure

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**Circular dated June 07, 2019**

**Implementation of Resolution Plan**

- 1. All lenders must put Board Approved Policy
- 2. Expected that the lenders initiate the process of implementing Resolution Plan even before a default
- 3. Once default is reported, "Review Period" of 30 days, wherein lenders may decide on resolution strategy, may choose to initiate legal proceedings for insolvency or recovery.

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**Circular dated June 07, 2019**

**Implementation of Resolution Plan**

- 4. If RP is to be implemented, all lenders to sign inter creditor agreement (ICA) during Review Period. Decision to be taken as agreed by lenders representing 75% by value of total outstanding credit facilities (FB+NFB) and 60% of lenders by number.
- 5. On or after the reference date, resolution plan must be implemented within 180 days from end of review period

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Circular dated June 07, 2019

Aggregate Exposure of Borrowers to the lenders	Reference Date
Rs. 2,000 crores and above	Date of these directions
Above Rs. 1,500 crores but below Rs. 2,000 crores	01.Jan.2020
Less than Rs. 1,500 crores	To be announced in due course

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Circular dated June 07, 2019

Implementation Conditions for Resolution Plan
1. 1 billion (100 Cr) and above exposure – Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.
2. 5 billion (500 Cr) and above exposure – Two such Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.
3. RP is implemented if following conditions are met.

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Circular dated June 07, 2019

Conditions for Implementation of Resolution Plan
1. RP Not involving Restructuring / Change in Ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of Review Period
2. RP involving Restructuring / Change in Ownership shall be deemed to be implemented only if following conditions are met:
3. All related documentation, creation of security/charge / perfection of security are completed by the lenders

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**Conditions for Implementation of Resolution Plan**

- 4. New Capital Structure and changes in terms of conditions of the existing loans gets duly reflected in the books of the lenders and borrower
- 5. Borrower is not in default with any of the lenders.

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Circular dated June 07, 2019

**Delayed Implementation of Resolution Plan**

Additional Provision Requirement

- 1. 180 days from end of review period – 20%
- 2. 365 days from end of commencement of review period: 15%

Overall provision should not exceed 100%

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Circular dated June 07, 2019

**Prudential Norms**

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

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Circular dated June 07, 2019

**Few examples of Financial Difficulty**

1. A default or Borrowers credit facilities are NPA
2. Borrower not in default, but is probable that the borrower will default on any of its exposures in foreseeable future without the concession,
3. Borrowers outstanding securities have been delisted
4. Actual performance vs estimates, cash flows to be assessed insufficient to service all of its loans or debt securities
5. Borrowers existing exposures are categorised as exposures that have already evidenced difficulty in borrowers ability to repay in accordance with banks internal credit rating system

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Circular dated June 07, 2019

**Asset Classification**

On restructuring account will be downgraded from Standard to Substandard. NPAs will remain in same category

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Circular dated June 07, 2019

**Asset Upgradation**

Only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance' during the period from the date of implementation of RP up to the date by which at least 10% of the sum of outstanding principal debt as per RP and interest capitalisation sanctioned as a part of the restructuring, if any is repaid  
(provided that account can not be upgraded before one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of RP)

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Circular dated June 07, 2019

**Asset Upgradation – Additional conditions**

In case of aggregate exposure of Rs. 1 Billion and above  
 External credit rating of investment grade BBB- or better  
In case of aggregate exposure of Rs. 5 Billion and above  
 Two such external credit ratings of investment grade BBB- or better

On failure to demonstrate satisfactory performance during monitoring period, asset classification upgrade is subjected to fresh restructuring / change of ownership framework as per IBC and additional provision of 15% for such accounts should be made at the end of review period.

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Circular dated June 07, 2019

**Provisioning Norms**

Accounts restructured under the revised framework shall attract provisioning as per the asset classification category as laid out in the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015, as amended from time to time

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**Guideline on Sale of Financial Asset**

**Sale of Financial Assets to Securitisation Company (SC) / Reconstruction Company (RC)**

**Eligibility**

1. NPA including non-performing bond / debentures
2. Standard Asset which is under consortium / multiple banking facility:
  - i. at least 75% value is classified as NPA
  - ii. At least 75% value of lenders agree to sale-off the asset
3. Asset reported as SMA-2 to CRILC

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**Guideline on Sale of Financial Asset**

Options
<ul style="list-style-type: none"> <li>▪ With recourse or without recourse</li> <li>▪ No operation, legal, or any type of risk related to the asset sold</li> <li>▪ Drag-along: If 75% of value of borrowers agree, rest are obligated to accept the offer</li> </ul>
Consideration Received
<ul style="list-style-type: none"> <li>▪ Cash</li> <li>▪ Bonds <i>(to be classified as Investments)</i></li> <li>▪ Debentures <i>(to be classified as Investments)</i></li> </ul>

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**Guideline on Sale of Financial Asset**

Prudential Norms
<ul style="list-style-type: none"> <li>▪ Shortfall between Net Book Value and sales consideration to be debited to Profit and Loss Account</li> <li>▪ Sales consideration is lower of Net Book Value and Net redemption Value of the security</li> <li>▪ If Asset sold between 26.Feb.14 to 31.Mar.16, shortfall may be spread over a period of two years</li> </ul>

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**Guideline on Sale of Financial Asset**

Prudential conditions for purchase / sale of asset
<ul style="list-style-type: none"> <li>▪ Sale Price should not be lower than PV of estimated future cash flows associated with the asset</li> <li>▪ Estimated cash flows expected to be realised within a period of 3 years</li> <li>▪ Bank can purchase / sale NPA from / to other Bank only on 'Without recourse Basis'</li> <li>▪ Sale to other bank cannot be made at contingent price</li> <li>▪ Sale to other bank only on cash basis</li> <li>▪ Purchased asset cannot be re-sold for a period of 15 months</li> </ul>

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**Guideline on Sale of Financial Asset**

**Prudential conditions for purchase / sale of asset**

- Asset to be classified as Standard Asset in purchaser's book for a period of 90 days from the date of purchase
- Borrower-wise classification norms not to apply for these first 90 days
- Reference date of NPA would be the date of NPA of the selling bank
- Restructuring / reschedulement of account by purchasing the account shall render account as NPA

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**Reiteration of Points**

**Some important references to RBI Circular**

Para 4.2.2 : Banks should establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs, especially in respect of high value accounts.

Para 4.2.5 : If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts

Annex 5 : A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider.

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**Points to Ponder**

- Divergences in NPA observed by RBI AFI
- Verification Parameters in CBS vis-à-vis RBI Circular
- Purity of Master Data in CBS
- Reversal of un-serviced Interest of NPA
- Availability of valuation of security for advances below 5 crores
- Authenticity and regularity of stock statements
- Date of NPA – current and prior year of newly identified NPAs
- Unique Customer-id of borrower accounts
- Accounts upgraded during the year
- Regularisation of account subsequent to balance sheet date

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**Points to Ponder**

Accounts other than Advances accounts including Sundries / Suspense Accounts
Accounts transferred to other branches – control over identification / classification of accounts
Income leakages identified and resulting in overdrawing of accounts
Recalculation of Drawing Power
Early Mortality Cases
Ever-greening of accounts
MOCs vis-à-vis Main Audit Report vis-à-vis LFAR

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*Thank you!*

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