



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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July 1, 2014

All Commercial Banks (excluding RRBs)

Dear Sir

Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

Please refer to the [Master Circular No. DBOD.No.BP.BC.1/21.04.048/2013-14 dated July 1, 2013](#) consolidating instructions / guidelines issued to banks till June 30, 2013 on matters relating to prudential norms on income recognition, asset classification and provisioning pertaining to advances.

2. The Master Circular has now been suitably updated by incorporating instructions issued up to June 30, 2014 and is attached. It has also been placed on the RBI web-site (<http://www.rbi.org.in>). We advise that this revised Master Circular consolidates the instructions contained in the circulars listed in the Annex 7.

Yours faithfully

(Rajesh Verma)
Chief General Manager-in-Charge

Encl.: As above

MASTER CIRCULAR - PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING PERTAINING TO ADVANCES

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**Master Circular - Prudential Norms on Income Recognition,
Asset Classification and Provisioning pertaining to Advances**

Part A

1. GENERAL

1.1 In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.

1.2 The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Likewise, 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. Also, 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.

1.3 Banks are urged to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the basis of cash flows with borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances.

2. DEFINITIONS

2.1 Non performing Assets

2.1.1 An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.

2.1.2 A non performing asset (NPA) is a loan or an advance where;

- i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an Overdraft/Cash Credit (OD/CC),
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- vi. the amount of liquidity facility remains outstanding for more than 90 days,

in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

- vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

2.1.3 In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2.1.4 In addition, an account may also be classified as NPA in terms of paragraph 4.2.4 of this Master Circular.

2.2 'Out of Order' status

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

2.3 'Overdue'

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

3. INCOME RECOGNITION

3.1 Income Recognition Policy

3.1.1 The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA. **This will apply to Government guaranteed accounts also.**

3.1.2 However, interest on advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

3.1.3 Fees and commissions earned by the banks as a result of renegotiations or

rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

3.2 **Reversal of income**

3.2.1 If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. **This will apply to Government guaranteed accounts also.**

3.2.2 In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

3.2.3 Leased Assets

The *finance charge* component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became nonperforming, and remaining unrealised, should be reversed or provided for in the current accounting period.

3.3 **Appropriation of recovery in NPAs**

3.3.1 Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

3.3.2 In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

3.4 **Interest Application**

On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

3.5 **Computation of NPA levels**

Banks are advised to compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs, as per the format in **Annex -1**.

4. ASSET CLASSIFICATION

4.1 Categories of NPAs

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the realisability of the dues:

- i. **Substandard Assets**
- ii. **Doubtful Assets**
- iii. **Loss Assets**

4.1.1 Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

4.1.2 Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

4.1.3 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

4.2 Guidelines for classification of assets

4.2.1 Broadly speaking, classification of assets into above categories should be done taking into account the degree of well-defined credit weaknesses and the extent of dependence on collateral security for realisation of dues.

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. The banks may fix a minimum cut off point to decide what would constitute a high value account depending upon their respective business levels. The cutoff point should be valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification may be fixed by the banks. The system should ensure that doubts in asset classification 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.

4.2.3 Availability of security / net worth of borrower/ guarantor

The availability of security or net worth of borrower/ guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise, except to the extent provided in Para 4.2.9.

4.2.4 Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such deficiencies banks may follow the following guidelines:

- i) Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

- ii) Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In

any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

4.2.5 Upgradation of loan accounts classified as NPAs

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. With regard to upgradation of a restructured/ rescheduled account which is classified as NPA contents of paragraphs 12.2 and 15.2 in the Part B of this circular will be applicable.

4.2.6 Accounts regularised near about the balance sheet date

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

4.2.7 Asset Classification to be borrower-wise and not facility-wise

i) It is difficult to envisage a situation when only one facility to a borrower/one investment in any of the securities issued by the borrower becomes a problem credit/investment and not others. Therefore, all the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

ii) If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

iii) The bills discounted under LC favouring a borrower may not be classified as a Non-performing advance (NPA), when any other facility granted to the borrower is classified as NPA. However, in case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

iv) Derivative Contracts

a) The overdue receivables representing positive mark-to-market value of a

derivative contract will be treated as a non-performing asset, if these remain unpaid for 90 days or more. In case the overdues arising from forward contracts and plain vanilla swaps and options become NPAs, all other funded facilities granted to the client shall also be classified as non-performing asset following the principle of borrower-wise classification as per the existing asset classification norms. However, any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, which has already crystallised or might crystallise in future and is / becomes receivable from the client, should be parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more shall itself be classified as NPA, as per the extant Income Recognition and Asset Classification (IRAC) norms. The classification of all other assets of such clients will, however, continue to be governed by the extant IRAC norms.

b) If the client concerned is also a borrower of the bank enjoying a Cash Credit or Overdraft facility from the bank, the receivables mentioned at item (iv) (a) above may be debited to that account on due date and the impact of its non-payment would be reflected in the cash credit / overdraft facility account. The principle of borrower-wise asset classification would be applicable here also, as per extant norms.

c) In cases where the contract provides for settlement of the current mark-to-market value of a derivative contract before its maturity, only the current credit exposure (not the potential future exposure) will be classified as a non-performing asset after an overdue period of 90 days.

d) As the overdue receivables mentioned above would represent unrealised income already booked by the bank on accrual basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss a/c' should be reversed, and held in a 'Suspense Account-Crystalised Receivables' in the same manner as done in the case of overdue advances.

e) Further, in cases where the derivative contracts provides for more settlements in future, the MTM value will comprise of (a) crystallised receivables and (b) positive or negative MTM in respect of future receivables. If the derivative contract is not terminated on the overdue receivable remaining unpaid for 90 days, in addition to reversing the crystallised receivable from Profit and Loss Account as stipulated in para (d) above, the positive MTM pertaining to future receivables may also be reversed from Profit and Loss Account to another account styled as 'Suspense Account – Positive MTM'. The subsequent positive changes in the MTM value may be credited to the 'Suspense Account – Positive MTM', not to P&L Account. The subsequent decline in MTM value may be adjusted against the balance in 'Suspense Account – Positive MTM'. If the balance in this account is not sufficient, the remaining amount may be debited to the P&L Account. On payment of the overdues in cash, the balance in the 'Suspense Account-Crystalised Receivables' may be transferred to the 'Profit and Loss Account', to the extent payment is received.

f) If the bank has other derivative exposures on the borrower, it follows that the MTMs of other derivative exposures should also be dealt with / accounted

for in the manner as described in para (e) above, subsequent to the crystallised/settlement amount in respect of a particular derivative transaction being treated as NPA.

g) Since the legal position regarding bilateral netting is not unambiguously clear, receivables and payables from/to the same counterparty including that relating to a single derivative contract should not be netted.

h) Similarly, in case a fund-based credit facility extended to a borrower is classified as NPA, the MTMs of all the derivative exposures should be treated in the manner discussed above.

4.2.8 Advances under consortium arrangements

Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

4.2.9 Accounts where there is erosion in the value of security/frauds committed by borrowers

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate:

i. Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

ii. If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It may be either written off or fully provided for by the bank.

4.2.10 Advances to Primary Agricultural Credit Societies (PACS)/Farmers' Service

Societies (FSS) ceded to Commercial Banks

In respect of agricultural advances as well as advances for other purposes granted by banks to PACS/ FSS under the on-lending system, only that particular credit facility granted to PACS/ FSS which is in default for a period of two crop seasons in case of short duration crops and one crop season in case of long duration crops, as the case may be, after it has become due will be classified as NPA and not all the credit facilities sanctioned to a PACS/ FSS. The other direct loans & advances, if any, granted by the bank to the member borrower of a PACS/ FSS outside the on-lending arrangement will become NPA even if one of the credit facilities granted to the same borrower becomes NPA.

4.2.11 Advances against Term Deposits, NSCs, KVPs/IVPs, etc.

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

4.2.12 Loans with moratorium for payment of interest

i. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

ii. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

4.2.13 Agricultural advances

i. A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops, would be treated as "short duration" crops. The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him.

The above norms should be made applicable to all direct agricultural

advances as listed at paragraph III (1.1) of the Circular on Priority Sector Lending – Targets and Classification RPCD.CO.Plan.BC.9/04.09.01/2013-14 dated July 1, 2013. An extract of the list of these items is furnished in the **Annex - 2**. In respect of agricultural loans, other than those specified in the Annex - 2 and term loans given to non-agriculturists, identification of NPAs would be done on the same basis as non-agricultural advances, which, at present, is the 90 days delinquency norm.

ii. Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in RBI circular RPCD. No.PLFS.BC.6/05.04.02/2013-14 dated July 1, 2013.

iii. In such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA. The asset classification of these loans would thereafter be governed by the revised terms & conditions and would be treated as NPA if interest and/or instalment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops. For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" would be treated as "short duration" crops.

iv. While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, banks should ensure that the interest/instalment payable on such advances are linked to crop cycles.

4.2.14 Government guaranteed advances

The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures. With effect from the year ending March 31, 2006 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

4.2.15 Projects under implementation

4.2.15.1 For all projects financed by the FIs/ banks **after May 28, 2002**, the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project should be clearly spelt out at the time of financial closure of the project and the same should be formally documented. These should also be documented in the appraisal note by the bank during sanction of the loan.

4.2.15.2 Project Loans

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / rescheduling of loans by banks. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations.

For this purpose, all project loans have been divided into the following two categories:

- (a) Project Loans for infrastructure sector
- (b) Project Loans for non-infrastructure sector

For the purpose of these guidelines, 'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, Infrastructure Sector is a sector as defined in extant RBI circular on 'Definition of Infrastructure Lending'.

4.2.15.3 Project Loans for Infrastructure Sector

(i) A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), in accordance with the provisions of Part B of this Master Circular, it can be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) *Infrastructure Projects involving court cases*

Up to another 2 years (beyond the existing extended period of 2 years, as prescribed in para 4.2.15.3 (ii), i.e., total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) *Infrastructure Projects delayed for other reasons beyond the control of promoters*

Up to another 1 year (beyond the existing extended period of 2 years, as prescribed in para 4.2.15.3 (ii), i.e., total extension of 3 years), in other than court cases.

(iv) It is re-iterated that the dispensation in para 4.2.15.3 (iii) is subject to adherence to the provisions regarding restructuring of accounts as contained in the Master Circular which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

b. Banks should maintain following provisions on such accounts as long as these are classified as standard assets in addition to provision for diminution in fair value due to extension of DCCO:

Particulars	Provisioning Requirement
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay	<p>Project loans restructured with effect from June 1, 2013:</p> <p>5.00 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later</p> <p>Stock of project loans classified as restructured as on June 1, 2013:</p> <p>* 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14)</p> <p>* 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-</p>

	<p>15)</p> <p>* 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16)</p> <p>The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.</p>
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(v) For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.40 per cent..

(vi) In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) need not be treated as 'restructuring', subject to following conditions:

- a) The project is an infrastructure project under public private partnership model awarded by a public authority;
- b) The loan disbursement is yet to begin;
- c) The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;
- d) Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

4.2.15.4 Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)

(i) A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of

recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(ii) A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within one year from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (iv) below.

(iii) In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of one year from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions contained in this Master Circular, provided the fresh DCCO does not extend beyond a period of two years from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of one year from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be:

- a. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond one year from the original DCCO, considering the high risk involved in such restructured accounts.
- b. Banks should maintain following provisions on such accounts as long as these are classified as standard assets apart from provision for diminution in fair value due to extension of DCCO:

Particulars	Provisioning Requirement
If the revised DCCO is within one year from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond one year and upto two years from the original DCCO prescribed at the time of financial closure	Project loans restructured with effect from June 1, 2013: 5.00 per cent – From the date of restructuring for 2 years Stock of Project loans classified as restructured before June 01, 2013: * 3.50 per cent - with effect

	<p>from March 31, 2014 (spread over the four quarters of 2013-14)</p> <p>* 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)</p> <p>* 5.00 per cent - with effect from March 31, 2016 (spread over the four quarters of 2015-16)</p> <p>The above provisions will be applicable from the date of restructuring for 2 years.</p>
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(iv) For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.40 per cent.

4.2.15.5 Other Issues

(i) All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of Part B of this Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

(ii) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

(a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(b) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

(c) The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.

(d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(iii) Project Loans for Commercial Real Estate

It has been represented that commercial real estate (CRE) projects also face problems of delays in achieving the DCCO for extraneous reasons. Therefore, it has been decided that for CRE projects mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO and there is no change in other terms and conditions except possible shift of the repayment schedule and servicing of the loan by equal or shorter duration compared to the period by which DCCO has been extended. Such CRE project loans will be treated as standard assets in all respects for this purpose without attracting the higher provisioning applicable for restructured standard assets. However, as stated in paragraph 15.1 of this circular, the asset classification benefit would not be available to CRE projects if they are restructured.

(iv) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits stipulated at paragraphs 4.2.15.3 (iii) and 4.2.15.4 (iii) above, and all other terms and conditions of the loan remained unchanged.

(v) Banks, if deemed fit, may extend DCCO beyond the respective time limits stipulated at paragraphs 4.2.15.3 (iii) and 4.2.15.4 (iii) above; however, in that case, banks will not be able to retain the 'standard' asset classification status of such loan accounts.

(vi) In all the above cases of restructuring where regulatory forbearance has been extended, the Boards of banks should satisfy themselves about the viability of the project and the restructuring plan.

4.2.15.6 Income recognition

(i) Banks may recognise income on accrual basis in respect of the projects under implementation, which are classified as 'standard'.

(ii) Banks should not recognise income on accrual basis in respect of the

projects under implementation which are classified as a 'substandard' asset. Banks may recognise income in such accounts only on realisation on cash basis.

Consequently, banks which have wrongly recognised income in the past should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognised as income in the previous year(s). As regards the regulatory treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' banks should adopt the following:

a) Funded Interest: Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring/ rescheduling/ renegotiation of terms of the loan agreement, should be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognised as income, should be fully provided for.

b) Conversion into equity, debentures or any other instrument: The amount outstanding converted into other instruments would normally comprise principal and the interest components. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised to offset the effect of such income recognition. Such provision would be in addition to the amount of provision that may be necessary for the depreciation in the value of the equity or other instruments, as per the investment valuation norms. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. Such equity must thereafter be classified in the "available for sale" category and valued at lower of cost or market value. In case of conversion of principal and /or interest in respect of NPAs into debentures, such debentures should be treated as NPA, ab initio, in the same asset classification as was applicable to loan just before conversion and provision made as per norms. This norm would also apply to zero coupon bonds or other instruments which seek to defer the liability of the issuer. On such debentures, income should be recognised only on realisation basis. The income in respect of unrealised interest which is converted into debentures or

any other fixed maturity instrument should be recognised only on redemption of such instrument. Subject to the above, the equity shares or other instruments arising from conversion of the principal amount of loan would also be subject to the usual prudential valuation norms as applicable to such instruments.

4.2.16 Takeout Finance

Takeout finance is the product emerging in the context of the funding of long-term infrastructure projects. Under this arrangement, the institution/the bank financing infrastructure projects will have an arrangement with any financial institution for transferring to the latter the outstanding in respect of such financing in their books on a predetermined basis. In view of the time-lag involved in taking-over, the possibility of a default in the meantime cannot be ruled out. The norms of asset classification will have to be followed by the concerned bank/financial institution in whose books the account stands as balance sheet item as on the relevant date. If the lending institution observes that the asset has turned NPA on the basis of the record of recovery, it should be classified accordingly. The lending institution should not recognise income on accrual basis and account for the same only when it is paid by the borrower/ taking over institution (if the arrangement so provides). However, the taking over institution, on taking over such assets, should make provisions treating the account as NPA from the actual date of it becoming NPA even though the account was not in its books as on that date.

4.2.17 Post-shipment Supplier's Credit

- i. In respect of post-shipment credit extended by the banks covering export of goods to countries for which the Export Credit Guarantee Corporation's (ECGC) cover is available, EXIM Bank has introduced a guarantee-cum--refinance programme whereby, in the event of default, EXIM Bank will pay the guaranteed amount to the bank within a period of 30 days from the day the bank invokes the guarantee after the exporter has filed claim with ECGC.
- ii. Accordingly, to the extent payment has been received from the EXIM Bank, the advance may not be treated as a nonperforming asset for asset classification and provisioning purposes.

4.2.18 Export Project Finance

- i. In respect of export project finance, there could be instances where the actual importer has paid the dues to the bank abroad but the bank in turn is unable to remit the amount due to political developments such as war, strife, UN embargo, etc.

- ii. In such cases, where the lending bank is able to establish through documentary evidence that the importer has cleared the dues in full by depositing the amount in the bank abroad before it turned into NPA in the books of the bank, but the importer's country is not allowing the funds to be remitted due to political or other reasons, the asset classification may be made after a period of one year from the date the amount was deposited by the importer in the bank abroad.

4.2.19 Advances under rehabilitation approved by Board for Industrial and Financial Reconstruction (BIFR)/Term Lending Institutions (TLIs)

Banks are not permitted to upgrade the classification of any advance in respect of which the terms have been renegotiated unless the package of renegotiated terms has worked satisfactorily for a period of one year. While the existing credit facilities sanctioned to a unit under rehabilitation packages approved by BIFR/TLIs will continue to be classified as substandard or doubtful as the case may be, in respect of additional facilities sanctioned under the rehabilitation packages, the Income Recognition, Asset Classification norms will become applicable after a period of one year from the date of disbursement.

4.2.20 Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities

- i) Originating Bank: The asset classification and provisioning rules in respect of the exposure representing the Minimum Retention Requirement (MRR) of the Originator of the asset would be as under:
 - a) The originating bank may maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortisation of the MRR and its periodicity should be clearly established and the overdue status of the MRR should be determined with reference to repayment of such amount. Alternatively, the originating bank may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
 - b) In the case of transfer of a pool of loans other than retail loans, the originator should maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts should be determined with reference to repayment received in each account.
 - c) If the originating bank acts as a servicing agent of the assignee bank for the loans transferred, it would know the overdue status of

loans transferred which should form the basis of classification of the entire MRR/individual loans representing MRR as NPA in the books of the originating bank, depending upon the method of accounting followed as explained in para (a) and (b) above.

- ii) Purchasing Bank: In purchase of pools of both retail and non-retail loans, income recognition, asset classification and provisioning norms for the purchasing bank will be applicable based on individual obligors and not based on portfolio. Banks should not apply the asset classification, income recognition and provisioning norms at portfolio level, as such treatment is likely to weaken the credit supervision due to its inability to detect and address weaknesses in individual accounts in a timely manner. If the purchasing bank is not maintaining the individual obligor-wise accounts for the portfolio of loans purchased, it should have an alternative mechanism to ensure application of prudential norms on individual obligor basis, especially the classification of the amounts corresponding to the obligors which need to be treated as NPAs as per existing prudential norms. One such mechanism could be to seek monthly statements containing account-wise details from the servicing agent to facilitate classification of the portfolio into different asset classification categories. Such details should be certified by the authorized officials of the servicing agent. Bank's concurrent auditors, internal auditors and statutory auditors should also conduct checks of these portfolios with reference to the basic records maintained by the servicing agent. The servicing agreement should provide for such verifications by the auditors of the purchasing bank. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing banks.
- iii) The guidelines prescribed above at 4.2.20 (i) & (ii) do not apply to
- (a) Transfer of loan accounts of borrowers by a bank to other bank/FIs/NBFCs and vice versa, at the request/instance of borrower;
 - (b) Inter-bank participations;
 - (c) Trading in bonds;
 - (d) Sale of entire portfolio of assets consequent upon a decision to exit the line of business completely. Such a decision should have the approval of Board of Directors of the bank;
 - (e) Consortium and syndication arrangements and arrangement under Corporate Debt Restructuring mechanism;

(f) Any other arrangement/transactions, specifically exempted by the Reserve Bank of India.

4.2.21 Credit Card Accounts

(i) In credit card accounts, the amount spent is billed to the card users through a monthly statement with a definite due date for repayment. Banks give an option to the card users to pay either the full amount or a fraction of it, i.e., minimum amount due, on the due date and roll-over the balance amount to the subsequent months' billing cycle.

(ii) A credit card account will be treated as non-performing asset if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the next statement date. The gap between two statements should not be more than a month.

(iii) Banks should follow this uniform method of determining over-due status for credit card accounts while reporting to credit information companies and for the purpose of levying of penal charges, viz. late payment charges, etc., if any.

5 PROVISIONING NORMS

5.1 General

5.1.1 The primary responsibility for making adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the bank managements and the statutory auditors. The assessment made by the inspecting officer of the RBI is furnished to the bank to assist the bank management and the statutory auditors in taking a decision in regard to making adequate and necessary provisions in terms of prudential guidelines.

5.1.2 In conformity with the prudential norms, provisions should be made on the nonperforming assets on the basis of classification of assets into prescribed categories as detailed in paragraphs 4 supra. Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the bank, the banks should make provision against substandard assets, doubtful assets and loss assets as below:

5.2 Loss assets

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

5.3 Doubtful assets

i. 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.

ii. In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	25
One to three years	40
More than three years	100

Note: Valuation of Security for provisioning purposes

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board would be mandatory in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

5.4 Substandard assets

(i) A general provision of 15 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and **securities available**.

(ii) The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 25 per cent on the outstanding balance. However, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 20 per cent instead of the aforesaid prescription of 25 per cent. To avail of this benefit of lower provisioning, the banks should have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows. The provisioning requirement for unsecured 'doubtful' assets is 100 per cent. Unsecured exposure is defined as an exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio*, of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' will mean tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters etc.

(iii) In order to enhance transparency and ensure correct reflection of the unsecured

advances in Schedule 9 of the banks' balance sheet, it is advised that the following would be applicable from the financial year 2009-10 onwards:

a) For determining the amount of unsecured advances for reflecting in schedule 9 of the published balance sheet, the rights, licenses, authorisations, etc., charged to the banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Hence such advances shall be reckoned as unsecured.

b) However, banks may treat annuities under build-operate-transfer (BOT) model in respect of road / highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

c) It is noticed that most of the infrastructure projects, especially road/highway projects are user-charge based, for which the Planning Commission has published Model Concession Agreements (MCAs). These have been adopted by various Ministries and State Governments for their respective public-private partnership (PPP) projects and they provide adequate comfort to the lenders regarding security of their debt. In view of the above features, in case of PPP projects, the debts due to the lenders may be considered as secured to the extent assured by the project authority in terms of the Concession Agreement, subject to the following conditions :

i) User charges / toll / tariff payments are kept in an escrow account where senior lenders have priority over withdrawals by the concessionaire;

ii) There is sufficient risk mitigation, such as pre-determined increase in user charges or increase in concession period, in case project revenues are lower than anticipated;

iii) The lenders have a right of substitution in case of concessionaire default;

iv) The lenders have a right to trigger termination in case of default in debt service; and

v) Upon termination, the Project Authority has an obligation of (i) compulsory buy-out and (ii) repayment of debt due in a pre-determined manner.

In all such cases, banks must satisfy themselves about the legal enforceability of the provisions of the tripartite agreement and factor in their past experience with such contracts.

d) Banks should also disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken as also the estimated value of such intangible collateral. The disclosure may be made under a separate head in "Notes to Accounts". This would differentiate such loans from other entirely unsecured loans.

5.5 Standard assets

(i) The provisioning requirements for all types of standard assets stands as below. Banks should make general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis:

- (a) direct advances to agricultural and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;
 - (b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;
 - (c) advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent¹
 - (d) housing loans extended at teaser rates and restructured advances as indicated in Para 5.9.13 and 12.4 respectively;
 - (e) all other loans and advances not included in (a) (b) and (c) above at 0.40 per cent.
- (ii) The provisions on standard assets should not be reckoned for arriving at net NPAs.
- (iii) The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.
- (iv) It is clarified that the Medium Enterprises will attract 0.40% standard asset provisioning. The definition of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be in terms of Master Circular RPCD.SME&NFS.BC.No. 5/06.02.31/2013-14 dated July 1, 2013 on Lending to Micro, Small & Medium Enterprises (MSME) Sector.
- (v) While the provisions on individual portfolios are required to be calculated at the rates applicable to them, the excess or shortfall in the provisioning, vis-a-vis the position as on any previous date, should be determined on an aggregate basis. If the provisions required to be held on an aggregate basis are less than the provisions held as on November 15, 2008, the provisions rendered surplus should not be reversed to Profit and Loss account; but should continue to be maintained at the level existed as on November 15, 2008. In case of shortfall determined on aggregate basis, the balance should be provided for by debit to Profit and Loss account.

¹ For this purpose, CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH.

(vi) A high level of unhedged foreign currency exposures of the entities can increase the probability of default in times of high currency volatility. Hence, banks are required to estimate the riskiness of unhedged position of their borrowers as per the instructions contained in our circular DBOD.No.BP.BC.85/21.06.200/2013-14 dated January 15, 2014 as well as our circular DBOD.No.BP.BC.116/21.06.200/2013-14 dated June 3, 2014 and make incremental provisions on their exposures to such entities:

Likely Loss / EBID (%)	Incremental Provisioning Requirement on the total credit exposures over and above extant standard asset provisioning
Upto 15 per cent	0
More than 15 per cent and upto 30 per cent	20bps
More than 30 per cent and upto 50 per cent	40bps
More than 50 per cent and upto 75 per cent	60bps
More than 75 per cent	80 bps

5.6 Prudential norms on creation and utilisation of floating provisions

5.6.1 Principle for creation of floating provisions by banks

The bank's board of directors should lay down approved policy regarding the level to which the floating provisions can be created. The bank should hold floating provisions for 'advances' and 'investments' separately and the guidelines prescribed will be applicable to floating provisions held for both 'advances' & 'investment' portfolios.

5.6.2 Principle for utilisation of floating provisions by banks

- i The floating provisions should not be used for making specific provisions as per the extant prudential guidelines in respect of nonperforming assets or for making regulatory provisions for standard assets. The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of RBI. The Boards of the banks should lay down an approved policy as to what circumstances would be considered extraordinary.
- ii To facilitate banks' Boards to evolve suitable policies in this regard, it is clarified that the extra-ordinary circumstances refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature.

These extra-ordinary circumstances could broadly fall under three categories viz. General, Market and Credit. Under general category, there can be situations where bank is put unexpectedly to loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics may also be included in the general category. Market category would include events such as a general melt down in the markets, which affects the entire financial system. Among the credit category, only exceptional credit losses would be considered as an extra-ordinary circumstance.

5.6.3 Accounting

Floating provisions cannot be reversed by credit to the profit and loss account. They can only be utilised for making specific provisions in extraordinary circumstances as mentioned above. Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs. Alternatively, they can be treated as part of Tier II capital within the overall ceiling of 1.25 % of total risk weighted assets.

5.6.4 Disclosures

Banks should make comprehensive disclosures on floating provisions in the “notes on accounts” to the balance sheet on (a) opening balance in the floating provisions account, (b) the quantum of floating provisions made in the accounting year, (c) purpose and amount of draw down made during the accounting year, and (d) closing balance in the floating provisions account.

5.7 **Additional Provisions for NPAs at higher than prescribed rates**

The regulatory norms for provisioning represent the minimum requirement. A bank may voluntarily make specific provisions for advances at rates which are higher than the rates prescribed under existing regulations, to provide for estimated actual loss in collectible amount, provided such higher rates are approved by the Board of Directors and consistently adopted from year to year. Such additional provisions are not to be considered as floating provisions. The additional provisions for NPAs, like the minimum regulatory provision on NPAs, may be netted off from gross NPAs to arrive at the net NPAs

5.8 **Provisions on Leased Assets**

i) Substandard assets

- a) 15 percent of the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component. The terms ‘net investment in the lease’, ‘finance income’ and ‘finance charge’ are as defined in ‘AS 19 Leases’ issued by the ICAI.

b) Unsecured (as defined in paragraph 5.4 above) lease exposures,, which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 25 per cent.

ii) Doubtful assets

100 percent of the extent to which the finance is not secured by the realisable value of the leased asset, should be provided for. Realisable value is to be estimated on a realistic basis. In addition to the above provision, provision at the following rates should be made on the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component of the secured portion, depending upon the period for which asset has been doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	25
One to three years	40
More than three years	100

iii) Loss assets

The entire asset should be written off. If for any reason, an asset is allowed to remain in books, 100 percent of the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component should be provided for.

5.9 Guidelines for Provisions under Special Circumstances

5.9.1 Advances granted under rehabilitation packages approved by BIFR/term lending institutions

(i) In respect of advances under rehabilitation package approved by BIFR/term lending institutions, the provision should continue to be made in respect of dues to the bank on the existing credit facilities as per their classification as substandard or doubtful asset.

(ii) As regards the additional facilities sanctioned as per package finalised by BIFR and/or term lending institutions, provision on additional facilities sanctioned need not be made for a period of one year from the date of disbursement.

(iii) In respect of additional credit facilities granted to SSI units which are identified as sick [as defined in Section IV (Para 4.7) of circular RPCD.SME&NFS.BC.No.5/06.02.31/2013-14 dated July 1, 2013] and where rehabilitation packages/nursing programmes have been drawn by the banks themselves or under consortium arrangements, no provision need be made for a period of one year.

5.9.2 Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs,

gold ornaments, government & other securities and life insurance policies would attract provisioning requirements as applicable to their asset classification status.

5.9.3 Treatment of interest suspense account

Amounts held in Interest Suspense Account should not be reckoned as part of provisions. Amounts lying in the Interest Suspense Account should be deducted from the relative advances and thereafter, provisioning as per the norms, should be made on the balances after such deduction.

5.9.4 Advances covered by ECGC guarantee

In the case of advances classified as doubtful and guaranteed by ECGC, provision should be made only for the balance in excess of the amount guaranteed by the Corporation. Further, while arriving at the provision required to be made for doubtful assets, realisable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by the Corporation and then provision made as illustrated hereunder:

Example

Outstanding Balance	Rs. 4 lakhs
ECGC Cover	50 percent
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held	Rs. 1.50 lakhs

Provision required to be made

Outstanding balance	Rs. 4.00 lakhs
Less: Value of security held	Rs. 1.50 lakhs
Unrealised balance	Rs. 2.50 lakhs
Less: ECGC Cover (50% of unrealisable balance)	Rs. 1.25 lakhs
Net unsecured balance	Rs. 1.25 lakhs
Provision for unsecured portion of advance	Rs. 1.25 lakhs (@ 100 percent of unsecured portion)
Provision for secured portion of advance (as on March 31, 2012)	Rs.0.60 lakhs (@ 40 per cent of the secured portion)
Total provision to be made	Rs.1.85 lakhs (as on March 31, 2014)

5.9.5 Advance covered by guarantees of Credit Guarantee Fund Trust For Micro And Small Enterprises (CGTMSE) or Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH)

In case the advance covered by CGTMSE or CRGFTLIH guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for nonperforming advances. An illustrative example is given below:

Example

Outstanding Balance	Rs. 10 lakhs
CGTMSE/CRGFTLIH Cover	75% of the amount outstanding or 75% of the unsecured amount or Rs.37.50 lakh, whichever is the least
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held	Rs. 1.50 lakhs

Provision required to be made

Balance outstanding	Rs.10.00 lakh
Less: Value of security	Rs. 1.50 lakh
Unsecured amount	Rs. 8.50 lakh
Less: CGTMSE/CRGFTLIH cover (75%)	Rs. 6.38 lakh
Net unsecured and uncovered portion:	Rs. 2.12 lakh
Provision for Secured portion @ 40% of Rs.1.50 lakh	Rs.0.60 lakh
Provision for Unsecured & uncovered portion @ 100% of Rs.2.12 lakh	Rs.2.12 lakh
Total provision required	Rs.2.72 lakh

5.9.6 Takeout finance

The lending institution should make provisions against a 'takeout finance' turning into NPA pending its takeover by the taking-over institution. As and when the asset is taken-over by the taking-over institution, the corresponding provisions could be reversed.

5.9.7 Reserve for Exchange Rate Fluctuations Account (RERFA)

When exchange rate movements of Indian rupee turn adverse, the outstanding amount of foreign currency denominated loans (where actual disbursement was made in Indian Rupee) which becomes overdue, goes up correspondingly, with its attendant implications of provisioning requirements. Such assets should not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirement, the following procedure may be adopted:

- The loss on revaluation of assets has to be booked in the bank's Profit & Loss Account.
- In addition to the provisioning requirement as per Asset Classification, the full amount of the Revaluation Gain, if any, on account of foreign exchange fluctuation should be used to make provisions against the corresponding assets.

5.9.8 Provisioning for country risk

Banks shall make provisions, with effect from the year ending March 31, 2003, on the net funded country exposures on a graded scale ranging from 0.25 to 100 percent according to the risk categories mentioned below. To begin with, banks shall make provisions as per the following schedule:

Risk category	ECGC Classification	Provisioning Requirement (per cent)
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

Banks are required to make provision for country risk in respect of a country where its net funded exposure is one per cent or more of its total assets.

The provision for country risk shall be in addition to the provisions required to be held according to the asset classification status of the asset. However, in the case of 'loss assets' and 'doubtful assets', provision held, including provision held for country risk, may not exceed 100% of the outstanding.

Banks may not make any provision for 'home country' exposures i.e. exposure to India. The exposures of foreign branches of Indian banks to the host country should be included. Foreign banks shall compute the country exposures of their Indian branches and shall hold appropriate provisions in their Indian books. However, their

exposures to India will be excluded.

Banks may make a lower level of provisioning (say 25% of the requirement) in respect of short-term exposures (i.e. exposures with contractual maturity of less than 180 days).

5.9.9 Excess Provisions on sale of Standard Asset / NPAs

(a) If the sale is in respect of Standard Asset and the sale consideration is higher than the book value, the excess provisions may be credited to Profit and Loss Account.

(b) Excess provisions which arise on sale of NPAs can be admitted as Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets. Accordingly, these excess provisions that arise on sale of NPAs would be eligible for Tier II status in terms of paragraph 4.3.2 of Master Circular DBOD.No.BP.BC.9/21.06.001/2013-14 dated July 01, 2013 on Prudential guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF).

5.9.10 Provisions for Diminution of Fair Value

Provisions for diminution of fair value of restructured advances, both in respect of Standard Assets as well as NPAs, made on account of reduction in rate of interest and / or rescheduling of principal amount are permitted to be netted from the relative asset.

5.9.11 Provisioning norms for Liquidity facility provided for Securitisation transactions

The amount of liquidity facility drawn and outstanding for more than 90 days, in respect of securitisation transactions undertaken in terms of our guidelines on securitisation dated February 1, 2006, should be fully provided for.

5.9.12 Provisioning requirements for derivative exposures

Credit exposures computed as per the current marked to market value of the contract, arising on account of the interest rate & foreign exchange derivative transactions, credit default swaps and gold, shall also attract provisioning requirement as applicable to the loan assets in the 'standard' category, of the concerned counterparties. All conditions applicable for treatment of the provisions for standard assets would also apply to the aforesaid provisions for derivative and gold exposures.

5.9.13 Provisioning for housing loans at teaser rates

It has been observed that some banks are following the practice of sanctioning housing loans at teaser rates i.e. at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. This practice raises concern as some borrowers may find it difficult to service the loans once the normal interest rate, which is higher than the rate applicable in the initial years, becomes effective. It has been also observed that many banks at the time of initial loan appraisal, do not take into account the repaying capacity of the borrower at normal lending rates. Therefore, the standard asset provisioning on the outstanding amount of such loans has been increased from 0.40 per cent to 2.00 per cent in view of the higher risk associated with them. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

5.10 **Provisioning Coverage Ratio**

- i. Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses.
- ii. From a macro-prudential perspective, banks should build up provisioning and capital buffers in good times i.e. when the profits are good, which can be used for absorbing losses in a downturn. This will enhance the soundness of individual banks, as also the stability of the financial sector. It was, therefore, decided that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 per cent. Accordingly, banks were advised to achieve this norm not later than end-September 2010.
- iii. Majority of the banks had achieved PCR of 70 percent and had represented to RBI whether the prescribed PCR is required to be maintained on an ongoing basis. The matter was examined and till such time RBI introduces a more comprehensive methodology of countercyclical provisioning taking into account the international standards as are being currently developed by Basel Committee on Banking Supervision (BCBS) and other provisioning norms, banks were advised that :
 - a) the PCR of 70 percent may be with reference to the gross NPA position in banks as on September 30, 2010;
 - b) the surplus of the provision under PCR vis-a-vis as required as per prudential norms should be segregated into an account styled as

“countercyclical provisioning buffer”, computation of which may be undertaken as per the format given in Annex - 3; and

c) this buffer will be allowed to be used by banks for making specific provisions for NPAs during periods of system wide downturn, with the prior approval of RBI².

- iv. The PCR of the bank should be disclosed in the Notes to Accounts to the Balance Sheet.
- v. In terms of the Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India dated March 30, 2012, banks are required to build up ‘Dynamic Provisioning Account’ during good times and utilise the same during downturn. Under the proposed framework, banks are expected to either compute parameters such as probability of default, loss given default, etc. for different asset classes to arrive at long term average annual expected loss or use the standardised parameters prescribed by Reserve Bank of India towards computation of Dynamic Provisioning requirement. Dynamic loan loss provisioning framework is expected to be in place with improvement in the system. Meanwhile, banks should develop necessary capabilities to compute their long term average annual expected loss for different asset classes, for switching over to the dynamic provisioning framework.

6. Guidelines on sale of financial assets to Securitisation Company (SC)/ Reconstruction Company (RC) (created under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) and related issues

6.1 Scope

These guidelines would be applicable to sale of financial assets enumerated in paragraph 6.3 below, by banks/ FIs, for asset reconstruction/ securitisation under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

6.2 Structure

The guidelines to be followed by banks/ FIs while selling their financial assets to SC/RC under the Act *ibid* and investing in bonds/ debentures/ security receipts offered by the SC/RC are given below. The prudential guidelines have been grouped under the following headings:

² As a countercyclical measure, on February 7, 2014, banks were permitted to utilise upto 33 per cent of countercyclical provisioning buffer / floating provisions held by them as on March 31, 2013, for making specific provisions for non-performing assets, as per the policy approved by their Board of Directors.

- i) Financial assets which can be sold.
- ii) Procedure for sale of banks'/ FIs' financial assets to SC/ RC, including valuation and pricing aspects.
- iii) Prudential norms, in the following areas, for banks/ FIs for sale of their financial assets to SC/ RC and for investing in bonds/ debentures/ security receipts and any other securities offered by the SC/RC as compensation consequent upon sale of financial assets:
 - a) Provisioning / Valuation norms
 - b) Capital adequacy norms
 - c) Exposure norms
- iv) Disclosure requirements

6.3 Financial assets which can be sold

A financial asset may be sold to the SC/RC by any bank/ FI where the asset is:

- i) A NPA, including a non-performing bond/ debenture.
- ii) A Standard Asset where:
 - (a) the asset is under consortium/ multiple banking arrangements,
 - (b) at least 75% by value of the asset is classified as non-performing asset in the books of other banks/FIs, and
 - (c) at least 75% (by value) of the banks / FIs who are under the consortium / multiple banking arrangements agree to the sale of the asset to SC/RC.

and

- iii) An asset reported as SMA-2 by the bank / FI to Central Repository for Information on Large Credit (CRILC) in terms of DBOD.BP.BC.No.98/21.04.132/2013-14 February 26, 2014

6.4. Procedure for sale of banks'/ FIs' financial assets to SC/ RC, including valuation and pricing aspects

- (a) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) allows acquisition of financial assets by SC/RC from any bank/ FI on such terms and conditions as may be agreed upon between them. This provides for sale of the financial assets on 'without recourse' basis, i.e., with the entire credit risk associated with the financial assets being transferred to SC/ RC, as well as on 'with recourse' basis, i.e., subject to unrealized part of the asset reverting to the seller bank/ FI. Banks/ FIs are, however, directed to ensure that the effect of the sale of the financial assets should be such that the asset

is taken off the books of the bank/ FI and after the sale there should not be any known liability devolving on the banks/ FIs.

(b) Banks/ FIs, which propose to sell to SC/RC their financial assets should ensure that the sale is conducted in a prudent manner in accordance with a policy approved by the Board. The Board shall lay down policies and guidelines covering, *inter alia*,

- i. Financial assets to be sold;
- ii. Norms and procedure for sale of such financial assets;
- iii. Valuation procedure to be followed to ensure that the realisable value of financial assets is reasonably estimated;
- iv. Delegation of powers of various functionaries for taking decision on the sale of the financial assets; etc.

(c) Banks/ FIs should ensure that subsequent to sale of the financial assets to SC/RC, they do not assume any operational, legal or any other type of risks relating to the financial assets sold.

- (d) (i) Each bank / FI will make its own assessment of the value offered by the SC / RC for the financial asset and decide whether to accept or reject the offer.
- (ii) In the case of consortium / multiple banking arrangements, if 75% (by value) of the banks / FIs decide to accept the offer, the remaining banks / FIs will be obligated to accept the offer.
- (iii) Under no circumstances can a transfer to the SC/ RC be made at a contingent price whereby in the event of shortfall in the realization by the SC/RC, the banks/ FIs would have to bear a part of the shortfall.
- (iv) Banks using auction process for sale of NPAs to SCs / RCs should be more transparent, including disclosure of the Reserve Price, specifying clauses for non-acceptance of bids, etc. If a bid received is above the Reserve Price and a minimum of 50 per cent of sale proceeds is in cash, and also fulfills the other conditions specified in the Offer Document, acceptance of that bid would be mandatory.

(e) Banks/ FIs may receive cash or bonds or debentures as sale consideration for the financial assets sold to SC/RC.

(f) Bonds/ debentures received by banks/ FIs as sale consideration towards sale of financial assets to SC/RC will be classified as investments in the books of banks/ FIs.

(g) Banks may also invest in security receipts, Pass-through certificates (PTC), or other bonds/ debentures issued by SC/RC. These securities will also be classified as investments in the books of banks/ FIs.

(h) In cases of specific financial assets, where it is considered necessary, banks/ FIs may enter into agreement with SC/RC to share, in an agreed proportion, any surplus realised by SC/RC on the eventual realisation of the concerned asset. In such cases the terms of sale should provide for a report from the SC/RC to the bank/ FI on the value realised from the asset. No credit for the expected profit will be taken by banks/ FIs until the profit materializes on actual sale.

6.5. Prudential norms for banks/ FIs for the sale transactions

(A) Provisioning/ valuation norms

- (a) (i) When a bank / FI sells its financial assets to SC/ RC, on transfer the same will be removed from its books.
- (ii) If the sale to SC/ RC is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year. Banks can also use countercyclical / floating provisions for meeting any shortfall on sale of NPAs i.e., when the sale is at a price below the net book value (NBV).

However, for assets sold on or after February 26, 2014 and upto March 31, 2015, as an incentive for early sale of NPAs, banks can spread over any shortfall, if the sale value is lower than the NBV, over a period of two years. This facility of spreading over the shortfall will be subject to necessary disclosures in the Notes to Account in Annual Financial Statements of the banks.

- (iii) For assets sold on or after February 26, 2014, banks can reverse the excess provision on sale of NPAs, if the sale value is for a value higher than the NBV, to its profit and loss account in the year the amounts are received. However, banks can reverse excess provision arising out of sale of NPAs only when the cash received (by way of initial consideration and / or redemption of SRs / PTCs) is higher than the net book value (NBV) of the asset. Further, reversal of excess provision will be limited to the extent to which cash received exceeds the NBV of the asset.

With regard to assets sold before February 26, 2014, excess provision, on account of sale value being higher than NBV, should not be reversed but should be utilized to meet the shortfall/ loss on account of sale of other financial assets to SC/RC.

- (iv) When banks/ FIs invest in the security receipts/ pass-through certificates issued by SC/RC in respect of the financial assets sold by them to the SC/RC, the sale shall be recognised in books of the banks / FIs at the lower of:

- the redemption value of the security receipts/ pass-through certificates, and
- the NBV of the financial asset.

The above investment should be carried in the books of the bank / FI at the price as determined above until its sale or realization, and on such sale or realization, the loss or gain must be dealt with in the same manner as at (ii) and (iii) above.

- (b) *The securities (bonds and debentures) offered by SC / RC should satisfy the following conditions:*
- (i) The securities must not have a term in excess of six years.
 - (ii) The securities must carry a rate of interest which is not lower than 1.5% above the Bank Rate in force at the time of issue.
 - (iii) The securities must be secured by an appropriate charge on the assets transferred.
 - (iv) The securities must provide for part or full prepayment in the event the SC / RC sells the asset securing the security before the maturity date of the security.
 - (v). The commitment of the SC / RC to redeem the securities must be unconditional and not linked to the realization of the assets.
 - (vi) Whenever the security is transferred to any other party, notice of transfer should be issued to the SC/ RC.

(c) *Investment in debentures/ bonds/ security receipts/ Pass-through certificates issued by SC/ RC*

All instruments received by banks/FIs from SC/RC as sale consideration for financial assets sold to them and also other instruments issued by SC/ RC in which banks/ FIs invest will be in the nature of non SLR securities. Accordingly, the valuation, classification and other norms applicable to investment in non-SLR instruments prescribed by RBI from time to time would be applicable to bank's/ FI's investment in debentures/ bonds/ security receipts/PTCs issued by SC/ RC. However, if any of the above instruments issued by SC/RC is limited to the actual realisation of the financial assets assigned to the instruments in the concerned scheme the bank/ FI shall reckon the Net Asset Value (NAV), obtained from SC/RC from time to time, for valuation of such investments.

(B) Exposure Norms

Banks'/ FIs' investments in debentures/ bonds/ security receipts/PTCs issued by a SC/RC will constitute exposure on the SC/RC. As only a few SC/RC are being set up now, banks'/ FIs' exposure on SC/RC through their investments in debentures/ bonds/security receipts/PTCs issued by the SC/ RC may go beyond their prudential

exposure ceiling. In view of the extra ordinary nature of event, banks/ FIs will be allowed, in the initial years, to exceed prudential exposure ceiling on a case-to-case basis.

6.6. Disclosure Requirements

Banks/ FIs, which sell their financial assets to an SC/ RC, shall be required to make the following disclosures in the Notes on Accounts to their Balance sheets:

Details of financial assets sold during the year to SC/RC for Asset Reconstruction

- a. No. of accounts
- b. Aggregate value (net of provisions) of accounts sold to SC / RC
- c. Aggregate consideration
- d. Additional consideration realized in respect of accounts transferred in earlier years
- e. Aggregate gain / loss over net book value.

6.7. Related Issues

- (a) SC/ RC will also take over financial assets which cannot be revived and which, therefore, will have to be disposed of on a realisation basis. Normally the SC/ RC will not take over these assets but act as an agent for recovery for which it will charge a fee.
- (b) Where the assets fall in the above category, the assets will not be removed from the books of the bank/ FI but realisations as and when received will be credited to the asset account. Provisioning for the asset will continue to be made by the bank / FI in the normal course.

7. Guidelines on purchase/ sale of Non - Performing Financial Assets (other than to SC/RC)

In order to increase the options available to banks for resolving their non performing assets and to develop a healthy secondary market for nonperforming assets, where securitisation companies and reconstruction companies are not involved, guidelines have been issued to banks on purchase / sale of Non Performing Assets. Since the sale/purchase of nonperforming financial assets under this option would be conducted within the financial system the whole process of resolving the non performing assets and matters related thereto has to be initiated with due diligence and care warranting the existence of a set of clear guidelines which shall be complied with by all entities so that the process of resolving non-performing assets by sale and purchase of NPAs proceeds on smooth and sound lines. Accordingly guidelines on sale/purchase of nonperforming assets have been formulated and furnished below. The guidelines may be placed before the bank's /FI's /NBFC's Board and appropriate steps may be taken for their implementation.

Scope

7.1 These guidelines would be applicable to banks, FIs and NBFCs purchasing/ selling non performing financial assets, from/ to other banks/FIs/NBFCs (excluding securitisation companies/ reconstruction companies).

A financial asset, including assets under multiple/consortium banking arrangements, would be eligible for purchase/sale in terms of these guidelines if it is a nonperforming asset/non performing investment in the books of the selling bank.

The reference to 'bank' in the guidelines on purchase/sale of nonperforming financial assets would include financial institutions and NBFCs.

Structure

7.2 The guidelines to be followed by banks purchasing/ selling nonperforming financial assets from / to other banks are given below. The guidelines have been grouped under the following headings:

- i) Procedure for purchase/ sale of non performing financial assets by banks, including valuation and pricing aspects.
- ii) Prudential norms, in the following areas, for banks for purchase/ sale of non performing financial assets:
 - a) Asset classification norms
 - b) Provisioning norms
 - c) Accounting of recoveries
 - d) Capital adequacy norms
 - e) Exposure norms
- iii) Disclosure requirements

7.3 **Procedure for purchase/ sale of non performing financial assets, including valuation and pricing aspects**

- i) A bank which is purchasing/ selling nonperforming financial assets should ensure that the purchase/ sale is conducted in accordance with a policy approved by the Board. The Board shall lay down policies and guidelines covering, *inter alia*,
 - a) Non performing financial assets that may be purchased/ sold;
 - b) Norms and procedure for purchase/ sale of such financial assets;
 - c) Valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the estimated cash flows arising out of repayments and recovery prospects;

- d) Delegation of powers of various functionaries for taking decision on the purchase/ sale of the financial assets; etc.
 - e) Accounting policy
- ii) While laying down the policy, the Board shall satisfy itself that the bank has adequate skills to purchase non performing financial assets and deal with them in an efficient manner which will result in value addition to the bank. The Board should also ensure that appropriate systems and procedures are in place to effectively address the risks that a purchasing bank would assume while engaging in this activity.
- iii) Banks should, while selling NPAs, work out the net present value of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should generally not be lower than the net present value arrived at in the manner described above. (same principle should be used in compromise settlements. As the payment of the compromise amount may be in instalments, the net present value of the settlement amount should be calculated and this amount should generally not be less than the net present value of the realisable value of securities.)
- iv) The estimated cash flows are normally expected to be realised within a period of three years and at least 10% of the estimated cash flows should be realized in the first year and at least 5% in each half year thereafter, subject to full recovery within three years.
- v) A bank may purchase/sell nonperforming financial assets from/to other banks only on 'without recourse' basis, i.e., the entire credit risk associated with the nonperforming financial assets should be transferred to the purchasing bank. Selling bank shall ensure that the effect of the sale of the financial assets should be such that the asset is taken off the books of the bank and after the sale there should not be any known liability devolving on the selling bank.
- vi) Banks should ensure that subsequent to sale of the non performing financial assets to other banks, they do not have any involvement with reference to assets sold and do not assume operational, legal or any other type of risks relating to the financial assets sold. Consequently, the specific financial asset should not enjoy the support of credit enhancements / liquidity facilities in any form or manner.
- vii) Each bank will make its own assessment of the value offered by the purchasing bank for the financial asset and decide whether to accept or reject the

offer.

viii) Under no circumstances can a sale to other banks be made at a contingent price whereby in the event of shortfall in the realization by the purchasing banks, the selling banks would have to bear a part of the shortfall.

ix) Banks shall sell nonperforming financial assets to other banks only on cash basis. The entire sale consideration should be received upfront and the asset can be taken out of the books of the selling bank only on receipt of the entire sale consideration.

x) A nonperforming financial asset should be held by the purchasing bank in its books at least for a period of 12 months before it is sold to other banks. Banks should not sell such assets back to the bank, which had sold the NPFA.

(xi) Banks are also permitted to sell/buy homogeneous pool within retail non-performing financial assets, on a portfolio basis provided each of the nonperforming financial assets of the pool has remained as nonperforming financial asset for at least 2 years in the books of the selling bank. The pool of assets would be treated as a single asset in the books of the purchasing bank.

xii) The selling bank shall pursue the staff accountability aspects as per the existing instructions in respect of the nonperforming assets sold to other banks.

7.4. Prudential norms for banks for the purchase/ sale transactions

(A) Asset classification norms

(i) The nonperforming financial asset purchased, may be classified as 'standard' in the books of the purchasing bank for a period of 90 days from the date of purchase. Thereafter, the asset classification status of the financial asset purchased, shall be determined by the record of recovery in the books of the purchasing bank with reference to cash flows estimated while purchasing the asset which should be in compliance with requirements in Para 7.3 (iv).

(ii) The asset classification status of an existing exposure (other than purchased financial asset) to the same obligor in the books of the purchasing bank will continue to be governed by the record of recovery of that exposure and hence may be different.

(iii) Where the purchase/sale does not satisfy any of the prudential

requirements prescribed in these guidelines the asset classification status of the financial asset in the books of the purchasing bank at the time of purchase shall be the same as in the books of the selling bank. Thereafter, the asset classification status will continue to be determined with reference to the date of NPA in the selling bank.

(iv) Any restructure/reschedule/rephrase of the repayment schedule or the estimated cash flow of the nonperforming financial asset by the purchasing bank shall render the account as a nonperforming asset.

(B) Provisioning norms

Books of selling bank

i) When a bank sells its nonperforming financial assets to other banks, the same will be removed from its books on transfer.

ii) If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.

iii) If the sale is for a value higher than the NBV, the excess provision shall not be reversed but will be utilised to meet the shortfall/ loss on account of sale of other nonperforming financial assets.

Books of purchasing bank

The asset shall attract provisioning requirement appropriate to its asset classification status in the books of the purchasing bank.

(C) Accounting of recoveries

Any recovery in respect of a nonperforming asset purchased from other banks should first be adjusted against its acquisition cost. Recoveries in excess of the acquisition cost can be recognised as profit.

(D) Capital Adequacy

For the purpose of capital adequacy, banks should assign 100% risk weights to the nonperforming financial assets purchased from other banks. In case the nonperforming asset purchased is an investment, then it would attract capital charge for market risks also. For NBFCs the relevant instructions on capital adequacy would be applicable.

(E) Exposure Norms

The purchasing bank will reckon exposure on the obligor of the specific financial asset. Hence these banks should ensure compliance with the prudential credit exposure ceilings (both single and group) after reckoning the exposures to the obligors arising on account of the purchase. For NBFCs the relevant instructions on exposure norms would be applicable.

7.5. **Disclosure Requirements**

Banks which purchase nonperforming financial assets from other banks shall be required to make the following disclosures in the Notes on Accounts to their Balance sheets:

A. Details of nonperforming financial assets purchased:

(Amounts in Rupees crore)

1. (a) No. of accounts purchased during the year
(b) Aggregate outstanding
2. (a) Of these, number of accounts restructured during the year
(b) Aggregate outstanding

B. Details of nonperforming financial assets sold:

(Amounts in Rupees crore)

1. No. of accounts sold
2. Aggregate outstanding
3. Aggregate consideration received

C. The purchasing bank shall furnish all relevant reports to RBI, credit information company which has obtained Certificate of Registration from RBI and of which the bank is a member etc. in respect of the nonperforming financial assets purchased by it.

8. **Writing off of NPAs**

8.1 In terms of Section 43(D) of the Income Tax Act 1961, income by way of interest in relation to such categories of bad and doubtful debts as may be prescribed having regard to the guidelines issued by the RBI in relation to such debts, shall be chargeable to tax in the previous year in which it is credited to the bank's profit and loss account or received, whichever is earlier.

8.2 This stipulation is not applicable to provisioning required to be made as indicated above. In other words, amounts set aside for making provision for NPAs as above are not eligible for tax deductions.

8.3 Therefore, the banks should either make full provision as per the guidelines or write-off such advances and claim such tax benefits as are applicable, by evolving appropriate methodology in consultation with their auditors/tax consultants. Recoveries made in such accounts should be offered for tax purposes as per the rules.

8.4 **Write-off at Head Office Level**

Banks may write-off advances at Head Office level, even though the relative advances are still outstanding in the branch books. However, it is necessary that provision is made as per the classification accorded to the respective accounts. In other words, if an advance is a loss asset, 100 percent provision will have to be made therefor.

9. NPA Management – Requirement of Effective Mechanism and Granular Data

(i) Asset quality of banks is one of the most important indicators of their financial health. Banks should, therefore put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level (asset class, industry, geographic, size, etc.). Such early warning signals should be used for putting in place an effective preventive asset quality management framework, including a transparent restructuring mechanism for viable accounts under distress within the prevailing regulatory framework, for preserving the economic value of those entities in all segments.

(ii) The banks' IT and MIS system should be robust and able to generate reliable and quality information with regard to their asset quality for effective decision making. There should be no inconsistencies between information furnished under regulatory / statutory reporting and the banks' own MIS reporting. Banks should also have system generated segment wise information on non-performing assets and restructured assets which may include data on the opening balances, additions, reductions (upgradations, actual recoveries, write-offs etc.), closing balances, provisions held, technical write-offs, etc.

Prudential Guidelines on Restructuring of Advances by Banks

10. Background

10.1 The guidelines issued by the Reserve Bank of India on restructuring of advances (other than those restructured under a separate set of guidelines issued by the Rural Planning and Credit Department (RPCD) of the RBI on restructuring of advances on account of natural calamities) are divided into the following four categories :

- (i) Guidelines on restructuring of advances extended to industrial units.
- (ii) Guidelines on restructuring of advances extended to industrial units under the Corporate Debt Restructuring (CDR) Mechanism
- (iii) Guidelines on restructuring of advances extended to Small and Medium Enterprises (SME)
- (iv) Guidelines on restructuring of all other advances.

In these four sets of guidelines on restructuring of advances, the differentiations were broadly made based on whether a borrower is engaged in an industrial activity or a non-industrial activity. In addition, an elaborate institutional mechanism was laid down for accounts restructured under CDR Mechanism. The major difference in the prudential regulations was in the stipulation that subject to certain conditions, the accounts of borrowers engaged in industrial activities (under CDR Mechanism, SME Debt Restructuring Mechanism and outside these mechanisms) continued to be classified in the existing asset classification category upon restructuring. This benefit of retention of asset classification on restructuring was not made available to the accounts of borrowers engaged in non-industrial activities except to SME borrowers. Another difference was that the prudential regulations covering the CDR Mechanism and restructuring of advances extended to SMEs were more detailed and comprehensive than that covering the restructuring of the rest of the advances including the advances extended to the industrial units, outside CDR Mechanism. Further, the CDR Mechanism was made available only to the borrowers engaged in industrial activities.

10.2 Since the principles underlying the restructuring of all advances were identical, it was felt that the prudential regulations needed to be aligned in all cases. Accordingly, the prudential norms across all categories of debt restructuring mechanisms, other than those restructured on account of natural calamities which will continue to be covered by the extant guidelines issued by the RPCD, were harmonised in August 2008.

10.3 In the backdrop of extraordinary rise in restructured standard advances, these prudential norms were further revised by taking into account the recommendations of the

Working Group (Chairman: Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks/financial institutions. These prudential norms applicable to all restructurings including those under CDR Mechanism are included in this circular. The details of the institutional / organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism are given in Annex - 4.

10.4 The CDR Mechanism (Annex - 4) will also be available to the corporates engaged in non-industrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, banks are also encouraged to strengthen the co-ordination among themselves in the matter of restructuring of consortium / multiple banking accounts, which are not covered under the CDR Mechanism.

11. Key Concepts

Key concepts used in these guidelines are defined in Annex - 5.

12. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph are applicable to all advances including the borrowers, who are eligible for special regulatory treatment for asset classification as specified in para 15.

12.1 Eligibility criteria for restructuring of advances

12.1.1 Banks may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.

12.1.2 Banks cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.

12.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

12.1.4 No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action. Banks should accelerate the recovery measures in respect of such accounts. The viability should be determined by the banks based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it will be desirable that banks adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability should be determined by the banks based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix to Part – B of this Master Circular and individual banks may suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

12.1.5 While the borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring, banks may review the reasons for classification of the borrowers as wilful defaulters, specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent, and satisfy itself that the borrower is in a position to rectify the wilful default. The restructuring of such cases may be done with Board's approval, while for such accounts the restructuring under the CDR Mechanism may be carried out with the approval of the Core Group only.

12.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual banks in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

12.2 Asset classification norms

Restructuring of advances could take place in the following stages:

- (a) before commencement of commercial production / operation;
- (b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';
- (c) after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

12.2.1 The accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring.

12.2.2 The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

12.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the bank should be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (Annex - 5), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

12.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

12.2.5 Any additional finance may be treated as 'standard asset' during the specified period (Annex – 5) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

12.2.6 If a restructured asset, which is a standard asset on restructuring in terms of para 14.5.2, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion may be

allowed to be upgraded to standard category after the specified period (Annex-5) in terms of the current restructuring package, subject to satisfactory performance.

12.3 Income recognition norms

Subject to provisions of paragraphs 12.2.5, 13.2 and 14.2, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

12.4 Provisioning norms

12.4.1 ***Provision on restructured advances***

(i) Banks will hold provision against the restructured advances as per the extant provisioning norms.

(ii) Restructured accounts classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.

(iii) Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

(iv) The above-mentioned higher provision on restructured standard advances (2.75 per cent as prescribed vide circular dated November 26, 2012) would increase to 5 per cent in respect of new restructured standard accounts (flow) with effect from June 1, 2013 and increase in a phased manner for the stock of restructured standard accounts as on May 31, 2013 as under :

- 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14)
- 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
- 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16)

12.4.2 ***Provision for diminution in the fair value of restructured advances***

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the bank and will have impact on the bank's market value of

equity. It is, therefore, necessary for banks to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision should be held in addition to the provisions as per existing provisioning norms as indicated in para 12.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR or base rate³ (whichever is applicable to the borrower) as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring. Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR or base rate (whichever is applicable to the borrower) as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring.

The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently by banks in future. Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

ii) It was observed that on a few occasions, there were divergences in the calculation of diminution of fair value of accounts by banks. Illustratively, divergences could occur if banks are not appropriately factoring in the term premium on account of elongation of repayment period on restructuring. In such a case the term premium used while calculating the present value of

³ This change has been introduced as a result of the introduction of Base Rate System w.e.f. July 1, 2010 vide [circular DBOD.No.Dir.BC.88/13.03.00/2009-10 dated April 9, 2010](#) on 'Guidelines on the Base Rate'.

cash flows after restructuring would be higher than the term premium used while calculating the present value of cash flows before restructuring. Further, the amount of principal converted into debt/equity instruments on restructuring would need to be held under AFS and valued as per usual valuation norms. Since these instruments are getting marked to market, the erosion in fair value gets captured on such valuation. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt/equity has to be carried out separately. However, the total sacrifice involved for the bank would be NPV of the above portion plus valuation loss on account of conversion into debt/equity instruments.

Banks are therefore advised that they should correctly capture the diminution in fair value of restructured accounts as it will have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 15.2.2.iv). Further, there should not be any effort on the part of banks to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. Banks are also advised to put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(iii) In the case of working capital facilities, the diminution in the fair value of the cash credit / overdraft component may be computed as indicated in para (i) above, reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working Capital Term Loan and Funded Interest Term Loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

(iv) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(v) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR or base rate (whichever is

applicable to the borrower), term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(vi) If due to lack of expertise / appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five per cent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore.

12.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

12.5 **Risk-Weights**

a. Restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points.

b. With a view to reflecting a higher element of inherent risk which may be latent in entities whose obligations have been subjected to restructuring / rescheduling either by banks on their own or along with other bankers / creditors, the unrated standard / performing claims on corporates should be assigned a higher risk weight of 125% until satisfactory performance under the revised payment schedule has been established for one year from the date when the first payment of interest / principal falls due under the revised schedule.

c. For details on risk weights, Master Circular DBOD.No.BP.MC.2/21.06.201/2013-14 dated July 1, 2013 on 'Basel III Capital Regulations' may be referred.

13. **Prudential Norms for Conversion of Principal into Debt / Equity**

13.1 **Asset classification norms**

A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt / equity instruments so created will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of these instruments would also be determined based on the subsequent asset classification of the restructured advance.

13.2 **Income recognition norms**

13.2.1 ***Standard Accounts***

In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments may be recognised on accrual basis.

13.2.2 **Non- Performing Accounts**

In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments may be recognised only on cash basis.

13.3 **Valuation and provisioning norms**

These instruments should be held under AFS and valued as per usual valuation norms. Equity classified as standard asset should be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at Re. 1. Equity instrument classified as NPA should be valued at market value, if quoted, and in case where equity is not quoted, it should be valued at Re. 1. Depreciation on these instruments should not be offset against the appreciation in any other securities held under the AFS category.

14. **Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments**

14.1 **Asset classification norms**

The FITL / debt or equity instrument created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL / debt or equity instruments would also be determined based on the subsequent asset classification of the restructured advance.

14.2 **Income recognition norms**

14.2.1 The income, if any, generated by these instruments may be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.

14.2.2 The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization)".

14.2.3 In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.

14.2.4 Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received will be recognized in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

14.2.5 It is learnt that banks have not uniformly adhered to these instructions. It is reiterated that whenever the unrealised interest income of a loan is converted into FITL / Debt or equity instrument, banks must have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization). Banks are advised to strictly adhere to these instructions and rectify the position, if required, before finalising their balance sheets for the financial year 2013-14.

14.3 Valuation & Provisioning norms

Valuation and provisioning norms would be as per para 13.3 above. The depreciation, if any, on valuation may be charged to the Sundry Liabilities (Interest Capitalisation) Account.

15. Special Regulatory Treatment for Asset Classification

15.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 12, will be available to the borrowers engaged in important business activities, subject to compliance with certain conditions as enumerated in para 15.2 below. Such treatment is not extended to the following categories of advances:

- i. Consumer and personal advances;
- ii. Advances classified as Capital market exposures;
- iii. Advances classified as commercial real estate exposures

The asset classification of these three categories accounts as well as that of other accounts which do not comply with the conditions enumerated in para 15.2, will be governed by the prudential norms in this regard described in para 12 above.

15.2 Elements of special regulatory framework

The special regulatory treatment has the following two components:

- (i) Incentive for quick implementation of the restructuring package.
- (ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category

15.2.1 ***Incentive for quick implementation of the restructuring package***

As stated in para 12.1.2, during the pendency of the application for restructuring of the advance with the bank, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell in respect of cases covered under the CDR Mechanism or when the restructuring application was received by the bank in non-CDR cases:

- (i) Within 120 days from the date of approval under the CDR Mechanism.
- (ii) Within 120 days from the date of receipt of application by the bank in cases other than those restructured under the CDR Mechanism.

15.2.2 **Asset classification benefits**

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 12:

- (i) In modification to para 12.2.1, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.
- (ii) In modification to para 12.2.2, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

However, these benefits will be available subject to compliance with the following conditions:

- i) The dues to the bank are 'fully secured' as defined in Annex - 5. The condition of being fully secured by tangible security will not be applicable in the following cases:
 - (a) MSE borrowers, where the outstanding is up to Rs.25 lakh.
 - (b) Infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.
- ii) The unit becomes viable in 8 years, if it is engaged in infrastructure activities, and in 5 years in the case of other units.

iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. The aforesaid ceiling of 10 years would not be applicable for restructured home loans; in these cases the Board of Directors of the banks should prescribe the maximum period for restructured advance keeping in view the safety and soundness of the advances.

iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 20 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. This stipulation is the minimum and banks may decide on a higher sacrifice by promoters depending on the riskiness of the project and promoters' ability to bring in higher sacrifice amount. Further, such higher sacrifice may invariably be insisted upon in larger accounts, especially CDR accounts. The promoters' sacrifice should invariably be brought upfront while extending the restructuring benefits to the borrowers. The term 'bank's sacrifice' means the amount of "erosion in the fair value of the advance" or "total sacrifice", to be computed as per the methodology enumerated in para 12.4.2 (i) and (ii) above.

(Prior to May 30, 2013, if banks were convinced that the promoters face genuine difficulty in bringing their share of the sacrifice immediately and need some extension of time to fulfill their commitments, the promoters could be allowed to bring in 50% of their sacrifice, i.e. 50% of 15%, upfront and the balance within a period of one year. However, in such cases, if the promoters fail to bring in their balance share of sacrifice within the extended time limit of one year, the asset classification benefits derived by banks will cease to accrue and the banks will have to revert to classifying such accounts as per the asset classification norms specified under para 12.2 of this circular.)

v) Promoter's contribution need not necessarily be brought in cash and can be brought in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans.

vi) The restructuring under consideration is not a 'repeated restructuring' as defined in para (v) of Annex - 5.

15.2.3. In line with the recommendation of the Working Group (Chairman: Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks/financial institutions, the extant incentive for quick implementation of restructuring package and asset classification benefits (paragraph 15.2.1 & 15.2.2 above) available on restructuring on fulfilling the conditions will however be

withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO in respect of infrastructure as well as non-infrastructure project loans (please see para 4.2.15). It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms with reference to the pre-restructuring repayment schedule.

16. Miscellaneous

16.1 The banks should decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the banks / financial institutions shall have the right to convert a portion of the restructured amount into equity, keeping in view the statutory requirement under Section 19 of the Banking Regulation Act, 1949, (in the case of banks) and relevant SEBI regulations.

16.2 Conversion of debt into preference shares should be done only as a last resort and such conversion of debt into equity/preference shares should, in any case, be restricted to a cap (say 10 per cent of the restructured debt). Further, any conversion of debt into equity should be done only in the case of listed companies.

16.3 Acquisition of equity shares / convertible bonds / convertible debentures in companies by way of conversion of debt / overdue interest can be done without seeking prior approval from RBI, even if by such acquisition the prudential capital market exposure limit prescribed by the RBI is breached. However, this will be subject to reporting of such holdings to RBI, Department of Banking Supervision (DBS), every month along with the regular DSB Return on Asset Quality. Nonetheless, banks will have to comply with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

16.4 Acquisition of non-SLR securities by way of conversion of debt is exempted from the mandatory rating requirement and the prudential limit on investment in unlisted non-SLR securities, prescribed by the RBI, subject to periodical reporting to the RBI in the aforesaid DSB return.

16.5 Banks may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to pre pay. Further, all restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense

amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount should be recovered.

16.6 As stipulating personal guarantee will ensure promoters' "skin in the game" or commitment to the restructuring package, promoters' personal guarantee should be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.

17. Disclosures

With effect from the financial year 2012-13, banks should disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances as per the format given in Annex - 6. The information would be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. Banks must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the bank should also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower. The disclosure format prescribed in Annex-6, inter-alia, includes the following:

- i. details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);
- ii. provisions made on restructured accounts under various categories; and
- iii. details of movement of restructured accounts.

This implies that once the higher provisions and risk weights (if applicable) on restructured advances (classified as standard either *abinitio* or on upgradation from NPA category) revert to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by banks as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts should continue to be maintained by banks as per the existing instructions.

18. It has been reiterated that the basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts. This can be achieved by banks and

the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

Broad benchmarks for the viability parameters

- i. Return on capital employed should be at least equivalent to 5 year Government security yield plus 2 per cent.
- ii. The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.
- iii. The benchmark gap between internal rate of return and cost of capital should be at least 1per cent.
- iv. Operating and cash break even points should be worked out and they should be comparable with the industry norms.
- v. Trends of the company based on historical data and future projections should be comparable with the industry. Thus behaviour of past and future EBIDTA should be studied and compared with industry average.
- vi. Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

Present value of total available cash flow (ACF) during the loan life period (including interest and principal)

$$\text{LLR} = \frac{\text{-----}}{\text{Maximum amount of loan}}$$

C-1 Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy

19. Introduction

In the backdrop of the slowdown of the Indian economy, and resulting increase in Non-Performing Assets (NPAs) and restructured accounts in the Indian banking system during the recent years, a need was felt to ensure that the banking system recognise financial distress early, takes prompt steps to resolve it, and ensures fair recovery for lenders and investors. Accordingly, a Framework for revitalising distressed assets in the economy was placed on RBI website on December 17, 2013 as a Discussion Paper for comments by January 1, 2014. Taking into account the comments received, the Reserve Bank issued the 'Framework for Revitalising Distressed Assets in the Economy' on its website on January 30, 2014, outlining a corrective action plan that will incentivize early identification of problem account, timely restructuring of accounts which are considered to be viable, and taking prompt steps by lenders for recovery or sale of unviable accounts.

Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)

20. These guidelines will be applicable for lending under Consortium and Multiple Banking Arrangements (MBA) [except instructions in paragraphs 21.1, 26.1, 27 & 28 below, which will be applicable in all cases of lending], and should be read with our prudential norms on 'Restructuring of Advances by banks' as contained in Part B of this Master Circular and any other instruction issued in this regard from time to time.

21. Formation of Joint Lenders' Forum

21.1 As proposed in paragraph 2.1.1 of the Framework, before a loan account turns into a NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA⁴) category as given in the table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Please see Appendix to Part C)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

⁴ 'Special Mention Account' (SMA) was introduced in terms of RBI [Circular No. DBS.CO.OSMOS/B.C./4/33.04.006/2002-2003 dated September 12, 2002](#), whereby banks are required to identify incipient stress in the account by creating a sub-asset category viz., SMA.

21.2 It was also proposed in the Framework that the Reserve Bank of India (RBI) will set up a Central Repository of Information on Large Credits (CRILC) to collect, store, and disseminate credit data to lenders. Accordingly, our Department of Banking Supervision (DBS) has advised vide circular [DBS.No.OSMOS.9862/33.01.018/2013-14 dated February 13, 2014](#) on 'Central Repository of Information on Large Credits (CRILC) – Revision in Reporting' that banks will be required to report credit information, including classification of an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based exposure of Rs.50 million and above with them. DBS has further updated these reporting requirements vide their circular [DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014](#) on 'Reporting to Central Repository of Information on Large Credits (CRILC)'.

21.3 Banks are advised that as soon as an account is reported by any of the lenders to CRILC as SMA-2, they should mandatorily form a committee to be called Joint Lenders' Forum (JLF) if the aggregate exposure (AE) [fund based and non-fund based taken together] of lenders in that account is Rs 1000 million and above. Lenders also have the option of forming a JLF even when the AE in an account is less than Rs.1000 million and/or when the account is reported as SMA-0 or SMA-1.

21.4 While the existing Consortium Arrangement for consortium accounts will serve as JLF with the Consortium Leader as convener, for accounts under Multiple Banking Arrangements (MBA), the lender with the highest AE will convene JLF at the earliest and facilitate exchange of credit information on the account. In case there are multiple consortium of lenders for a borrower (e.g. separate consortium for working capital and term loans), the lender with the highest AE will convene the JLF.

21.5 It is possible that a borrower may request the lender/s, with substantiated grounds, for formation of a JLF on account of imminent stress. When such a request is received by a lender, the account should be reported to CRILC as SMA-0, and the lenders should also form the JLF immediately if the AE is Rs. 1000 million and above. It is, however, clarified that for the present, JLF formation is optional in other cases of SMA-0 reporting.

21.6 All the lenders should formulate and sign an Agreement (which may be called JLF agreement) incorporating the broad rules for the functioning of the JLF. The Indian Banks' Association (IBA) has prepared a Master JLF agreement and operational guidelines for JLF which can be adopted by all lenders. The JLF should explore the possibility of the borrower setting right the irregularities/weaknesses in the account. The JLF may invite representatives of the Central/State Government/Project authorities/Local authorities, if they have a role in the implementation of the project financed.

21.7 While JLF formation and subsequent corrective actions will be mandatory in accounts having AE of Rs.1000 million and above, in other cases also the lenders will have to monitor the asset quality closely and take corrective action for effective resolution as deemed appropriate.

22 Corrective Action Plan (CAP) by JLF

22.1 The JLF may explore various options to resolve the stress in the account. The intention is not to encourage a particular resolution option, e.g. restructuring or recovery, but to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans. The options under Corrective Action Plan (CAP) by the JLF would generally include:

(a) Rectification - Obtaining a specific commitment from the borrower to regularise the account so that the account comes out of SMA status or does not slip into the NPA category. The commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. If the existing promoters are not in a position to bring in additional money or take any measures to regularise the account, the possibility of getting some other equity/strategic investors to the company may be explored by the JLF in consultation with the borrower. These measures are intended to turn-around the entity/company without any change in terms and conditions of the loan. The JLF may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. However, it should be strictly ensured that additional financing is not provided with a view to ever-greening the account.

(b) Restructuring - Consider the possibility of restructuring the account if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. At this stage, commitment from promoters for extending their personal guarantees along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the JLF. Any deviation from the commitment by the borrowers affecting the security/recoverability of the loans may be treated as a valid factor for initiating recovery process. For this action to be sustainable, the lenders in the JLF may sign an Inter Creditor Agreement (ICA) and also require the borrower to sign the Debtor Creditor Agreement (DCA) which would provide the legal basis for any restructuring process. The formats used by the Corporate Debt Restructuring (CDR) mechanism for ICA and DCA

could be considered, if necessary with appropriate changes. Further, a 'stand still'⁵ clause could be stipulated in the DCA to enable a smooth process of restructuring. The 'stand-still' clause does not mean that the borrower is precluded from making payments to the lenders. The ICA may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) Recovery - Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The JLF may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimising the efforts and results.

22.2 The decisions agreed upon by a minimum of 75% of creditors by value and 60% of creditors by number in the JLF would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the ICA. However, if the JLF decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws/Acts would be applicable.

22.3 The JLF is required to arrive at an agreement on the option to be adopted for CAP within 30 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF should sign off the detailed final CAP within the next 30 days from the date of arriving at such an agreement.

22.4 If the JLF decides on options 22.1 (a) or (b), but the account fails to perform as per the agreed terms under option (a) or (b), the JLF should initiate recovery under option 22.1 (c).

23. Restructuring Process

23.1 Prudential guidelines on restructuring of advances as contained in Part B of this Master Circular lay down detailed methodology and norms for restructuring of advances under sole banking as well as multiple/ consortium arrangements. Corporate Debt Restructuring (CDR)

⁵ One of the important elements of DCA would be a 'stand still' agreement binding for the period from the date of signing of DCA to the date of approval of restructuring package as per the time frame indicated in paragraphs 22.3 and 22.4 of these Guidelines. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period. This would be necessary to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

mechanism, as described in Annex 4 of this Master Circular, is an institutional framework for restructuring of multiple/ consortium advances of banks where even creditors who are not part of CDR system can join by signing transaction to transaction based agreements.

23.2 If the JLF decides restructuring of the account as CAP, it will have the option of either referring the account to CDR Cell after a decision to restructure is taken under para 22.1 as indicated above or restructure the same independent of the CDR mechanism.

23.3 Restructuring by JLF

23.3.1 If the JLF decides to restructure an account independent of the CDR mechanism, the JLF should carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP as mentioned in paragraph 22.3 above.

23.3.2 For accounts with AE of less than Rs.5000 million, the above-mentioned restructuring package should be approved by the JLF and conveyed by the lenders to the borrower within the next 15 days for implementation.

23.3.3 For accounts with AE of Rs.5000 million and above, the above-mentioned TEV study and restructuring package will have to be subjected to an evaluation by an Independent Evaluation Committee (IEC)⁶ of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC will be required to give their recommendation in these cases to the JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the restructuring package including all terms and conditions as mutually agreed upon between the lenders and borrower, would have to be approved by all the lenders and communicated to the borrower within next 15 days for implementation.

23.3.4 Asset Classification benefit as applicable under the extant guidelines will accrue to such restructured accounts as if they were restructured under CDR mechanism. For this purpose, the asset classification of the account as on the date of formation of JLF will be taken into account.

23.3.5 The above-mentioned time limits are maximum permitted time periods and the JLF should try to arrive at a restructuring package as soon as possible in cases of simple restructuring.

⁶ The constitution of the IEC and the funding needs for payment of fees for independent experts has been decided by Indian Banks' Association (IBA) in consultation with RBI. Banks have been advised by IBA in this regard vide its circular No. C&I/CIR/2013-14/9307 dated April 29, 2014

23.3.6 Restructuring cases will be taken up by the JLF only in respect of assets reported as Standard, SMA or Sub-Standard by one or more lenders of the JLF. While generally no account classified as doubtful should be considered by the JLF for restructuring, in cases where a small portion of debt is doubtful i.e. the account is standard/sub-standard in the books of at least 90% of creditors (by value), the account may then be considered under JLF for restructuring.

23.3.7 Wilful defaulters will normally not be eligible for restructuring. However, the JLF may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default. The decision to restructure such cases should however also have the approvals of the board/s of individual bank/s within the JLF who have classified the borrower as wilful defaulter.

23.3.8 The viability of the account should be determined by the JLF based on acceptable viability benchmarks determined by them. Illustratively, the parameters may include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity/Current Ratio and the amount of provision required in lieu of the diminution in the fair value of the restructured advance, etc. Further, the JLF may consider the benchmarks for the viability parameters adopted by the CDR mechanism (as mentioned in Appendix to Part B of this Master Circular) and adopt the same with suitable adjustments taking into account the fact that different sectors of the economy have different performance indicators.

23.4 Restructuring Referred by the JLF to the CDR Cell

23.4.1 If the JLF decides to refer the account to CDR Cell after a decision to restructure is taken under para 22.1, the following procedure may be followed.

23.4.2 As the preliminary viability of account has already been decided by the JLF, CDR Cell should directly prepare the Techno-Economic Viability (TEV) study and restructuring plan in consultation with JLF within 30 days from the date of reference to it by the JLF.

23.4.3 For accounts with AE of less than Rs.5000 million, the above-mentioned restructuring package should be submitted to CDR Empowered Group (EG) for approval. Under extant instructions, CDR EG can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days, which can be extended up to a maximum of 180 days from the date of reference to CDR Cell. However, the cases referred to CDR Cell by JLF will have to be finally decided by the CDR EG within the next 30 days. If approved by

CDR EG, the restructuring package should be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

23.4.4 For accounts with AE of Rs.5000 million and above, the TEV study and restructuring package prepared by CDR Cell will have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts. As stated in paragraph 23.3.3, composition and other details of the IEC has been communicated separately by IBA to banks. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC will be required to give their recommendation in these aspects to the CDR Cell under advice to JLF within a period of 30 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the same should be communicated to CDR Cell and CDR Cell should submit the restructuring package to CDR EG within a total period of 7 days from receiving the views of IEC. Thereafter, CDR EG should decide on the approval/modification/rejection within the next 30 days. If approved by CDR EG, the restructuring package should be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

24. Other Issues/Conditions Relating to Restructuring by JLF/CDR Cell

24.1 Both under JLF and CDR mechanism, the restructuring package should also stipulate the timeline during which certain viability milestones (e.g. improvement in certain financial ratios after a period of time, say, 6 months or 1 year and so on) would be achieved. The JLF must periodically review the account for achievement/non-achievement of milestones and should consider initiating suitable measures including recovery measures as deemed appropriate.

24.2 Restructuring whether under JLF or CDR is to be completed within the specified time periods. The JLF and CDR Cell should optimally utilise the specified time periods so that the aggregate time limit is not breached under any mode of restructuring. If the JLF/CDR takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

24.3 The general principle of restructuring should be that the shareholders bear the first loss rather than the debt holders. With this principle in view and also to ensure more 'skin in the game' of promoters, JLF/CDR may consider the following options when a loan is restructured:

- Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- Promoters infusing more equity into their companies;

- Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company. This will enable a change in management control, should lenders favour it.

24.4 In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the TEV study the account is likely to become viable on hiving-off of non-core activities and other assets.

24.5 For restructuring of dues in respect of listed companies, lenders may be ab-initio compensated for their loss/sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements. In such cases, the restructuring agreement shall not incorporate any right of recompense clause. However, if the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall. For unlisted companies, the JLF will have option of either getting equities issued or incorporate suitable 'right to recompense' clause.

24.6 Paragraph 2.2 of our circular [DBOD.No.Dir.BC.47/13.07.05/2006-07 dated December 15, 2006](#) on 'Limits on Banks' Exposure to Capital Markets' stipulates certain limits on banks' exposure to Capital Markets. In partial modification of the circular *ibid*, it has been decided that if acquisition of equity shares, as indicated in paragraph 24.5 above, results in exceeding the extant regulatory Capital Market Exposure (CME) limit, the same will not be considered as a breach of regulatory limit. However, this will require reporting to RBI and disclosure by banks in the Notes to Accounts in Annual Financial Statements.

24.7 In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the JLF/CDR could consider various options like:

- Prior agreement in the ICA among the above classes of lenders regarding repayments, say, as per an agreed waterfall mechanism;
- A structured agreement stipulating priority of secured creditors;
- Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

The above is only an illustrative list and the JLF may decide on a mutually agreed option. It also needs to be emphasised that while one bank may have a better security interest when it comes to one borrower, the case may be vice versa in the case of another borrower. So, it

would be beneficial if lenders appreciate the concerns of fellow lenders and arrive at a mutually agreed option with a view to preserving the economic value of assets. Once an option is agreed upon, the bank having the largest exposure may take the lead in ensuring distribution according to agreed terms once the restructuring package is implemented.

24.8 As regards prudential norms and operational details, RBI's guidelines on CDR Mechanism, including OTS, will be applicable to the extent that they are not inconsistent with these guidelines.

25. Prudential Norms on Asset Classification and Provisioning

25.1 While a restructuring proposal is under consideration by the JLF/CDR, the usual asset classification norm would continue to apply. The process of re-classification of an asset should not stop merely because restructuring proposal is under consideration by the JLF/CDR.

25.2 However, as an incentive for quick implementation of a restructuring package, the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines, subject to adherence to the overall timeframe for approval of restructuring package detailed in paragraphs 23.3 and 23.4 above and implementation of the approved package within 90 days from the date of approval. The asset classification status as on the date of formation of JLF would be the relevant date to decide the asset classification status of the account after implementation of the final restructuring package. As mentioned in paragraph 15.2.3 in Part – B of this Master Circular, the special asset classification benefit as above will however be withdrawn for all restructurings with effect from April 1, 2015 with the exception of provisions related to changes in Date of Commencement of Commercial Operations (DCCO) in respect of infrastructure and non-infrastructure project loans.

25.3 As a measure to ensure adherence to the proposals made in these guidelines as also to impose disincentives on borrowers for not maintaining credit discipline, accelerated provisioning norms (as detailed in paragraph 26 below) are being introduced.

26. Accelerated Provisioning

26.1 In cases where banks fail to report SMA status of the accounts to CRILC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account, banks will be subjected to accelerated provisioning for these accounts and/or other supervisory actions as deemed appropriate by RBI. The current provisioning requirement

and the revised accelerated provisioning in respect of such non performing accounts are as under:

Asset Classification	Period as NPA	Current provisioning (%)	Revised accelerated provisioning (%)
Sub- standard (secured)	Up to 6 months	15	No change
	6 months to 1 year	15	25
Sub-standard (unsecured ab-initio)	Up to 6 months	25 (other than infrastructure loans)	25
		20 (infrastructure loans)	
	6 months to 1 year	25 (other than infrastructure loans)	40
		20 (infrastructure loans)	
Doubtful I	2 nd year	25 (secured portion)	40 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful II	3 rd & 4 th year	40 (secured portion)	100 for both secured and unsecured portions
		100 (unsecured portion)	
Doubtful III	5 th year onwards	100	100

26.2 Further, any of the lenders who have agreed to the restructuring decision under the CAP by JLF and is a signatory to the ICA and DCA, but changes their stance later on, or delays/refuses to implement the package, will also be subjected to accelerated provisioning requirement as indicated at para 26.1 above, on their exposure to this borrower i.e., if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5%. Further, any such backtracking by a lender might attract negative supervisory view during Supervisory Review and Evaluation Process.

26.3 Presently, asset classification is based on record of recovery at individual banks and provisioning is based on asset classification status at the level of each bank. However, if lenders fail to convene the JLF or fail to agree upon a common CAP within the stipulated time frame, the account will be subjected to accelerated provisioning as indicated at para 26.1 above, if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5%.

26.4 If an escrow maintaining bank under JLF/CDR mechanism does not appropriate proceeds of repayment by the borrower among the lenders as per agreed terms resulting into down gradation of asset classification of the account in books of other lenders, the account with the escrow maintaining bank will attract the asset classification which is lowest among the lending member banks, and corresponding provisioning requirement.

27. Wilful Defaulters and Non-Cooperative Borrowers

27.1 Instructions regarding treatment of Wilful Defaulters are contained in our Master Circular DBOD No. CID.BC. 3 /20.16.003/2013-14 dated July 1, 2013 on 'Wilful Defaulters' updated from time to time. Banks are required to strictly adhere to these guidelines. In addition to these instructions and with a view to ensuring better corporate governance structure in companies and ensuring accountability of independent/professional directors, promoters, auditors, etc. henceforth, the following prudential measures will be applicable:

(a) The provisioning in respect of existing loans/exposures of banks to companies having director/s (other than nominee directors of government/financial institutions brought on board at the time of distress), whose name/s appear more than once in the list of wilful defaulters, will be 5% in cases of standard accounts; if such account is classified as NPA, it will attract accelerated provisioning as indicated at para 26.1 above. This is a prudential measure since the expected losses on exposures to such borrowers are likely to be higher. It is reiterated that no additional facilities should be granted by any bank/FI to the listed wilful defaulters, in terms of paragraph 2.5 (a) of Master Circular on Wilful Defaulters dated July 1, 2013.

(b) With a view to discouraging borrowers/defaulters from being unreasonable and non-cooperative with lenders in their bonafide resolution/recovery efforts, banks may classify such borrowers as non-cooperative borrowers⁷, after giving them due notice if satisfactory clarifications are not furnished. Banks will be required to report classification of such borrowers to CRILC. Further, banks will be required to make higher/accelerated provisioning in respect of new loans/exposures to such borrowers as also new loans/exposures to any other company promoted by such promoters/ directors or to a company on whose board any of the promoter / directors of this non-cooperative borrower is a director. The provisioning applicable in such cases will be at the rate of 5% if it is a standard account and accelerated provisioning as per para 26.1 above, if it is an NPA. This is a prudential measure since the expected losses on exposures to such non-cooperative borrowers are likely to be higher.

28. Dissemination of Information

⁷ A non-cooperative borrower is broadly one who does not provide necessary information required by a lender to assess its financial health even after 2 reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; or is hostile / indifferent / in denial mode to negotiate with the bank on repayment issues; or plays for time by giving false impression that some solution is on horizon; or resorts to vexatious tactics such as litigation to thwart timely resolution of the interest of the lender/s. The borrowers will be given 30 days' notice to clarify their stand before their names are reported as non-cooperative borrowers.

28.1 At present, the list of Suit filed accounts of Wilful Defaulters (Rs.2.5 million and above) is submitted by banks to the Credit Information Companies (CICs) of which they are member(s), who display the same on their respective websites as and when received. The list of non-suit filed accounts of Wilful Defaulters (Rs.2.5 million and above) is confidential and is disseminated by RBI among banks and FIs only for their own use. In order to make the current system of banks/FIs reporting names of suit filed accounts and non-suit filed accounts of Wilful Defaulters and its availability to the banks by CICs/RBI as current as possible, banks are advised to forward data on wilful defaulters to the CICs/Reserve Bank at the earliest but not later than a month from the reporting date and they must use/ furnish the detailed information as per the format prescribed in our Master Circular DBOD.No.CID.BC.3/20.16.003/2013-14 dated July 1, 2013 on 'Wilful Defaulters'.

28.2 In terms of our Master Circular on Wilful Defaulters mentioned above, in case any falsification of accounts on the part of the borrowers is observed by the banks / FIs, and if it is observed that the auditors were negligent or deficient in conducting the audit, banks should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI) to enable the ICAI to examine and fix accountability of the auditors. RBI reiterates these instructions for strict compliance. Pending disciplinary action by ICAI, the complaints may also be forwarded to the RBI (Department of Banking Supervision, Central Office) and IBA for records. IBA would circulate the names of the CA firms against whom many complaints have been received amongst all banks who should consider this aspect before assigning any work to them. RBI would also share such information with other financial sector regulators/Ministry of Corporate Affairs (MCA)/Comptroller and Auditor General (CAG).

28.3 Further, banks may seek explanation from advocates who wrongly certify as to clear legal titles in respect of assets or valuers who overstate the security value, by negligence or connivance, and if no reply/satisfactory clarification is received from them within one month, they may report their names to IBA. The IBA may circulate the names of such advocates/valuers among its members for consideration before availing of their services in future. The IBA would create a central registry for this purpose.

29. These guidelines have become effective from April 1, 2014.

SMA-0 Signs of Stress

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.
3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
4. Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.

C-2: Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures

30. Paragraphs 3, 4 and 5 of the our [circular DBOD.BP.BC.No.98/21.04.132/2013-14 dated February 26, 2014](#) on 'Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures' contain instructions on sale of financial assets by banks and use of countercyclical/floating provisions. These instructions have been consolidated in paragraphs 6 and 7 under Part A of this Master Circular. Detailed guidelines on the subject of 'Refinancing of Project Loans', and other regulatory measures are as under:

31. Refinancing of Project Loans

31.1 As per the definition of a restructured account as given under 'Key Concepts' in Annex 5 of this Master Circular, *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. Restructuring would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/repayable amount/ the amount of instalments/rate of interest (due to reasons other than competitive reasons).* Thus, any change in repayment schedule of a loan will render it as restructured account.

31.2 Further, in terms of DBOD.No.BP.BC.144/21.04.048-2000 dated February 29, 2000 on 'Income Recognition, Asset Classification, Provisioning and other related matters and Capital Adequacy Standards - Takeout Finance', banks can refinance their existing infrastructure project loans by entering into take-out financing agreements with any financial institution on a pre-determined basis. If there is no pre-determined agreement, a standard account in the books of a bank can still be taken over by other banks/FIs, subject to our guidelines on 'Transfer of Borrowal Accounts from one Bank to Another' issued vide [circular DBOD.No.BP.BC-104/21.04.048/2011-12 dated May 10, 2012](#).

31.3 In partial modification to the above-mentioned circulars, banks are advised that if they refinance any existing infrastructure and other project loans by way of take-out financing, even without a pre-determined agreement with other banks / FIs, and fix a longer repayment period, the same would not be considered as restructuring if the following conditions are satisfied:

- Such loans should be 'standard' in the books of the existing banks, and should have not been restructured in the past.
- Such loans should be substantially taken over (more than 50% of the outstanding loan by value) from the existing financing banks/Financial institutions.

- The repayment period should be fixed by taking into account the life cycle of the project and cash flows from the project.

32. Bank Loans for Financing Promoters' Contribution

32.1 In terms of extant instructions on *Bank Loans for Financing Promoters Contribution* as consolidated in our Master Circular DBOD.No.Dir.BC.14/13.03.00/2013-14 dated July 1, 2013 on 'Loans and Advances – Statutory and Other Restrictions', the promoters' contribution towards the equity capital of a company should come from their own resources and banks should not normally grant advances to take up shares of other companies.

32.2 It has been decided that banks can extend finance to 'specialized' entities established for acquisition of troubled companies subject to the general guidelines applicable to advances against shares/debentures/bonds as contained in the above-mentioned Master Circular and other regulatory and statutory exposure limits. The lenders should, however, assess the risks associated with such financing and ensure that these entities are adequately capitalized, and debt equity ratio for such entity is not more than 3:1.

32.3 In this connection, a 'specialized' entity will be a body corporate exclusively set up for the purpose of taking over and turning around troubled companies and promoted by individuals or/and institutional promoters (including Government) having professional expertise in turning around 'troubled companies' and eligible to make investments in the industry/segment to which the target asset belonged.

33. Credit Risk Management

33.1 Banks are advised that they should strictly follow the credit risk management guidelines contained in our circular DBOD.No.BP.(SC).BC.98/21.04.103/99 dated October 7, 1999 on 'Risk Management Systems in Banks' and [DBOD.No.BP.520/21.04.103/2002-03 dated October 12, 2002](#) on 'Guidance Notes on Management of Credit Risk and Market Risk'.

33.2 It is reiterated that lenders should carry out their independent and objective credit appraisal in all cases and must not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity.

33.3 Banks/lenders should carry out sensitivity tests/scenario analysis, especially for infrastructure projects, which should inter alia include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding Corrective Action Plan (CAP) as mentioned in paragraph 22 of this Master Circular .

33.4 Lenders should ascertain the source and quality of equity capital brought in by the promoters /shareholders. Multiple leveraging, especially, in infrastructure projects, is a matter of concern as it effectively camouflages the financial ratios such as Debt/Equity ratio, leading to adverse selection of the borrowers. Therefore, lenders should ensure at the time of credit appraisal that debt of the parent company is not infused as equity capital of the subsidiary/SPV.

33.5 Ministry of Corporate Affairs had introduced the concept of a Director Identification Number (DIN) with the insertion of Sections 266A to 266G of Companies (Amendment) Act, 2006. Further, in terms of paragraph 5.4 of our Master Circular on Wilful Defaulters dated July 1, 2013, in order to ensure that directors are correctly identified and in no case, persons whose names appear to be similar to the names of directors appearing in the list of wilful defaulters, are wrongfully denied credit facilities on such grounds, banks/FIs have been advised to include the Director Identification Number (DIN) as one of the fields in the data submitted by them to Reserve Bank of India/Credit Information Companies.

33.6 It is reiterated that while carrying out the credit appraisal, banks should verify as to whether the names of any of the directors of the companies appear in the list of defaulters/wilful defaulters by way of reference to DIN/PAN etc. Further, in case of any doubt arising on account of identical names, banks should use independent sources for confirmation of the identity of directors rather than seeking declaration from the borrowing company.

33.7 Paragraph 2.7 of our Master Circular on Wilful Defaulters states that, *“with a view to monitoring the end-use of funds, if the lenders desire a specific certification from the borrowers’ auditors regarding diversion / siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors the banks and FIs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers / auditors”*.

33.8 In addition to the above, banks are advised that with a view to ensuring proper end-use of funds and preventing diversion/siphoning of funds by the borrowers, lenders could consider engaging their own auditors for such specific certification purpose without relying on certification given by borrower’s auditors. However, this cannot substitute bank’s basic minimum own diligence in the matter.

34. Reinforcement of Regulatory Instructions

34.1 In terms of circular DBOD.No.CAS(COD)BC.142/WGCC-80 December 8, 1980 on 'Report of the Working Group to Review the System of Cash Credit – Implementation', banks were advised that before opening current accounts/sanctioning post sale limits, they should obtain the concurrence of the main bankers and/or the banks which have sanctioned inventory limits. Such accounts already opened may also be reviewed in the light of these instructions and appropriate action should be taken. Further, in terms of Master Circular DBOD.No.Dir.BC.12/13.03.00/2013-14 dated July 1, 2013 on 'Guarantees and Co-Acceptances', banks should refrain from issuing guarantees on behalf of customers who do not enjoy credit facilities with them.

34.2 RBI reiterates the above instructions regarding restrictions placed on banks on extending credit facilities including non-fund based limits, opening of current accounts, etc. to constituents who are not their regular borrowers. Banks must take necessary corrective action in case the above instructions have not been strictly followed. Further, RBI will ensure strict adherence by banks to these instructions. As non-compliance of RBI regulations in this regard is likely to vitiate credit discipline, RBI will consider penalising non-compliant banks.

34.3 Banks are custodians of public deposits and are therefore expected to make all efforts to protect the value of their assets. Banks are required to extinguish all available means of recovery before writing off any account fully or partly. It is observed that some banks are resorting to technical write off of accounts, which reduces incentives to recover. Banks resorting to partial and technical write-offs should not show the remaining part of the loan as standard asset. With a view to bring in more transparency, henceforth banks should disclose full details of write offs, including separate details about technical write offs, in their annual financial statements as per the format prescribed in the Appendix to this part of the Master Circular.

35. Registration of Transactions with CERSAI

Currently security registration, especially registration of mortgages, is done at district level and Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) is generally used to register equitable mortgages. The Government mandate to register all types of mortgages with CERSAI will have to be strictly followed by banks. In this connection, instructions contained in our [circular DBOD.Leg.No.BC.86/09.08.011/2010-11 dated April 21, 2011](#) on 'Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002' is reiterated, i.e. transactions relating to securitization and reconstruction of financial assets

and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry.

36. Board Oversight

36.1 The Board of Directors of banks should take all necessary steps to arrest the deteriorating asset quality in their books and should focus on improving the credit risk management system. Early recognition of problems in asset quality and resolution envisaged in these guidelines requires the lenders to be proactive and make use of CRILC as soon as it becomes functional.

36.2 Boards of banks should put in place a policy for timely submission of credit information to CRILC and accessing information therefrom, prompt formation of Joint Lenders' Forums (JLFs), monitoring the progress of JLFs and adoption of Corrective Action Plans (CAPs), etc. There should be a periodical review, say on a half yearly basis, of the above policy.

36.3 The boards of banks should put in place a system for proper and timely classification of borrowers as wilful defaulters or/and non-cooperative borrowers. Further, Boards of banks should periodically review the accounts classified as such, say on a half yearly basis.

Disclosure of Write-Offs & Technical Write-Offs

Instructions contained in our [circular DBOD.BP.BC.No. 79/21.04.018/2009-10 dated March 15, 2010](#) on 'Additional Disclosures by banks in Notes to Accounts' specifically require banks to disclose the amounts written off during the year while giving details of movement in non-performing assets (NPAs). The format specified in the said circular stands modified as under.

(Amount in Rs. crore)

Particulars	Current year	Previous year
Gross NPAs ⁸ as on 1st April of particular year (Opening Balance)		
Additions (Fresh NPAs) during the year		
Sub-total (A)		
Less:-		
(i) Upgradations		
(ii) Recoveries (excluding recoveries made from upgraded accounts)		
(iii) Technical/ Prudential ⁹ Write-offs		
(iv) Write-offs other than those under (iii) above		
Sub-total (B)		
Gross NPAs as on 31st March of following year (closing balance) (A-B)		

Further banks should disclose the stock of technical write-offs and the recoveries made thereon as per the format below:

(Amount in Rs. crore)

Particulars	Current year	Previous year
Opening balance of Technical/ Prudential written-off accounts as at April 1		
Add: Technical/ Prudential write-offs during the year		
Sub-total (A)		
Less: Recoveries made from previously technical/ prudential written-off accounts during the year (B)		
Closing balance as at March 31 (A-B)		

⁸ *Gross NPAs as per item 2 of Annex to [DBOD Circular DBOD.BP.BC.No. 46/21.04.048/2009-10 dated September 24, 2009](#) which specified a uniform method to compute Gross Advances, Net Advances, Gross NPAs and Net NPAs.

⁹ Technical or prudential write-off is the amount of non-performing loans which are outstanding in the books of the branches, but have been written-off (fully or partially) at Head Office level. Amount of Technical write-off should be certified by statutory auditors. (Defined in our [circular reference DBOD.No.BP.BC. 64 /21.04.048/2009-10 dated December 1, 2009](#) on Provisioning Coverage for Advances)

Part A

Details of Gross Advances, Gross NPAs, Net Advances and Net NPAs

(Rs. in Crore up to two decimals)		Particulars	Amount
1.		Standard Advances	
2.		Gross NPAs *	
3.		Gross Advances ** (1+2)	
4.		Gross NPAs as a percentage of Gross Advances (2/3) (in %)	
5.		Deductions	
	(i)	Provisions held in the case of NPA Accounts as per asset classification (including additional Provisions for NPAs at higher than prescribed rates).	
	(ii)	DICGC / ECGC claims received and held pending adjustment	
	(iii)	Part payment received and kept in Suspense Account or any other similar account	
	(iv)	Balance in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA Accounts	
	(v)	Floating Provisions***	
	(vi)	Provisions in lieu of diminution in the fair value of restructured accounts classified as NPAs	
	(vii)	Provisions in lieu of diminution in the fair value of restructured accounts classified as standard assets	
6.		Net Advances(3-5)	
7.		Net NPAs {2-5(i + ii + iii + iv + v + vi)}	
8.		Net NPAs as percentage of Net Advances (7/6) (in %)	
*		Principal dues of NPAs plus Funded Interest Term Loan (FITL) where the corresponding contra credit is parked in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA Accounts.	
**		For the purpose of this Statement, 'Gross Advances' mean all outstanding loans and advances including advances for which refinance has been received but excluding rediscounted bills, and advances written off at Head Office level (Technical write off).	
***		Floating Provisions would be deducted while calculating Net NPAs, to the extent, banks have exercised this option, over utilising it towards Tier II capital.	

Part B
Supplementary Details

(Rs. in Crore up to two decimals)	
Particulars	Amount
1.	Provisions on Standard Assets excluding 5(vi) in Part A above
2.	Interest recorded as Memorandum Item
3.	Amount of cumulative Technical Write - Off in respect of NPA accounts reported in Part A above

Relevant extract of the list of direct agricultural advances, from the Circular Priority Sector Lending – Targets and Classification - paragraph III (1.1) of RPCD.CO.Plan. BC.9/04.09.01/2013-14 dated July 1, 2013

Direct Agriculture

A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans] engaged in Agriculture only.

(i) Short-term loans to farmers for raising crops, i.e. for crop loans. This will include traditional / non-traditional plantations and horticulture.

(ii) Medium & long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm).

(iii) Loans to farmers for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans to farmers up to ₹50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not. (as amended by RPCD.CO.Plan.BC.72/04.09.01/2012-13 dt 03-05-13)

(v) Loans to small and marginal farmers for purchase of land for agricultural purposes.

(vi) Loans to distressed farmers indebted to non-institutional lenders.

(vii) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi Purpose Societies (LAMPS) ceded to or managed / controlled by such banks for on lending to farmers for agricultural activities.

(viii) Loans to farmers under Kisan Credit Card Scheme.

(ix) Export credit to farmers for exporting their own farm produce.

B. Loans to corporates including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture Activities, up to an aggregate limit of ₹2 crore per borrower for the following purposes.

(i) Short-term loans for raising crops, i.e. for crop loans. This will include traditional / non-traditional plantations and horticulture.

(ii) Medium & long-term loans for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm).

(iii) Loans for pre-harvest and post-harvest activities, viz., spraying, weeding, harvesting, grading and sorting.

(iv) Export credit for exporting their own farm produce.

Format for Computing Countercyclical Provisioning Buffer

<i>Amount in Rs. in Crore</i>							
Computing Countercyclical Provisioning Buffer as on September 30, 2010							
1	2	3	4	5	6	7	8
		Gross NPA @ Plus Technical / Prudential Write-off *	Specific Provisions for NPAs held / required	Provisions for diminution in fair value of the restructured accounts calssified as NPAs	Technical write-off	Total (4+5+6)	Ratio of (7) to (3)
1.	Sub-Standard Advances						
2.	Doubtful Advances (a+b+c)						
	a < 1 year						
	b 1-3 Years						
	c >3 years						
3.	Advances classified as Loss Assets						
4.	Total						
5.	Floating Provisions for Advances (only to the extent they are not used as Tier II Capital)						
6.	DICGC / ECGC claims received and held pending adjustment						
7.	Part payment received and kept in Suspense Account or any other similar account						
8.	Total (Sum of column 7 of Row 4+ Row 5 + Row 6+ Row 7)						
9.	Provision Coverage Ratio {(Row 8/Total of Column 3 of Row 4)*100}						
10.	If PCR < 70%, shortfall in provisioning to achieve PCR of 70% (70% of Column 3 of Row 4 - Row 8)						
11.	a Countercyclical						

	<p>Provisioning Buffer, if bank has achieved PCR of 70% - Floating Provisions for advances to the extent not used as Tier II capital (Row 5)</p>	
b	<p>Countercyclical Provisioning Buffer, if bank has not achieved PCR of 70% - Floating Provisions for advances to the extent not used as Tier II capital (Row 5) + Shortfall in provisioning to achieve PCR of 70%, if any (Row 10) which needs to be built up at the earliest.</p>	

Organisational Framework for Restructuring of Advances Under Consortium / Multiple Banking / Syndication Arrangements

A. Corporate Debt Restructuring (CDR) Mechanism

1.1 Objective

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

1.2 Scope

The CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank / Financial Institution (FI) in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one banks / FIs. This mechanism will be available to all borrowers engaged in any type of activity subject to the following conditions :

- a) The borrowers enjoy credit facilities from more than one bank / FI under multiple banking / syndication / consortium system of lending.
- b) The total outstanding (fund-based and non-fund based) exposure is Rs.10 crore or above.

CDR system in the country will have a three tier structure :

- CDR Standing Forum and its Core Group
- CDR Empowered Group
- CDR Cell

2. CDR Standing Forum

2.1 The CDR Standing Forum would be the representative general body of all

financial institutions and banks participating in CDR system. All financial institutions and banks should participate in the system in their own interest. CDR Standing Forum will be a selfempowered body, which will lay down policies and guidelines, and monitor the progress of corporate debt restructuring.

- 2.2 The Forum will also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.
- 2.3 The CDR Standing Forum shall comprise of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR system. The Forum will elect its Chairman for a period of one year and the principle of rotation will be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum. The RBI would not be a member of the CDR Standing Forum and Core Group. Its role will be confined to providing broad guidelines.
- 2.4 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum would also lay down the policies and guidelines including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and would ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell. The CDR Standing Forum may also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.
- 2.5 A CDR Core Group will be carved out of the CDR Standing Forum to assist the

Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group will consist of Chief Executives of Industrial Development Bank of India Ltd., State Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association and Deputy Chairman of Indian Banks' Association representing foreign banks in India.

- 2.6 The CDR Core Group would lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing / approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports / international cost competitiveness.

3. CDR Empowered Group

- 3.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members will facilitate the conduct of the Group's meetings, voting will be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account should invariably attend all the meetings pertaining to that account instead of deputing their representatives.
- 3.2 The level of representation of banks / financial institutions on the CDR Empowered Group should be at a sufficiently senior level to ensure that

concerned bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring. There should be a general authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.3 The CDR Empowered Group will consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks / financial institutions should decide upon the alternate institution / bank which would work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.4 The CDR Empowered Group would be mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the Company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which may be applied on a case-by-case basis, based on the merits of each case :

- * Return on Capital Employed (ROCE),
- * Debt Service Coverage Ratio (DSCR),
- * Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- * Extent of sacrifice.

3.5 The Board of each bank / FI should authorise its Chief Executive Officer (CEO) and / or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group will meet on two or three occasions in respect of each borrowal account. This will provide an opportunity

to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

- 3.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company would be put on the restructuring mode. If restructuring is not found viable, the creditors would then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

4. CDR Cell

- 4.1 The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible. If found feasible, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.
- 4.2 All references for corporate debt restructuring by creditors or borrowers will be made to the CDR Cell. It shall be the responsibility of the lead institution / major stakeholder to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month. The CDR Cell will prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.
- 4.3 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as may be decided by the Standing Forum. The administrative and other costs shall be shared by all

financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

- 4.4 CDR Cell will have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell will be met from contribution of the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each.

5. Other features

5.1 Eligibility criteria

5.1.1 The scheme will not apply to accounts involving only one financial institution or one bank. The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts of corporate borrowers engaged in any type of activity with outstanding fund-based and non-fund based exposure of Rs.10 crore and above by banks and institutions.

5.1.2 The Category 1 CDR system will be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard'/'substandard' in the books of at least 90% of creditors (by value), the same would be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10% of creditors. There would be no requirement of the account / company being sick, NPA or being in default for a specified period before reference to the CDR system. However, potentially viable cases of NPAs will get priority. This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent.

5.1.3 While corporates indulging in frauds and malfeasance even in a single bank will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may review the reasons for

classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases may be admitted for restructuring with the approval of the Core Group only. The Core Group may ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

5.1.4 The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

5.1.5 BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases may be eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case basis for consideration under the CDR system. It should be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

5.2 Reference to CDR system

5.2.1 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the creditor who have minimum 20% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

5.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs should review all eligible cases where the exposure of the financial system is more than Rs.100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

5.3 Legal Basis

- 5.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines. The ICA signed by the creditors will be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.
- 5.3.2 The Inter-Creditor Agreement would be a legally binding agreement amongst the creditors, with necessary enforcement and penal clauses, wherein the creditors would commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if 75 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same would be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and sub-standard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) would be willing to participate in the entire CDR package, including the agreed additional financing.
- 5.3.3 In order to improve effectiveness of the CDR mechanism a clause may be incorporated in the loan agreements involving consortium / syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that may be approved under the CDR

mechanism, as and when restructuring may become necessary.

5.3.4 One of the most important elements of Debtor-Creditor Agreement would be 'stand still' agreement binding for 90 days, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period, this would be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

5.4 Sharing of Additional finance

5.4.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish to commit additional financing, that creditor will have an option in accordance with the provisions of para 5.5.

5.4.2 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

5.5 Exit Option

5.5.1 As stated in para 5.4.1 a creditor (outside the minimum 75 per cent and

60 per cent) who for any internal reason does not wish to commit additional finance will have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, will be payable along with the last instalment of the principal due to the creditor.

5.5.2 In addition, the exit option will also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders may be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

5.5.3 The lenders who wish to exit from the package would have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which would be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

5.5.4 In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

5.6 **Category 2 CDR System**

5.6.1 There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases

where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions :

- (i) It will not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend will depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans will only be restructured and it would be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.
- (ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., will continue to be applicable to this category also.

5.6.2 No individual case should be referred to RBI. CDR Core Group may take a final decision whether a particular case falls under the CDR guidelines or it does not.

5.6.3 All the other features of the CDR system as applicable to the First Category will also be applicable to cases restructured under the Second Category.

5.7 Incorporation of 'right to recompense' clause

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. All restructuring packages must incorporate 'Right to recompense' clause and it should be based on certain performance criteria of the borrower. In any case, minimum 75 per cent of the recompense amount should be recovered by the lenders and in cases where some facility under restructuring has been extended below base rate, 100 per cent of the recompense amount should be recovered.

B SME Debt Restructuring Mechanism

Apart from CDR Mechanism, there exists a much simpler mechanism for restructuring of loans availed by Small and Medium Enterprises (SMEs). Unlike in the case of CDR Mechanism, the operational rules of the mechanism have been left

to be formulated by the banks concerned. This mechanism will be applicable to all the borrowers which have funded and non-funded outstanding up to Rs.10 crore under multiple /consortium banking arrangement. Major elements of this arrangements are as under :

- (i) Under this mechanism, banks may formulate, with the approval of their Board of Directors, a debt restructuring scheme for SMEs within the prudential norms laid down by RBI. Banks may frame different sets of policies for borrowers belonging to different sectors within the SME if they so desire.
- (ii) While framing the scheme, banks may ensure that the scheme is simple to comprehend and will, at the minimum, include parameters indicated in these guidelines.
- (iii) The main plank of the scheme is that the bank with the maximum outstanding may work out the restructuring package, along with the bank having the second largest share.
- (iv) Banks should work out the restructuring package and implement the same within a maximum period of 90 days from date of receipt of requests.
- (v) The SME Debt Restructuring Mechanism will be available to all borrowers engaged in any type of activity.
- (vi) Banks may review the progress in rehabilitation and restructuring of SMEs accounts on a quarterly basis and keep the Board informed.

Key Concepts

(i) Advances

The term 'Advances' will mean all kinds of credit facilities including cash credit, overdrafts, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity.

(ii) Agricultural Activities

As defined in RPCD [circular RPCD.No.Plan.BC.84/04.09.01/2006-07 dated April 30, 2007](#) as modified from time to time.

(iii) Fully Secured

When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

(iv) Restructured Accounts

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. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount/ the amount of instalments / rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly will not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts'.

In the cases of roll-over of short term loans, where proper pre-sanction assessment has

been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these might not be considered as restructured accounts. However, if such accounts are rolled-over more than two times, then third roll-over onwards the account would have to be treated as a restructured account. Besides, banks should be circumspect while granting such facilities as the borrower may be availing similar facilities from other banks in the consortium or under multiple banking. Further, Short Term Loans for the purpose of this provision do not include properly assessed regular Working Capital Loans like revolving Cash Credit or Working Capital Demand Loans.

(v) Repeatedly Restructured Accounts

When a bank restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(vi) SMEs

Small and Medium Enterprise (SME) is an undertaking defined in RPCD [circulars RPCD.PLNFS.BC.No.63.06.02/2006-07 dated April 4, 2007](#) amended from time to time.

(vii) Specified Period

Specified Period means a period of 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 restructuring package.

(viii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Cash Credit Accounts

In the case of non-agricultural cash credit accounts, the account should not be out of order any time during the specified period, for a duration of more than 90 days. In addition, there should not be any overdues at the end of the specified period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than 90 days. In addition there should not be any overdues at the

end of the specified period.

All Agricultural Accounts

In the case of agricultural accounts, at the end of the specified period the account should be regular.

* Note: It is observed that in a rising interest rate scenario, banks normally extend the repayment period by keeping the EMI constant. However, in a few cases this resulted in extending the repayment period much beyond the retirement age or the revenue generating capacity of the borrower. Therefore, it is advised that :

(i) While extending repayment period in respect of housing loans to keep the EMI unchanged, banks should satisfy themselves about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.

(ii) Banks should not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.

(iii) Banks should provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.

Annex - 6

(Rs. in Crore)

Disclosure of Restructured Accounts

Sl No	Type of Restructuring →		Under CDR Mechanism					Under SME Debt Restructuring Mechanism					Others					Total						
	Asset Classification →		Stan dard	Sub- Stan dard	Dou btful	Lo ss	Tot al	Stan dard	Sub- Stan dard	Dou btful	Lo ss	T ot al	Sta ndar d	Sub - Sta ndar d	Dou btful	L os s	To tal	Sta ndar d	Sub - Sta ndar d	Dou btful	L os s	Total		
	Details ↓																							
1	Restructured Accounts as on April 1 of the FY (opening figures)*	No. of borrow ers																						
		Amount outstan ding																						
		Provisi on thereon																						
2	Fresh restructur ing during the year	No. of borrow ers																						
		Amount outstan ding																						
		Provisi on thereon																						
3	Upgradations to restructur ed standard	No. of borrow ers																						

	category during the FY	Amount outstanding																				
		Provision thereon																				
4	Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	No. of borrowers																				
Amount outstanding																						
Provision thereon																						
5	Downgradations of restructured accounts during the FY	No. of borrowers																				
Amount outstanding																						
Provision thereon																						
6	Write-offs of restructured	No. of borrow																				

	accounts during the FY	ers																					
		Amount outstanding																					
7	Restructured Accounts as on March 31 of the FY	No. of borrowers																					
	(closing figures*)	Amount outstanding																					
		Provision thereon																					

*Excluding the figures of Standard Restructured Advances which do not attract higher provisioning or risk weight (if applicable).

Instructions – For the purpose of disclosure in the above Format, the following instructions are required to be followed:

- (i) Advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories of restructuring should be shown separately.
- (ii) Under each of the above categories, restructured advances under their present asset classification, i.e. standard, sub-standard, doubtful and loss should be shown separately.
- (iii) Under the ‘standard’ restructured accounts; accounts, which have objective evidence of no longer having inherent credit weakness, need not be disclosed. For this purpose, an objective criteria for accounts not having inherent credit weakness is discussed below:
 - (a) As regards restructured accounts classified as standard advances, in view of the inherent credit weakness in such accounts, banks are required to make a general provision higher than what is required for otherwise standard accounts in the first two years from the date of restructuring. In case of moratorium on payment of interest / principal after restructuring, such advances attract the higher general provision for the period covering moratorium and two years thereafter.

- (b) Further, restructured standard unrated corporate exposures and housing loans are also subjected to an additional risk weight of 25 percentage point with a view to reflect the higher element of inherent risk which may be latent in such entities (cf. paragraph 5.8.3 of circular DBOD.No.BP.BC.90/20.06.001/2006-07 dated April 27, 2007 on 'Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework' and paragraph 4 of circular DBOD.No.BP.BC.76/21.04.0132/2008-09 dated November 3, 2008 on 'Prudential Guidelines on Restructuring of Advances by Banks' respectively).
- (c) The aforementioned [(a) and (b)] additional/ higher provision and risk weight cease to be applicable after the prescribed period if the performance is as per the rescheduled programme. However, the diminution in the fair value will have to be assessed on each balance sheet date and provision should be made as required.
- (d) Restructured accounts classified as sub-standard and doubtful (non-performing) advances, when upgraded to standard category also attract a general provision higher than what is required for otherwise standard accounts for the first year from the date of up-gradation, in terms of extant guidelines on provisioning requirement of restructured accounts. This higher provision ceases to be applicable after one year from the date of upgradation if the performance of the account is as per the rescheduled programme. However, the diminution in the fair value will have to be assessed on each balance sheet date and provision made as required.
- (e) Once the higher provisions and/or risk weights (if applicable and as prescribed from time to time by RBI) on restructured standard advances revert to the normal level on account of satisfactory performance during the prescribed periods as indicated above, such advances, henceforth, would no longer be required to be disclosed by banks as restructured standard accounts in the "Notes on Accounts" in their Annual Balance Sheets. However, banks should keep an internal record of such restructured accounts till the provisions for diminution in fair value of such accounts are maintained.

- (iv) Disclosures should also indicate the intra category movements both on upgradation of restructured NPA accounts as well as on slippage. These disclosures would show the movement in restructured accounts during the financial year on account of addition, upgradation, downgradation, write off, etc.
- (v) While disclosing the position of restructured accounts, banks must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means that even if only one of the facilities / accounts of a borrower has been restructured, the bank should also disclose the entire outstanding amount pertaining to all the facilities/ accounts of that particular borrower.
- (vi) Upgradation during the year (Sl No. 3 in the Disclosure Format) means movement of 'restructured NPA' accounts to 'standard asset classification from substandard or doubtful category' as the case may be. These will attract higher provisioning and / or risk weight' during the 'prescribed period' as prescribed from time to time. Movement from one category into another will be indicated by a (-) and a (+) sign respectively in the relevant category.
- (vii) Movement of Restructured standard advances (Sr. No. 4 in the Disclosure Format) out of the category into normal standard advances will be indicated by a (-) sign in the column "Standard".
- (viii) Downgradation from one category to another would be indicated by (-) ve and (+) ve sign in the relevant categories.
- (ix) Upgradation, downgradation and write-offs are from their existing asset classifications.
- (x) All disclosures are on the basis of current asset classification and not 'pre-restructuring' asset classification.

- (xi) ¹⁰Additional/fresh sanctions made to an existing restructured account can be shown under Sr. No. 2 'Fresh Restructuring during the year' with a footnote stating that the figures under Sr. No.2 include Rs. xxx crore of fresh/additional sanction (no. of accounts and provision thereto also) to existing restructured accounts. Similarly, reductions in the quantity of restructured accounts can be shown under Sr.No.6 'write-offs of restructured accounts during the year' with a footnote stating that that it includes Rs. xxx crore (no. of accounts and provision thereto also) of reduction from existing restructured accounts by way of sale / recovery.
- (xii) Closing balance as on March 31st of a FY should tally arithmetically with opening balance as on April 1st of the FY + Fresh Restructuring during the year including additional /fresh sanctions to existing restructured accounts + Adjustments for movement across asset categories – Restructured standard advances which cease to attract higher risk weight and/or provision – reductions due to write-offs/sale/recovery, etc. However, if due to some unforeseen/ any other reason, arithmetical accuracy is not achieved, then the difference should be reconciled and explained by way of a foot-note.

¹⁰ SI Nos. (xi) & (xii) are revisions.

Annex - 7

(Cf. para 2 of the covering letter to the circular)

List of Circulars consolidated by the Master Circular on IRAC Norms

Sl. No.	Circular No.	Date	Subject	Para No. of the MC
1.	DBOD.No.BP.BC.125/21.04.048/2013-14	26.06.2014	Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation	4.2.15.5 (iv) and (v)
2.	Mailbox Clarification	11.04.2014	Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments	14.2.5
3.	Mailbox Clarification	09.04.2014	Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPAs and Other Regulatory Measures	6.5 (A) (a) (iii)
4.	DBOD.No.BP.BC.98/21.04.132/2013-14	26.02.2014	Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPAs and Other Regulatory Measures	6.3 (iii) 6.4 (d) (iv) 6.5 (A) (a) (ii) and (iii) 7.3 (ix) 7.3 (x) Part C-2
5.	DBOD.No.BP.BC.97/21.04.132/2013-14	26.02.2014	Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders Forum (JLF) and Corrective Action Plan	Part C - 1
6.	DBOD.No.BP.BC.95/21.04.048/2013-14	7.02.2014	Utilisation of Floating Provisions / Counter Cyclical Provisioning Buffer	5.10 (iii) (c) 5.10 (v)
7.	DBOD.No.BP.BC.85/21.06.200/2013-14	15.01.2014	Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposures	5.5 (vi)
8.	DBOD.No.BP.BC.78/21.04.048/2013-14	20.12.2013	Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to	4.2.21

			Advances – Credit Card Accounts	
9.	DBOD.BP.BC.No.104/08.12.015/2012-13	21.06.2013	Housing Sector: New sub-sector CRE (Residential Housing) within CRE & Rationalisation of provisioning, risk-weight and LTV ratios	5.5 (c)
10.	Mail Box Clarification	06.06.2013	Review of Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions	4.2.15.3 (iv) 4.2.15.4 (iii) Part B
11.	DBOD.No.BP.BC-99/21.04.048/2012-13	30.05.2013	Review of Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions	4.2.15, Part B, Annex 4 & 5
12.	DBOD.No.BP.BC-90/21.04.048/2012-13	16.04.2013	Advances Guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) – Risk Weights and Provisioning	5.9.5
13.	DBOD.No.BP.BC-83/21.04.048/2012-13	18.03.2013	Prudential Norms on Advances to Infrastructure Sector	5.4 (iii) (c)
14.	DBOD.BP.BC.No.80/21.04.132/2012-13	31.01.2013	Disclosure Requirements on Advances Restructured by Banks and Financial Institutions	Part B & Annex - 6
15.	DBOD.No.BP.BC-63/21.04.048/2012-13	26.11.2012	Review of Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions	4.2.15.3 (iv) 4.2.15.4 (iii)
16.	DBOD.No.BP.BC-42/21.04.048/2012-13	14.09.2012	NPA Management – Requirement of an Effective Mechanism and Granular Data	4.2.21
17.	DBOD.No.BP.BC-103/21.04.177/2011-12	07.05.2012	Revisions to the Guidelines on Securitisation Transactions	4.2.20
18.	DBOD.No.BP.BC-28/21.04.157/2011-12	11.08.2011	Prudential Norms for Off-balance Sheet Exposures of Banks	4.2.7 (d) to (h)
19.	DBOD.BP.BC.No.99/21.04.132/2010-11	10.06.2011	Prudential Guidelines on Restructuring of Advances by Banks	12.4.2
20.	DBOD.No.BP.BC.94/21.04.048/2011-12	18.05.2011	Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances	5.3 (ii), 5.4(i), 5.4(ii) 5.8(i), 5.8(ii),

				5.9.14
21.	DBOD.No.BP.BC.87/21.04.048/2010-11	21.04.2011	Provisioning Coverage Ratio (PCR) for Advances	5.10
22.	DBOD.BP.BC.No.74/21.04.132/2010-11	19.01.2011	Credit Support to Micro Finance Institutions	15.2.2
23.	DBOD.No.BP.BC.69/08.12.001/2010-11	23.12.2010	Housing Loans by Commercial Banks – LTV Ratio, Risk Weight and Provisioning	5.9.13
24.	DBOD.BP.No.49/21.04.132/2010-11	07.10.2010	Prudential Guidelines on Restructuring of Advances by Banks	15.2.2
25.	Mail Box Clarification	06.07.2010	Provisioning for Standard Assets – Medium Enterprises	5.5 (vi)
26.	DBOD.No.BP.BC.96/08.12.014/2009-10	23.04.2010	Prudential Norms on Advances to Infrastructure Sector	5.4 (ii), and 5.4 (iii) (b)
27.	DBOD.No.BP.BC.85/21.04.048/2009-10	31.03.2010	Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation	4.2.15
28.	DBOD.No.BP.BC.64/21.04.048/2009-10	01.12.2009	Second Quarter Review of Monetary Policy for the Year 2009-10 - Provisioning Coverage for Advances	5.10, Annex - 3
29.	DBOD.No.BP.BC.58/21.04.048/2009-10	05.11.2009	Second Quarter Review of Monetary Policy for the Year 2009-10 - Provisioning Requirement for Standard Assets	5.5 (i)
30.	DBOD.No.BP.BC.46/21.04.048/2009-10	24.09.2009	Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Computation of NPA Levels	3.2, 3.4 3.5, Annex -1
31.	DBOD.No.BP.BC.33/21.04.048/2009-10	27.08.2009	Prudential Treatment in respect of Floating Provisions	5.6.3
32.	DBOD.No.BP.BC.125/21.04.048/2008-09	17.04.2009	Prudential Norms on Unsecured Advances	5.4(iii)
33.	DBOD.No.BP.BC.No.124/21.04.132/2008-09	17.04.2009	Prudential Guidelines on Restructuring of Advances	Annex - 4
34.	DBOD.No.BP.BC.122/21.04.048/2008-09	09/04/2009	Prudential Treatment in respect of Floating Provisions	5.6.3

35.	DBOD.BP.BC.121/21.04.132/2008-09	09.04.2009	Prudential guidelines on Restructuring of Advances	12.4.2, 17
36.				
37.	DBOD.No.BP.BC.118/21.04.048/2008-09	25/03/2009	Prudential Treatment of different Types of Provisions in respect of Loan Portfolios	5.6.3, 5.7, 5.9.9, 5.9.10
38.	DBOD.BP.BC.83/21.01.002/2008-09	15/11/2008	Review of Prudential Norms - Provisioning for Standard Assets and Risk Weights for Exposures to Corporates, Commercial Real Estate and NBFC-ND-SI	5.5
39.	DBOD.No.BP.BC.84/21.04.048/2008-09	14/11/2008	Asset Classification Norms for Infrastructure Projects under Implementation	4.2.15
40.	DBOD.BP.BC.76/21.04.132/2008-09	03.11.2008	Prudential guidelines on Restructuring of Advances	15.2.2
41.	DBOD.BP.BC.No.69/21.03.09/2008-09	29/10/2008	Prudential Norms for Off-Balance Sheet Exposures of Banks	4.2.7 (iv)
42.	DBOD.BP.BC.58/21.04.048/2008-09	13.10.2008	(i) Disbursal of Loans against Sanctioned Limits (ii) Restructuring of Dues of the Small and Medium Enterprises (SMEs)	Annex - 4
43.	DBOD.No.BP.BC.57/21.04.157/2008-09	13/10/2008	Prudential Norms for Off-balance Sheet Exposures of Banks	2.1.2 (vii), 4.2.7 (iv) to 4.2.7 (vii)
44.	DBOD.BP.BC.37/21.04.132/2008-09	27.08.2008	Prudential guidelines on Restructuring of Advances-comprehensive guidelines	Part B
45.	DBOD.No.BP.BC.31/21.04.157/2008-09	08/08/2008	Prudential Norms for Off-balance Sheet Exposures of Banks	2.1.2 (vii), 5.9.12
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49.	DBOD.No.BP.BC.76/21.04.048/2006-07	12.04.2007	Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects Involving Time Overrun	4.2.15 (iv)
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59.	DBOD.NO.BP.BC.16/21.04.048/2005-06	13.07.2005	Guidelines on purchase/sale of Non performing Assets	7
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