

RBI releases Prudential Framework for Resolution of Stressed Assets

Once a borrower is reported to be in default by any of the lenders, then the lender shall undertake a prima facie review of the borrower account within thirty days from such default ("Review Period"). During this Review Period of thirty days, lenders may decide on the resolution strategy, including the nature of the resolution plan, the approach for implementation of the RP, among others.

Hon'ble Supreme Court, vide its order dated April 2, 2019, had held the RBI circular dated February 12, 2018 on Resolution of Stressed Assets as ultra vires. In light of the same, the Statement on Framework for Resolution of Stressed Assets issued by the Governor on April 4, 2019 had clarified that the Reserve Bank of India will take necessary steps, including issuance of a revised circular, as may be necessary, for expeditious and effective resolution of stressed assets.

Accordingly, the Reserve Bank has released the prudential framework for resolution of stressed assets by banks in the wake of the judgement of the Hon'ble Supreme Court of India. **The fundamental principles underlying the regulatory approach for resolution of stressed assets are as under:**

1. **Early recognition and reporting of default** in respect of large borrowers by banks, FIs and NBFCs;
2. **Complete discretion to lenders with regard to design and implementation of resolution plans**, in supersession of earlier resolution schemes (S4A, SDR, 5/25 etc.), subject to the specified timeline and independent credit evaluation;
3. **A system of disincentives in the form of additional provisioning** for delay in implementation of resolution plan or initiation of insolvency proceedings;
4. **Withdrawal of asset classification dispensations on restructuring**. Future upgrades to be contingent on a meaningful demonstration of satisfactory performance for a reasonable period;

5. For the purpose of restructuring, the **definition of 'financial difficulty'** to be aligned with the guidelines issued by the Basel Committee on Banking Supervision; and,
6. **Signing of inter-creditor agreement (ICA) by all lenders to be mandatory**, which will provide for a majority decision making criteria.

Framework for Resolution of Stressed Assets

Early identification and reporting of stress: Lenders shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

In the case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-1	31-60 days
SMA-2	61-90 days

Implementation of Resolution Plan : All lenders must put in place Board-approved policies for resolution of stressed assets, including the timelines for resolution. Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan (RP) even before a default. In any case, once a borrower is reported to be in default by any of the lenders i.e. i.e. Scheduled Commercial Banks (excluding Regional Rural Banks), All India Term Financial Institutions , Small

Finance Banks and Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D), then the lenders shall undertake a prima facie review of the borrower account within thirty days from such default ("Review Period").

During this Review Period of thirty days, lenders may decide on the resolution strategy, including the nature of the RP, the approach for implementation of the RP, etc. The lenders may also choose to initiate legal proceedings for insolvency or recovery. In cases where RP is to be implemented, all lenders shall enter into an inter-creditor agreement (ICA), during the above-said Review Period, to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender.

In respect of accounts with aggregate exposure above a threshold with the lenders, as indicated below, on or after the 'reference date', RP shall be implemented within 180 days from the end of Review Period. The Review Period shall commence not later than: The reference date, if in default as on the reference date; or The date of first default after the reference date. The reference dates for the above purpose shall be as under:

Aggregate exposure of the borrower to lenders	Reference date
₹ 20 billion and above	Date of these Directions
₹ 15 billion and above, but less than ₹ 20 billion	January 1, 2020
Less than ₹ 15 billion	To be announced in due course

The detailed Prudential Framework for Resolution of Stressed Assets released by RBI is enclosed for your kind reference.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm Regards,
Dr S P Sharma
Chief Economist



PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India

NATIONAL APEX CHAMBER

Tel: +91 49545454

Fax: +91 11 26855450

Email: spsharma@phdcci.in

Website: www.phdcci.in

Follow us on



"Towards an Inclusive & Prosperous India"



PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

Connect with us:



COPYRIGHT: All rights reserved. No part of this publication/Release may be reproduced, distributed, or transmitted in any form or by any means, without the prior written permission of the publisher. For permission requests, write to the publisher.

DISCLAIMER: This message and its attachments contain confidential information. If you are not the intended recipient, you are strictly prohibited to disclose, copy, distribute or take any action in reliance on the contents of this information. E-mail transmission cannot be guaranteed to be secure or error-free, as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this message, which arise as a result of e-mail transmission. If verification is required please request a hard-copy version.