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 for 90 days. 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 non performing, 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 non performing assets further into the following three categories based on the period for which the asset has remained non performing 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 sub-standard, 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 assets (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 crystalised/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

i. 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:

a. 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.

b. 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.

a. Provisioning norms in respect of all cases of fraud: The entire amount due to the bank (irrespective of the quantum of security held against such assets), or for which the bank is liable (including in case of deposit accounts), is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;

b. However, where there has been delay, beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning is required to be made at once. In addition, Reserve Bank of India may also initiate appropriate supervisory action where there has been a delay by the bank in reporting a fraud, or provisioning there against.

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 only to Farm Credit extended to agricultural activities as listed at paragraph III (1) of the Circular on Priority Sector Lending – Targets and Classification FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015. 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 for the purposes specified in Annex - 2, 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 FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015

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 , 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 / reschedulement 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 Harmonised Master List of Infrastructure of RBI.

4.2.15.3 Deferment of DCCO

i) Deferment of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects (including commercial real estate projects) respectively; and

(b) 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.

ii) Banks may restructure project loans, by way of revision of DCCO beyond the time limits quoted at paragraph (i) (a) above and retain the 'standard' asset classification, if the fresh DCCO is fixed within the following limits, and the account continues to be serviced as per the restructured terms:

(a) *Infrastructure Projects involving court cases*

Up to another two years (beyond the two year period quoted at paragraph 1(a) above, i.e., total extension of four years), in case the reason for extension of DCCO is arbitration proceedings or a court case.

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

Up to another one year (beyond the two year period quoted at paragraph 1(a) above, i.e., total extension of three years), in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).

(c) *Project Loans for Non-Infrastructure Sector*

(Other than Commercial Real Estate Exposures)

Up to another one year (beyond the one year period quoted at paragraph 1(a) above, i.e., total extension of two years).

iii) The asset classification benefits provided at paragraph 4.2.15.3 (ii) are not applicable to commercial real estate sector.

iv). It is re-iterated that a loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at paragraph 4.2.15.3 (ii) is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph 4.2.15.3 (i) (a) above 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 and one year from the original DCCO for infrastructure and non-infrastructure projects respectively, 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/one year from the original DCCO prescribed at the time of financial closure for infrastructure and non-infrastructure projects respectively	0.40 per cent
If the DCCO is extended: i) Beyond two years and upto four years or three years from the original DCCO, as the case may be, for infrastructure projects depending upon the reasons for such delay ii) Beyond one years and upto two years from the original DCCO, for non-infrastructure projects	Project loans restructured with effect from June 1, 2013: 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 Stock of project loans classified as restructured as on June 1, 2013: * 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) 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.

(v) 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 **Projects under Implementation – Change in Ownership**

i. In order to facilitate revival of the projects stalled primarily due to inadequacies of the current promoters, if a change in ownership takes place any time during the periods quoted in paragraphs 4.2.15.3 above or before the original DCCO, banks may permit extension of the DCCO of the project up to two years in addition to the periods quoted at paragraph 4.2.15.3 above, as the case may be, without any change in asset classification of the account subject to the conditions stipulated in the following paragraphs. Banks may also consequentially shift/extend repayment schedule, if required, by an equal or shorter duration.

ii. In cases where change in ownership and extension of DCCO (as indicated in paragraph 4.2.15.5 (i) above) takes place before the original DCCO, and if the project fails to commence commercial operations by the extended DCCO, the project will be eligible for further extension of DCCO in terms of guidelines quoted at paragraph 4.2.15.3 above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 4.2.15.3 (i) above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 4.2.15.3 (ii) above, without classifying the account as non-performing asset.

iii. The provisions of paragraphs 4.2.15.4 (i) and 4.2.15.4 (ii) above are subject to the following conditions:

a) Banks should establish that implementation of the project is stalled/affected primarily due to inadequacies of the current promoters/management and with a change in ownership there is a very high probability of commencement of commercial operations by the project within the extended period;

b) The project in consideration should be taken-over/acquired by a new promoter/promoter group with sufficient expertise in the field of operation. If the acquisition is being carried out by a special purpose vehicle (domestic or overseas), the bank should be able to clearly demonstrate that the acquiring entity is part of a new promoter group with sufficient expertise in the field of operation;

c) The new promoters should own at least 51 per cent of the paid up equity capital of stake in the acquired project. If the new promoter is a non-resident, and in sectors where the ceiling on foreign investment is less than 51 per cent, the new promoter should own atleast 26 per cent of the paid up equity capital or up to applicable foreign investment limit, whichever is higher, provided banks are

satisfied that with this equity stake the new non-resident promoter controls the management of the project;

d) Viability of the project should be established to the satisfaction of the banks.

e) Intra-group business restructuring/mergers/acquisitions and/or takeover/acquisition of the project by other entities/subsidiaries/associates etc. (domestic as well as overseas), belonging to the existing promoter/promoter group will not qualify for this facility. The banks should clearly establish that the acquirer does not belong to the existing promoter group;

f) Asset classification of the account as on the 'reference date' would continue during the extended period. For this purpose, the 'reference date' would be the date of execution of preliminary binding agreement between the parties to the transaction, provided that the acquisition/takeover of ownership as per the provisions of law/regulations governing such acquisition/takeover is completed within a period of 90 days from the date of execution of preliminary binding agreement. During the intervening period, the usual asset classification norms would continue to apply. If the change in ownership is not completed within 90 days from the preliminary binding agreement, the 'reference date' would be the effective date of acquisition/takeover as per the provisions of law/regulations governing such acquisition/takeover;

g) The new owners/promoters are expected to demonstrate their commitment by bringing in substantial portion of additional monies required to complete the project within the extended time period. As such, treatment of financing of cost overruns for the project shall be subject to the guidelines prescribed in paragraph 13 of this circular. Financing of cost overrun beyond the ceiling prescribed in paragraph 13 of this circular would be treated as an event of restructuring even if the extension of DCCO is within the limits prescribed above;

h) While considering the extension of DCCO (up to an additional period of 2 years) for the benefits envisaged hereinabove, banks shall make sure that the repayment schedule does not extend beyond 85 per cent of the economic life/concession period of the project; and

i) This facility would be available to a project only once and will not be available during subsequent change in ownership, if any.

iv. Loans covered under this guideline would attract provisioning as per the extant provisioning norms depending upon their asset classification status.

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) 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 (ii) above, and all other terms and conditions of the loan remained unchanged.

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

(v) 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.

(iii) 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 non performing 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 non performing 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 s 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) Farm Credit to agricultural activities 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 cent[1]

(d) housing loans extended at teaser rates and restructured advances as 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.

[1]

(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. 3/06.02.31/2014-15 dated July 1, 2014 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.

(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 / E	**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 non performing 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 4.6) of circular RPCD.SME&NFS.BC.No.3/06.02.31/2014-15 dated July 1, 2014] 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 non-performing assets. 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 4.2.5 of Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 01, 2015 on Basel III Capital Regulations.

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 reschedulement 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 RBI[2].

iv. The PCR of the bank should be disclosed in the Notes to Accounts to the Balance Sheet. 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

[2].

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:

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, 2016, 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) Banks may 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, the quantum of excess provision reversed to the profit and loss account on account of sale of NPAs shall be disclosed in the financial statements of the bank under 'Notes to Accounts'.

(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

i) 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.

ii) In addition to the above disclosures, banks shall make the following disclosures in the Notes to Accounts in their Annual Financial Statements:

(In Rs. Crore)

Particulars	Backed by NPAs sold by the bank as underlying		Backed by NPAs sold by other banks/ financial institutions/ non-banking financial companies as underlying		Total	
	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year
Book value of investments in security receipts						

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 non performing 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 non performing 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 non performing 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 non performing asset/non performing investment in the books of the selling bank.

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

Structure

7.2 The guidelines to be followed by banks purchasing/ selling non performing 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 non performing 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 non performing financial assets from/to other banks only on 'without recourse' basis, i.e., the entire credit risk associated with the non performing 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 non performing 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) Banks are also permitted to sell/buy homogeneous pool within retail non-performing financial assets, on a portfolio basis. The pool of assets would be

treated as a single asset in the books of the purchasing bank.

xi) A non performing 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 NPA.

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

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

(A) Asset classification norms

(i) The non performing 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 non performing financial asset by the purchasing bank shall render the account as a non performing asset.

(B) Provisioning norms

Books of selling bank

i) When a bank sells its non performing 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 non performing 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 non performing 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 non performing financial assets purchased from other banks. In case the non-performing 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 non performing 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 non performing 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 non performing 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 non performing 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.

10. <u>Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries (Loans sanctioned after July 15, 2014)</u>

10.1 Reserve Bank's instructions do not come in the way of banks' structuring long term projects insofar as the prudential and regulatory framework is meticulously observed. However, as banks have certain misgivings that refinancing of long term projects loans may be construed as restructuring, and the estimated cash flows (balance debt in the form of bullet payment) at the end of each refinancing period may not be allowed to be counted in the appropriate buckets for the purpose of ALM, the RBI clarified that it would not have any objection to banks' financing of long term projects in infrastructure and core industries sector having the following features:

i. The fundamental viability of the project would be established on the basis of all requisite financial and non-financial parameters, especially the acceptable level of interest coverage ratio (EBIDTA / Interest payout), indicating capacity to service the loan and ability to repay over the tenor of the loan;

ii. Allowing longer tenor amortisation of the loan (Amortisation Schedule), say 25 years (within the useful life / concession period of the project) with periodic refinancing (Refinancing Debt Facility) of balance debt, the tenor of which could be fixed at the time of each refinancing, within the overall amortisation period;

iii. This would mean that the bank, while assessing the viability of the project, would be allowed to accept the project as a viable project where the average debt service coverage ratio (DSCR) and other financial and non-financial parameters are acceptable over a longer amortisation period of say 25 years (Amortisation Schedule), but provide funding (Initial Debt Facility) for only, say, 5 years with refinancing of balance debt being allowed by existing or new banks (Refinancing Debt Facility) or even through bonds; and

iv. The refinancing (Refinancing Debt Facility) after each of these 5 years would be of the reduced amounts determined as per the Original Amortisation Schedule.

10.2 The banks' financing of project loans with the features mentioned in paragraph 10.1 above will, however be subject to the following conditions:

i. Only term loans to infrastructure projects, as defined under the Harmonised Master List of Infrastructure of RBI, and projects in core industries sector, included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India, (viz., coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel (Alloy + Non Alloy), cement and electricity - some of these sectors such as fertilisers, electricity generation, distribution and transmission, etc. are also included in the Harmonised Master List of Infrastructure sub-sectors) - will qualify for such refinancing;

ii. At the time of initial appraisal of such projects, banks may fix an amortisation schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;

iii. The tenor of the Amortisation Schedule should not be more than 80% (leaving a tail of 20%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80% of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 80% of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;

iv. The bank offering the Initial Debt Facility may sanction the loan for a medium term, say 5 to 7 years. This is to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. That repayment may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing may repeat till the end of the Amortisation Schedule;

v. The repayment schedules of Initial Debt Facility should normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, in terms of extant instructions contained in paragraph 4.2.15 of this Master, mere extension of DCCO would not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule 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 or are enhanced to compensate for the delay and the entire project debt amortisation is scheduled within 85%[3] of the initial economic life of the project as prescribed in paragraph 10.2 (iii) above;

vi. The Amortisation Schedule of a project loan may be modified once during the course of the loan (after DCCO) based on the actual performance of the project in comparison to the assumptions made during the financial closure without being treated as 'restructuring' provided:

a) The loan is a standard loan as on the date of change of Amortisation Schedule;

b) Net present value of the loan remains the same before and after the change in Amortisation Schedule; and

c) The entire outstanding debt amortisation is scheduled within 85%[4] of the economic life of the project as prescribed in paragraph 10.2 (iii) above;

vii. If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing should stop and the bank which holds the loan when it becomes NPA, would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

viii. Banks may determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing should not be below the Base Rate of the bank;

ix. Banks should secure their interest by way of proper documentation and security creation, etc.;

x. Banks will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, banks will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

xi. Banks should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other banks, and should take this into

[3] A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in paragraph 10.2(iii). Banks may factor the same while determining original amortisation schedule.

[4] Refer to foot note 3 above

account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other banks is clearly identified, the cash flows from such refinancing should not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing bank should take into account such cash flows for computing their liquidity ratios; and

xii. Banks should have a Board approved policy for such financing.

10.3. The above structure is applicable to new loans to infrastructure projects and core industries projects sanctioned after July 15, 2014. Further, the instructions on 'take-out finance' (circular dated February 29, 2000) and 'transfer of borrowal accounts' (circular dated May 10, 2012) cease to be applicable on any loan to infrastructure and core industries projects sanctioned under these instructions.

11. Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries (Loans sanctioned before July 15, 2014)

11.1 Banks may also flexibly structure the existing project loans (sanctioned before July 15, 2014) to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i. Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) will qualify for such flexible structuring and refinancing;

ii. Banks may fix a Fresh Loan Amortisation Schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a) The loan is a standard loan as on the date of change of loan amortisation schedule;

b) Net present value of the loan remains same before and after the change in loan amortisation schedule;

c) The Fresh Loan Amortisation Schedule should be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d) The viability of the project is reassessed by the bank and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated January 30, 2014 and communicated to the banks by Indian Banks Association vide its circular No. C&I/CIR/2013-14/9307 dated April 29, 2014.

iii. If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para (ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule may not be treated as an event of 'repeated restructuring', the loan should continue to be classified as 'restructured standard' asset. Upgradation of such assets would be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv. Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule will be governed by the extant restructuring norms;

v. Banks may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond,

as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph (ii) would not be applicable at the time of periodic refinancing of the project term loan;

vi. If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the bank which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

vii. Banks may determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing should not be below the Base Rate of the bank;

viii. Banks should secure their interest by way of proper documentation and security creation, etc.;

ix. Banks will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, banks will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x. Banks should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other banks, and should take this into account when estimating liquidity needs as well as stress scenarios; and

xi. Banks should have a Board approved policy for such financing.

11.2. Banks may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'non-performing assets'. However, such an exercise would be treated as 'restructuring' and the assets would continue to be treated as 'non-performing asset'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed in the para (vi) above.

11.3 It is reiterated that the exercise of flexible structuring and refinancing should be carried out only after DCCO. Further, our instructions on 'take-out finance' (circular dated February 29, 2000), 'transfer of borrowal accounts' (circular dated May 10, 2012), 'refinancing of project loans by way of partial takeover' (circulars dated February 26, 2014 and August 7, 2014) and one of the conditions (Para 15.2.2 (iii) of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2014, viz., "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") for availing special asset class benefits under restructuring guidelines will cease to be applicable on any loan to infrastructure and core industries projects refinanced under the ambit of these instructions.

11.4 It is clarified that project loans in the infrastructure sector and core industries sector may also be refinanced under the guidelines contained in paragraph 12 below, subject to the conditions stipulated therein. However, the guidelines are mutually exclusive and banks shall not cherry pick the individual features of these guidelines.

12. Refinancing of Project Loans

12.1 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.

12.2 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.

12.3 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:

i Such loans should be 'standard' in the books of the existing banks, and should have not been restructured in the past.

ii Such loans should be substantially taken over (more than 50% of the outstanding loan by value) from the existing financing banks/Financial institutions.

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

12.4 In respect of existing project loans, where the aggregate exposure of all institutional lenders to such project is at a minimum of Rs.1,000 crore; banks may refinance such loans by way of full or partial take-out financing, even without a pre-determined agreement with other banks / FIs, and fix a longer repayment period, without treating the exercise as restructuring in the books of the existing as well as taking over lenders, if the following conditions are satisfied:

i. The project should have started commercial operation after achieving Date of Commencement of Commercial Operation (DCCO);

ii. The repayment period should be fixed by taking into account the life cycle of and cash flows from the project, and, Boards of the existing and new banks should be satisfied with the viability of the project. Further, the total repayment period should not exceed 85% of the initial economic life of the project / concession period in the case of PPP projects;

iii. Such loans should be 'standard' in the books of the existing banks at the time of the refinancing;

iv. In case of partial take-out, a significant amount of the loan (a minimum 25% of the outstanding loan by value) should be taken over by a new set of lenders from the existing financing banks/Financial Institutions; and

v. The promoters should bring in additional equity, if required, so as to reduce the debt to make the current debt-equity ratio and Debt Service Coverage Ratio (DSCR) of the project loan acceptable to the banks.

vi. The above facility will be available only once during the life of the existing project loans. The refinancing of existing project loans not meeting the conditions mentioned at (i) to (v) above will continue to be governed by the instructions contained in paragraph 12.3 above.

12.5 A lender who has extended only working capital finance for a project may be treated as 'new lender' for taking over a part of the project term loan as required in terms of paragraph 12.3 (ii) and 12.4 (iv) above.

13. Financing of Cost Overruns for Projects under Implementation

13.1 Internationally, project finance lenders sanction a 'standby credit facility' to fund cost overruns if needed. Such 'standby credit facilities' are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of credit assessment of borrowers/project, such cost overruns are also taken into account while determining the project Debt Equity Ratio, Debt Service Coverage Ratio, Fixed Asset Coverage Ratio etc. Such 'standby credit facilities' rank pari passu with base project loans and their repayment schedule is also the same as that of the base project loans.

13.2 Accordingly, in cases where banks have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

13.3. Where the initial financial closure does not envisage such financing of cost overruns, based on the representations from banks, it has been decided to allow banks to fund cost overruns, which may arise on account of extension of DCCO upto two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects respectively, without treating the loans as 'restructured asset' subject to the following conditions:

i) Banks may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

i) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

13.4 The ceiling of 10 per cent of the original project cost prescribed in paragraph 13.3 (ii) above is applicable to financing of all other cost overruns (excluding interest during construction), including cost overruns on account of fluctuations in the value of Indian Rupee against other currencies, arising out of extension of date of commencement of commercial operations.

14. Prudential Norms relating to Refinancing of Exposures to Borrowers

A. Repayment/refinancing of rupee loans with foreign currency borrowings/export advances, where permitted, will be subject to the following conditions:

a) If the foreign currency borrowings/export advances, where permitted under the guidelines issued under the Foreign Exchange Management Act, 1999 (42 of 1999), are obtained from lenders who are not part of the Indian banking system (Indian banking system would include all banks in India and overseas branch/subsidiary/joint venture of Indian banks) without any support from the Indian banking system in the form of Guarantees/Standby Letters of Credit/Letters of Comfort etc., the same may be utilised to refinance/repay loans availed from the Indian banking system.

b) If the foreign currency borrowings/export advances are obtained:

(i) from lenders who are part of Indian banking system (where permitted); or

(ii) with support (where permitted) from the Indian banking system in the form of Guarantees/Standby Letters of Credit/Letters of Comfort, etc.;

then, in addition to any applicable guidelines issued under the Foreign Exchange Management Act, 1999 (42 of 1999), the refinance shall be treated as 'restructuring' (and classified/provided for as per extant prudential norms on income recognition, asset classification and provisioning), if the above borrowings/export advances are extended to a

borrower who is under financial difficulty and involve concessions that the bank would otherwise not consider. A non-exhaustive and indicative list of signs of financial difficulty is provided at paragraph C below.

B. Further repayment/refinancing of foreign currency borrowings outstanding with a bank, by way of rupee loans or another foreign currency loan (where permitted) or based on support (where permitted) in the form of Guarantees/Standby Letters of Credit/Letters of Comfort, etc. from lenders who are part of Indian banking system would also be governed by the prudential guidelines stipulated at14. A.(b) above.

C. Non-Exhaustive Indicative List of Signs of Financial Difficulty

- Continuous irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest debited remaining unrealised;
- Repeated undue delay in making timely payment of instalments of principal and interest on term loans;
- Undue delay in meeting commitments towards payments of installments due, crystallized liabilities under LC/BGs, etc.
- Continuing inability to adhere to financial loan covenants;
- Failure to pay statutory liabilities, non- payment of bills to suppliers of raw materials, water, power, etc.;
- Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements, delay in publication of financial statements and excessively qualified financial statements;
- Delay in project implementation;
- Downward migration of internal/external ratings/rating outlook.

PART B

Prudential Guidelines on Restructuring of Advances by Banks

15. Background

15.1 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.

15.2 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.

15.3 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.

15.4 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.

16. Key Concepts

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

17. 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 20.

17.1 Eligibility criteria for restructuring of advances

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

17.1.2 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.

17.1.3 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.

17.1.4 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.

17.1.5 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.

17.1.6 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.

17.2 **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'.

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

17.2.2 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.

17.2.3 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.

17.2.4 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.

17.2.5 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.

17.2.6 If a restructured asset, which is a standard asset on restructuring in terms of para 20.2, 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.

17.3 **Income recognition norms**

Subject to provisions of paragraphs 17.2.5, 18.2 and 19.2, 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.

17.4 **Provisioning norms**

17.4.1 ***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 assets, 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)

17.4.2 ***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 17.4.1 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 rate[5] (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 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 20.2.2.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.

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(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.

17.4.3 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.

17.5 **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 DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on 'Basel III Capital Regulations' may be referred.

18. Prudential Norms for Conversion of Principal into Debt / Equity

18.1 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.

18.2 **Income recognition norms**

18.2.1 ***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.

18.2.2 ***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.18.3 **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.

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

19.1 **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.

19.2 **Income recognition norms**

19.2.1 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.

19.2.2 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)".

19.2.3 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.

19.2.4 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)".

19.2.5 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.

19.3 **Valuation & Provisioning norms**

Valuation and provisioning norms would be as per para 18.3 above. The depreciation, if any, on valuation may be charged to the Sundry Liabilities (Interest Capitalisation) Account.

20. Special Regulatory Treatment for Asset Classification

20.1 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 18, will be available to the borrowers engaged in important business activities, subject to compliance with certain conditions as e numerated in para 20.2 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 20.2, will be governed by the prudential norms in this regard described in para 17 above.

20.2 **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

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

As stated in para 17.1.2, 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.

20.2.2 **Asset classification benefits**

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 17:

(i) In modification to para 17.2.1, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) In modification to para 17.2.2, 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 17.4.2 (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 17.2 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.

20.2.3. 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 20.2.1 & 20.2.2 above) available on restructuring on fulfilling the conditions have been 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 paragraph 4.2.15). It implies that with effect from April 1, 2015, a standard account on restructuring (for reasons other than change in DCCO and) 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.

21. Miscellaneous

21.1 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.

21.2 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.

21.3 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.

21.4 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.

21.5 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.

21.6 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.

22. 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.

23. 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.