

Seminar on Bank Branch Statutory Audit

**Income Recognition, Asset
Classification and
Provisioning (IRACP) Norms**

Organised by: AASB of ICAI

Hosted by: Ernakulam Branch of
SIRC of ICAI

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Disclaimers

- These are personal views of speakers and can not be construed to be the views of the ICAI.
- These views do not and shall not be considered as professional advice.

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Coverage

- Objective
- Identification of Account as NPA
- Exceptions / Clarifications
- Projects under Implementation
- Asset Classification and Provisioning
- Guidelines on Restructuring of Advances
- Prudential Framework for Resolution of Stressed Assets
- Transfer of Loan Exposures
- Points to ponder

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RBI Circulars Reference

- Master Circular dated April 01, 2023 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- Master Direction – RBI (Relief Measures by Banks in Areas affected by natural calamities) Directions, 2018 dated October 17, 2018
- Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (updated as on December 28, 2023)

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Objective

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

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Para 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.

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Asset Types

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

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Criteria for NPA

Loans or Advance	<ul style="list-style-type: none"> ▪ Interest and/or installment remains overdue for a period of more than 90 days in respect of a term loan. ▪ Treatment for advance installments received and various banking practices ▪ Exception: <ul style="list-style-type: none"> ▪ Loans with moratorium for payment of interest ▪ Housing Loan or similar advance to staff
Overdue definition	If an amount due to bank under any credit facility is not paid on the <u>due date fixed by</u> the bank. (Para 2.3.1)

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Examples of NPA TL

Loans or Advance	<ul style="list-style-type: none"> ▪ Concept of Overdue ▪ Demand Calendar (static / dynamic) ▪ EMIs paid in advance and interest remaining unrealized for more than 90 days ▪ Differentiation between 'overdue' & 'unrealized' ▪ Interest funding <ul style="list-style-type: none"> ▪ Interest is capitalized as part of moratorium period ▪ Interest is due after completion of moratorium period ▪ Staff Advances
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Criteria for NPA

Bills Purchased and discounted	Bill remains overdue for a Discounted period of more than 90 days.
Examples	<ul style="list-style-type: none"> • LCBD vis-à-vis exposure norms • NPA LCBD <ul style="list-style-type: none"> • Failure of bank to honor LC • Relational NPA • Clean Bill Discounting

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Criteria for NPA

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

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Criteria for NPA

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

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Criteria for NPA

FIDD.No.FSD.BC.52/ 05.10.001/2014-15
dated March 25, 2015
Guidelines for relief measures by banks in areas affected
by natural calamity

Natural Calamity	12 types of natural calamities are defined
Institutional framework	The Banks to have blueprint of action plan with adequate delegation of powers with discretionary powers granted to Divisional / Zonal Managers, to ensure assistance provided without loss of time.

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Meeting of SLBC / District Consultative Committee	<i>Immediate conveying of meeting by:</i> If calamity covers entire state SLBC If small part of the state District Consultative Committee
Declaration of natural calamity	Domain of Sovereign (Central / State Government) <u>Assessed Crop loss should be 33% or more</u>
Restructuring / rescheduling of existing loans	Agricultural Loans - Short Term - Long Term Other Loans

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Short Term Agricultural Loans

Eligibility: Loan should not be overdue at the time of occurrence of natural calamity

<i>Crop Loss</i>	<i>Maximum repayment period extension (incl. of moratorium period)</i>
33% to 50%	2 Years
50% or more	5 Years

- Moratorium period – at least 1 year
- Principal and interest due in the year of natural calamity to be converted into Term Loan
- Additional collateral security not to be insisted upon

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Long Term Agricultural Loans

Only Crop for that year is damaged and not the productive assets

- Reschedule installment during the year of natural calamity and extension of loan period by one year
- Willful defaulted installments not eligible for rescheduling
- Payment of interest may be postponed

Productive Assets are damaged (partially / totally)

Repayment period can be restructured provided generally it shouldn't exceed 5 years

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

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

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Criteria for NPA

Derivative Transaction	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.
Liquidity facility	Remains outstanding for more than 90 days in respect of Securitisation transaction.
Credit Card dues	The minimum amount payable is not paid within 90 days from the next statement date. <i>The reporting to Credit Information Companies (CICs) & levying of penal charges only after 3 days from due date.</i>

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Criteria for NPA

Cash Accounts	Credit Accounts	If the account is 'out of order'
<u>Conditions for out of order status</u>		
<ul style="list-style-type: none"> ▪ Outstanding Balance remains continuously in excess of sanctioned limit / drawing power for 90 days ▪ No credit continuously for 90 days or ▪ Credits in the account are not sufficient to cover interest debited during the same period 		

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Examples of NPA CC/OD

Cash Accounts	Credit Accounts	If the account is 'out of order'
<ul style="list-style-type: none"> ▪ Monitoring of continuously overdrawn vis-à-vis validity of drawing power / frequency of stock statement ▪ Effective date of drawing power vis-à-vis date of stock statement submission ▪ No credits in the account for last 90 days wherein account is in credit balance for larger portion ▪ Relational NPAs vis-à-vis upgradation ▪ 'Coverage of interest' vis-à-vis 'realization of interest' 		

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Vital points w.r.t. IRAC Master Circular

Automation of IRAC

A] Appropriate internal systems for proper and timely identification of NPAs (Ref. Circular dated 14.Sep.2020 on automation of IRAC and provisioning process)

B] Classification of SMA and NPA
Accounts to be flagged as a part of day-end process

C] Challenges in automation and inherent limitations (LCBD / Income recognition logic – Reversal of income & unrealized interest / Overdue logic / Availability of granular data)

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Vital points w.r.t. IRAC Master Circular

Clarifications issued by RBI from time to time

A] Definition of 'out of order' – concept of moving 90 days

B] Upgradation of accounts classified as NPA (cust-id level)

- *Only when 'entire arrears on interest and principal' are paid by borrower.*
- *Clarity about 'partial recoveries' and 'subsequent recoveries'*

C] Applicability of 'out of order' to all loan products offered as Overdraft including those not meant for business

D] Concept of 'previous 90 days' for determination of 'out of order' status to include the day on which EoD process is run

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Vital points w.r.t. IRAC Master Circular

Clarifications issued by RBI from time to time

E] Income recognition policy for loans with moratorium on payment of interest

Recognition of interest when moratorium of repayment of interest is granted

Sanctioned interest capitalization thus wont affect reversal of interest after NPA as its nature is considered as capital portion

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Criteria for NPA

Accounts with Temporary Deficiencies

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

Note: The leverage is applicable only for large borrowers

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

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Criteria for NPA

Exceptions / Clarifications

- Advances against term deposits, NSCs, IVPs, KVPs and Life Insurance Policies need not be treated as NPAs, till security cover is sufficient to cover outstanding balance.
- Income to be recognised subject to availability of margin

Examples:

- *Relational NPAs*
- *Provisioning requirements*
- *Matured FDRs*
- *Challenges in system-driven classification*

Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

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Criteria for NPA

Additional criteria for Gold Loans

Advance against Gold Ornaments / Government Securities not exempted but subject to additional criterias

RBI circular References:

- RBI/2013-14/419 DBOD.No.BP.79/21.04.048/2013-14 dated 30.Dec.2013 on Non-Agriculture Loans against Gold Ornaments and Jewellery
- RBI/2013-14/453 DBOD.BP.BC.No.86 /21.01.023 /2013-14 dated 20.Jan.2014 on Lending against Gold Jewellery
- RBI/2014-15/142 DBOD.No.BP.BC.27/21.04.048/2014-15 dated 22.Jul.2014 on Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses

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Criteria for NPA

Additional criterias for Gold Loans

RBI/2014-15/142 DBOD.No.BP.BC.27/21.04.048/2014-15 dated 22.Jul.2014 on Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses

- Loans with bullet repayment for principal as well as interest
 - Ceiling to be decided as per banks policy (replacing earlier norm for ceiling of Rs. 1 lakh)
 - Tenor cannot exceed 12 months from the date of sanction
 - Interest to be charged at monthly rest
 - LTV of 75% is to be maintained throughout lifecycle of loan (LTV = outstanding balance (prin+int) / Value of underlying Gold)

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Criteria for NPA

Additional criteria for Gold Loans

• RBI/2013-14/453 DBOD.BP.BC.No.86 /21.01.023 /2013-14 dated 20.Jan.2014 on Lending against Gold Jewellery

- Gold jewellery accepted as security/collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd.

• RBI/2013-14/419 DBOD.No.BP.79/21.04.048/2013-14 dated 30.Dec.2013 on Non-Agriculture Loans against Gold Ornaments and Jewellery

- The account would be classified as Non-Performing Asset (sub-standard category) even before the due date of repayment, if the prescribed margin is not maintained.

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Criteria for NPA

Exceptions / Clarifications

Classification Qua Borrower

All facilities granted to a borrower shall be treated as NPA & not only that facility which has become irregular

Relational Accounts ☞ **Co-Borrowers**

Exception

- (i) Credit facility to Primary Agricultural Credit Society (PACS) and Farmers Service Societies (FSS) under on lending arrangement;
- (ii) Bill Discounted against accepted LC

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Criteria for NPA

Exceptions / Clarifications

Consortium Advances

- Member banks shall classify the accounts according to their own record of recovery.
- Bank needs to arrange to get their share of recovery or obtain an express consent from the Lead Bank otherwise the account in such deprived banks might be treated as NPA for non-servicing.

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Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

- Erosion in Value Where realisable value of security is less than 50% of the value assessed (*by bank or value accepted in last RBI Inspection*), account to be straightaway classified as **Doubtful Asset**..
- Where realisable value (*as assessed by Bank / Valuator / RBI Inspector*) of security is less than 10% of outstanding balance, account to be straightaway classified as **Loss Asset**.

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Criteria for NPA

Practical aspects of Straightaway Classification (Potential threat of recovery)

- Standard Assets
 - Reasons for erosion in value of security to be probed
 - In case of fraud, prudent to classify
 - Account being NPA is not an essential condition, but serious credit impairment may warrant straightaway classification
- NPAs
 - The account needs to be marked as DA / Loss without passing through SSA category
- Challenges in Automation in CBS

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Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

- Fraud
 - 100% to be provided irrespective of security spread over 4 quarters commencing from the quarter in which fraud has been detected, provided the unprovided provision is debited to 'Other Reserves'
 - If not reported to RBI within timeframe, 100% to be provided instantly

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Criteria for NPA

Exceptions / Clarifications

Solitary or few credit entries recorded before Balance Sheet to regularise the account

Whether the account is having inherent weakness?

Yes	No
Mark the account as NPA	The bank to evidence the auditors about manner of regularisation of account

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Criteria for NPA

Examples related to inherent weakness

- Inherent weakness is a subjective concept
- Test source of fund for regularization of an account – whether only at year end?
- Infusion of funds by promoters
- Sale of Fixed Assets
- Sale of collateral security
- Liquidation of FDRs

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Criteria for NPA

Mandatory Valuation of Securities

Applicable only if balance in NPA is Rs. 5 crores & above

- Annual Stock Audit by external agencies
- Immovable Properties – Valuation to be carried out once in three years by approve valuer

Practical Aspects:

- Value of security vis-à-vis old valuation report
- FMV / Realisable / Distress Sale

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Projects under Implementation

Essentials

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

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

Type of Project Loan:

1. Infrastructure Sector
2. Non-Infrastructure Sector

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Projects under Implementation

When not considered as Restructuring?

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

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

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Projects under Implementation

Deferment of DCCO

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

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

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Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

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

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Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

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

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Projects under Implementation

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

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

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

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Projects under Implementation

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

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

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

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Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

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

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Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

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

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Income Recognition

For NPA accounts income should be recognised on realisation basis.

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

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

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

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

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Income Recognition

Order of Recovery

Suggested though not mandatory

Unrealised Expenses

Unrealised Interest

Principal Outstanding

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

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Income Recognition

Practical Aspects – Date of NPA / reversal of income

- Unrealised interest to be reversed
- Unrealised bank charges, commission, etc. to be reversed
- Appropriation of recovery concept (para 3.3) is applicable only to NPAs and not to SA
- For SA, accounting concept of realization is to be followed
- Para 3.4 specifies that accrued interest may be continued to be recorded by the banks in a 'Memorandum Account'

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Classification Norms

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

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Classification Norms

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

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Provisioning Norms

Primary Responsibility is of the Bank Management and Auditors

Standard Asset

▪Agricultural and SMEs Sectors	0.25%
▪Commercial Real Estate (CRE) Section	1.00%
▪CRE – Residential Housing Project	0.75%
▪Others	0.40%
▪Housing Loan during teaser rate period	2.00%

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Provisioning Norms

Sub-standard Asset

- 15% of total outstanding (without allowance of ECGC & similar cover)
- 25% of total outstanding if loan is unsecured
- 20% of total outstanding if infrastructure loan provided its backed by escrow facility with first charge

Definition of Secured Loan:

If security is not less than 10% of exposure (funded & non-funded) ab initio

Non-Fund based exposure – Whether provision required?

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Provisioning Norms

Doubtful Assets:

<u>Period</u>	<u>Provision</u>	<u>(Secured + Unsecured)</u>	
Up to 1 year	25%	+	100%
1 to 3 years	40%	+	100%
More than 3 years	100%	+	100%
Loss Asset	100% should be provided for		

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

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Provisioning Norms

Provisioning for Country Risk

In respect of a country where its net funded exposure is \geq 1% of its total assets

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

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

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Provisioning Norms

Provisions under Special Circumstances

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

[O/S (-) Security (-) Guarantee% = Unsecured Portion]

CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises

CRGFTLIH: Credit Risk Guarantee Fund Trust for Low Income Housing

Take Out Finance

Transactions that involve prior commitments shall be governed by the circular 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".

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Other Aspects

Post Shipment Suppliers' Credit

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

Export Project Finance

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

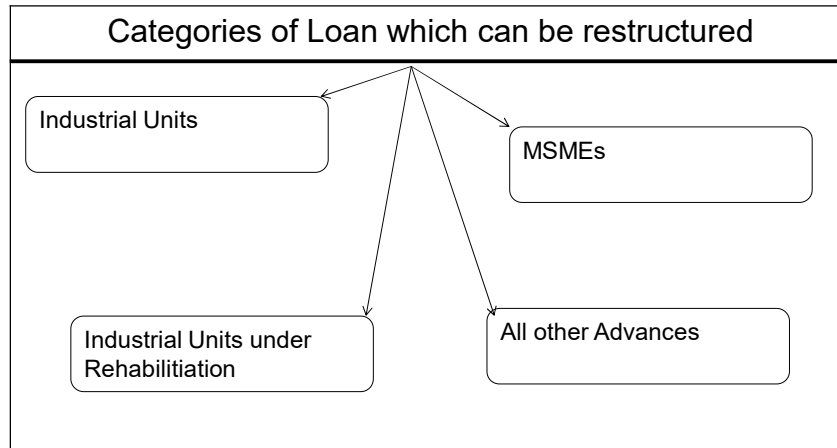
~~ further period of 1 year available

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Guidelines on Restructuring of Advances



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Guidelines on Restructuring of Advances

Eligibility

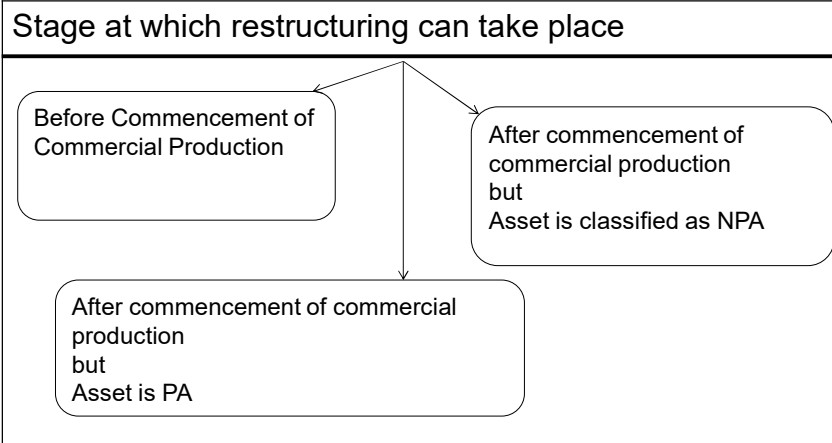
- Any account classified as standard, sub standard or doubtful.
- Restructuring cannot be done retrospectively and usual asset classification norms would continue to apply.
- Restructuring should be subject to customer agreeing to terms and conditions.
- Financial viability should be established.
- Borrowers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

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Guidelines on Restructuring of Advances

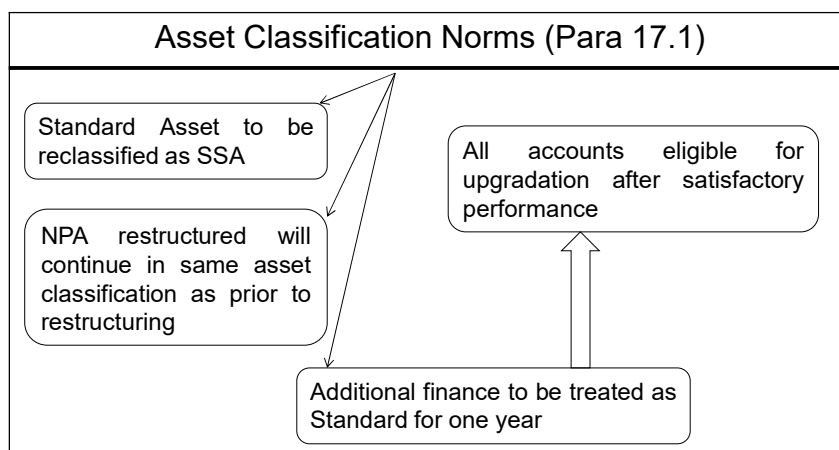


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Guidelines on Restructuring of Advances

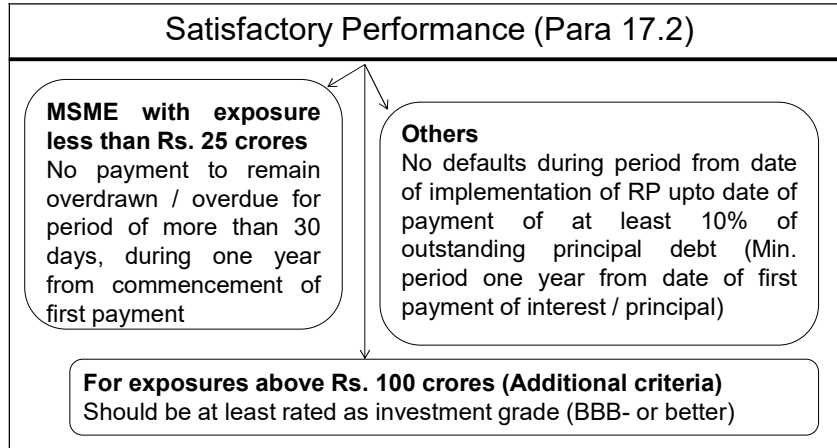


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Guidelines on Restructuring of Advances

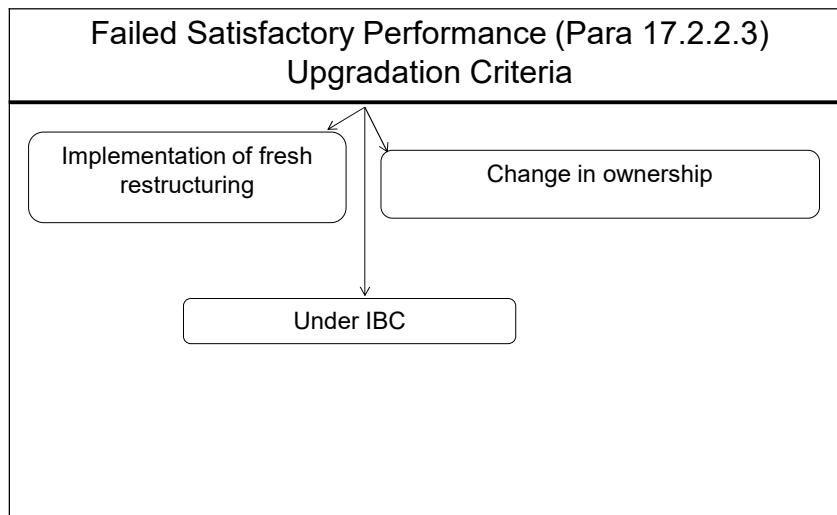


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Guidelines on Restructuring of Advances

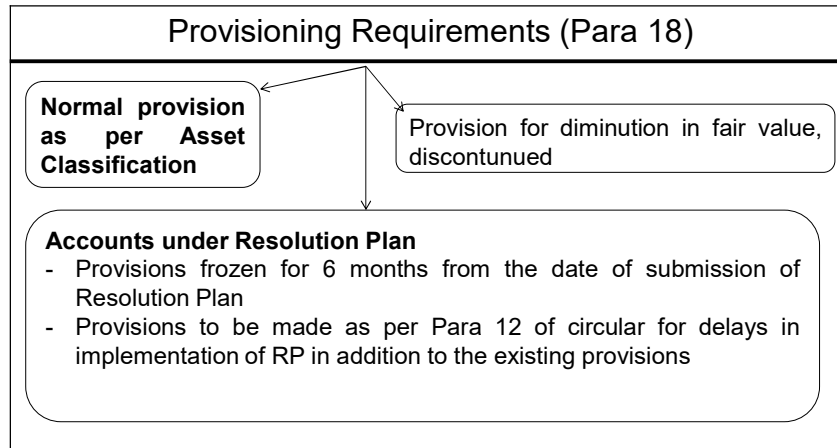


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Guidelines on Restructuring of Advances



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Early identification and reporting of stress

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

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Early identification and reporting of stress

Reporting Requirements to CRILC (Central Repository of Information on Large Credits) Reporting

1. Applicability: Coverage for Fund and Non-Fund based exposures above Rs. 5 crores excluding crop loans, Inter-Bank / SIDBI / EXIM / NHB / NABARD exposures
2. CRILC Main report – Monthly Basis
3. CRILC Weekly Reporting (Every Friday) – Defaults by all borrowers above Rs. 5 Crores of exposure

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Prudential Framework for Resolution of Stressed Assets

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

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Prudential Framework for Resolution of Stressed Assets**Implementation of Resolution Plan**

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

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Prudential Framework for Resolution of Stressed Assets**Implementation of Resolution Plan**

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

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Prudential Framework for Resolution of Stressed Assets

Implementation Conditions for Resolution Plan

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

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Prudential Framework for Resolution of Stressed Assets

Conditions for Implementation of Resolution Plan

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

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Prudential Framework for Resolution of Stressed Assets**Conditions for Implementation of Resolution Plan**

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

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Prudential Framework for Resolution of Stressed Assets**Delayed Implementation of Resolution Plan****Additional Provision Requirement**

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

Overall provision should not exceed 100%

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Prudential Framework for Resolution of Stressed Assets

Prudential Norms

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

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

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Prudential Framework for Resolution of Stressed Assets

Few examples of Financial Difficulty

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

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Prudential Framework for Resolution of Stressed Assets**Asset Classification**

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

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Prudential Framework for Resolution of Stressed Assets**Asset Upgradation**

Only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance' during the period from the date of implementation of RP up to the date by which at least 10% of the sum of outstanding principal debt as per RP and interest capitalisation sanctioned as a part of the restructuring, if any is repaid

(provided that account can not be upgraded before one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of RP)

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Prudential Framework for Resolution of Stressed Assets

Asset Upgradation – Additional conditions

In case of aggregate exposure of Rs. 100 crores and above

External credit rating of investment grade BBB- or better

In case of aggregate exposure of Rs. 500 crores and above

Two such external credit ratings of investment grade BBB- or better

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

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Prudential Framework for Resolution of Stressed Assets

Provisioning Norms

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

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**Master Direction on Transfer of Loan Exposures dated
September 24, 2021 (Updated as on 05.Dec.2022)**

Master Direction – Reserve Bank of India (Transfer of
Loan Exposures) Directions, 2021

A] Directions to come into immediate effect replacing existing instructions

B] NBV: Funded outstanding in a loan exposure as reduced by specific provision made against such exposure

C] Chapter IV – Transfer of Stressed Loans
C: Transfer of loans to ARCs

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**Master Direction on Transfer of Loan Exposures dated
September 24, 2021 (Updated as on 28.Dec.2023)**

Master Direction – Reserve Bank of India (Transfer of
Loan Exposures) Directions, 2021

Para 73: Stressed Loans which are in default for more than 60 days can be transferred

Stressed Loan: Loan exposure that is classified as NPA or SMA

Para 75: If stressed loan is transferred to ARC at price below NBV ... *permitted to use countercyclical or floating provisions*

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**Master Direction on Transfer of Loan Exposures dated
September 24, 2021 (Updated as on 05.Dec.2022)**

Master Direction – Reserve Bank of India (Transfer of
Loan Exposures) Directions, 2021

Para 76: If stressed loan is transferred to ARC at price above NBV – reverse excess provision to PL only to the extent of cash received as initial consideration

Para 77: SRs / PTCs to be M2M periodically at NAV

Proviso to Para 77: Accounting at lower of NBV or NAV

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**Master Direction on Transfer of Loan Exposures dated
September 24, 2021 (Updated as on 05.Dec.2022)**

Master Direction – Reserve Bank of India (Transfer of
Loan Exposures) Directions, 2021

Proviso to Para 77A:

when the investment by a transferor in SRs backed by stressed loans transferred by it, is more than 10 percent of all SRs backed by its transferred loans and issued under that securitisation, the valuation of such SRs by the transferor will be additionally subject to a floor of face value of the SRs reduced by the provisioning rate as applicable to the underlying loans, had the loans continued in the books of the transferor.

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**Master Direction on Transfer of Loan Exposures dated
September 24, 2021 (Updated as on 05.Dec.2022)**

**Master Direction – Reserve Bank of India (Transfer of
Loan Exposures) Directions, 2021**

Para 78: SRs/PTCs which are not redeemed as at the end of the resolution period (i.e., five years or eight years as the case may be) shall be treated as loss asset in books of the lenders and fully provided for.

Para 79: Valuation, classification and other norms applicable to Non-SLR instruments applicable

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Points to Ponder

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

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Points to Ponder

Accounts other than Advances accounts including Sundries /
Suspense Accounts

Accounts transferred to other branches – control over
identification / classification of accounts

Income leakages identified and resulting in overdrawing of
accounts

Recalculation of Drawing Power

Early Mortality Cases

Ever-greening of accounts

MOCs vis-à-vis Main Audit Report vis-à-vis LFAR

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Thank you!

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