

## RBI to fine-tune mechanisms to clean up balance sheet of banks

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*Central bank monitoring the loan recovery process to make it more effective, says Rajan*

Mapping stress RBI Governor Raghuram Rajan believes stressed loan scenarios are at manageable levels Shashi Ashiwal  
Mumbai, February 2:

The Reserve Bank of India will fine-tune the various regulatory mechanisms currently available to banks to clean up their balance sheets to increase their effectiveness.

Further, in a bid to help banks meet the stringent Basel regulatory framework, the RBI will identify non-recognisable capital that is already on bank balance sheets, such as undervalued assets, so that they count as capital as per Basel norms, provided a bank meets minimum common equity standards.

In a media interaction after announcing the sixth bi-monthly monetary policy review, RBI Governor Raghuram Rajan said following consultations with banks and NBFCs, the RBI will shortly issue instructions to further fine-tune the Joint Lenders' Forum (which undertakes corrective action plan for stressed assets) and Strategic Debt Restructuring (involving the provision to convert debt into equity) processes.

He added that the RBI is monitoring the loan recovery process to make it more effective.

“Now, over the last few quarters, the RBI has expanded the tools banks have to deal with stressed loans. We are now working with the government and banks to ensure that the stressed assets are recognised on a proactive basis and that bank balance sheets both reflect a true and fair picture and are adequately provisioned.”

Rajan emphasised that provisioning prepares banks for possible loan loss, but if the loss doesn't materialise, it can be written back to profits.

“We mapped out various possible scenarios to determine the extent of likely stress and believe they are all manageable. The Finance Minister has indicated he will support the public sector banks with capital infusion as needed.

“Our estimate is that the support that has been indicated will suffice, especially when coupled with other capital sources that are usually available to banks,” he said.

### **Non-recognisable capital**

“On the issue of non-recognisable capital, you know, on a number of dimensions we have been stricter than Basel norms on recognising assets that have increased in value or assets that exist on balance sheet that will be a source of value in the future.

“For example, you may have real estate assets but we allow only a fraction of their value to be counted as capital.... We are looking at some of these to see if there is a possibility that while still remaining conservative we can allow banks a little more room to use these and as we do the analysis we will make appropriate public statements,” explained the Governor.

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