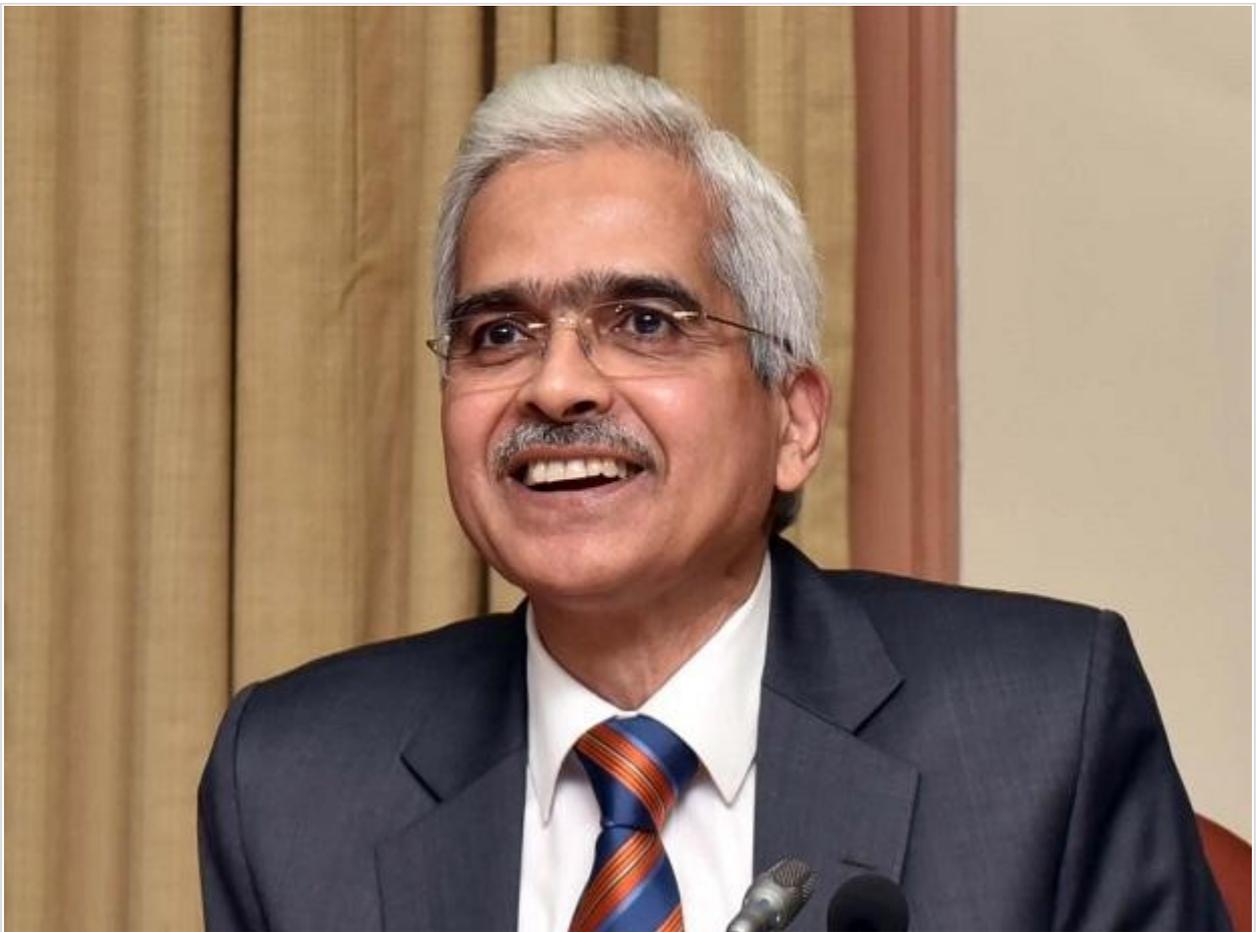


Business Standard

RBI's revised NPA norms give banks 30 days from default for resolution plan

Plan has to be implemented within 180 days after that

Anup Roy & Abhijit Lele | Mumbai June 07, 2019 Last Updated at 23:01 IST



RBI Governor Shaktikanta Das during a press conference in Mumbai (Photo-KAMLESH PEDNEKAR)

The Reserve Bank of India (RBI) on Thursday allowed banks more time and flexibility to consider how they want to treat an account after it has defaulted. This came after the Supreme Court quashed the circular the RBI issued on February 12 last year on recovering bad loans.

Banks will now have 30 days to think of a plan after a “default” and a further 180 days to execute the plan.

Banks can even delay implementing the plan if they have enough capital to set aside. However, if they decide to take tough action against defaulters, their pledged provisions can be freed.

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In the February 12 circular, this extra window of 30 days was not there. The banks had to review, as well as implement, the resolution plan within 180 days of a default.

“The revised circular essentially transfers the responsibility of a resolution from the shoulders of the central bank to the banks,” said an analyst with a foreign brokerage.

The lenders, being capital-starved themselves, won't have the stomach to make extra provisions on their stressed accounts. But at the same time they will have enough time to think through a proper plan and implement it, the scope for which was not there in the earlier version of the circular, the analyst said.

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The lenders will have to now make “appropriate disclosures” in their financial statements relating to the resolution plans. The RBI did not make it clear if the names of the accounts should appear or not.

Bankers welcomed the new circular because they can now consider cases based on their unique conditions.

Rajkiran Rai G, managing director and chief executive, Union Bank of India, said the revised circular addressed most of the concerns and was practical.

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V G Kannan, chief executive, Indian Banks' Association (IBA), said the revised circular found place for many suggestions banks made, such as the review period of 30 days and clarity on the concept of financial difficulty to decide on resolution.

Sunil Mehta, chairman of Punjab National Bank, said the 30 days' window would be valuable to sort out any technical difficulty that an account might face in servicing the loan.

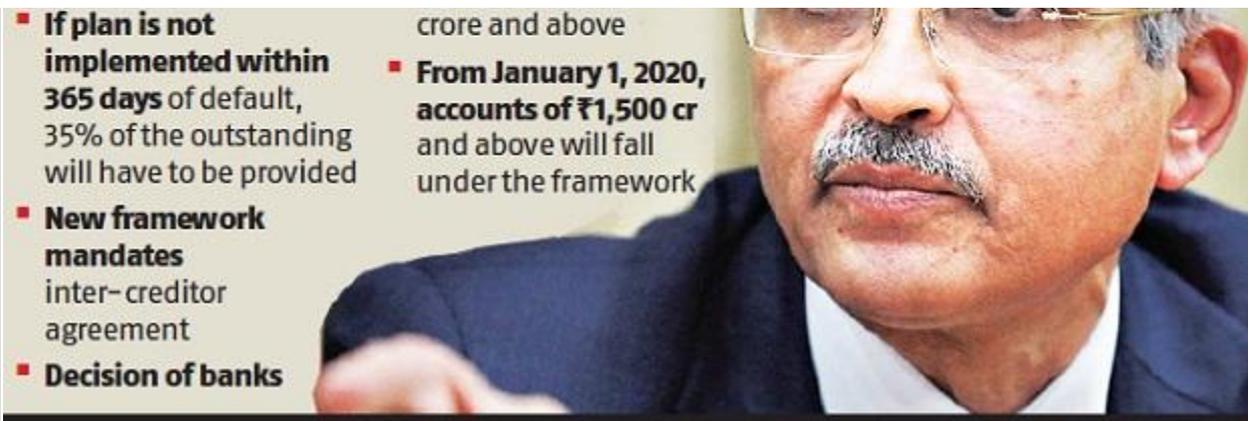
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The RBI earlier held the view that accounts of Rs 2,000 crore and above must be taken to the insolvency court if no resolution was found within 180 days of a default. This criterion was termed a “one-day default” norm even as the definition of default did not change.



REVISED GUIDELINES

- **If resolution plan is delayed beyond 180 days**, banks will have to incur additional 20% provision on the outstanding
- **For now, it applies to accounts worth ₹2,000** holding 75% of value and 60% in numbers is enough to start resolution proceedings



The one-day default norm created chaos in the corporate sector, but made banks powerful in recovering their dues.

In its latest “prudential framework for resolution of stressed assets”, not only did the central bank shed the “one-day default” norm, it gave banks enough operational freedom to do a restructuring as they wish.

Earlier, all the lenders had to agree on the resolution plan. Now any decision agreed upon by lenders representing 75 per cent by value (of loans), and 60 per cent of lenders by number, “shall be binding upon all the lenders”.

For now, the framework applies to accounts worth Rs 2,000 crore and above, but from January 1, amounts of Rs 1,500 crore and above will fall under the framework.

Karthik Srinivasan, group head for financial sector ratings at Icra, saw the framework as positive and it “will continue to incentivise banks for accelerated resolution of stressed assets”.

L Viswanathan, partner at Cyril Amarchand Mangaldas, said the core of the February 12 circular was intact. Even as the resolution period practically stands increased to 365 days, the framework incentivises banks to refer cases for insolvency proceedings, he said.

Resolution plan

In cases where a resolution plan is to be implemented, all lenders in a consortium must enter into an inter-creditor agreement (ICA) within 30 days of the review period.

The ICA will provide for rights and duties of majority lenders, duties and protection of rights of dissenting lenders, treatment of lenders with priority in cash flows or differential security interest, etc.

The resolution plan should be devised in a manner that dissenting lenders at least get the money equivalent to the liquidation value of the assets, the RBI said. The central bank defined the realisable value as something “if such borrower were to be liquidated as on the date of commencement of the review period.”

“Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan even before a default.”

Upon default, banks must recognise the incipient stress in loan accounts by classifying such accounts as “special mention accounts” (SMA) under various time buckets.

The banks can delay implementing the resolution plan, but for that they will need to incur steep provisioning. If the 180 window is breached, banks will have to incur an additional 20 per cent provision on the outstanding. And if the plan is not implemented within 365 days of the default, an additional 15 per cent provision, or 35 per cent of the outstanding, will have to be provided by the banks.

This provision, however, can be reversed under certain conditions. For example, “half of the additional provisions made may be reversed on filing of insolvency application and the remaining additional provisions may be reversed upon admission of the borrower into the insolvency resolution process under IBC.”

Somesh Jha contributed to this story.