Revised Prudential framework for Resolution of Stressed Assets

Reserve Bank, vide circular dated 7th June 2019, has issued the prudential framework for resolution of stressed assets by banks in the wake of the judgement of the Hon'ble Supreme Court of India.

The fundamental principles underlying the regulatory approach for resolution of stressed assets are as under:

- Early recognition and reporting of default in respect of large borrowers by banks, FIs and NBFCs;
- Complete discretion to lenders with regard to design and implementation of resolution plans, in supersession of earlier resolution schemes (S4A, SDR, 5/25 etc.), subject to the specified timeline and independent credit evaluation;
- A system of disincentives in the form of additional provisioning for delay in implementation of resolution plan or initiation of insolvency proceedings;
- Withdrawal of asset classification dispensations on restructuring. Future upgrades to be contingent on a meaningful demonstration of satisfactory performance for a reasonable period;
- For the purpose of restructuring, the definition of 'financial difficulty' to be aligned with the guidelines issued by the Basel Committee on Banking Supervision; and,
- Signing of inter-creditor agreement (ICA) by all lenders to be mandatory, which will provide for a majority decision making criteria.

The key points of the revised framework are listed below:

A. Applicability

The provisions of these directions shall apply to the following entities:

a. Scheduled Commercial Banks (excluding Regional Rural Banks);
b. All India Term Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);
c. Small Finance Banks; and,
d. Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI) and Deposit taking Non-Banking Financial Companies (NBFC-D).

B. Implementation of Resolution Plan

1. All lenders (including SCBs, all-India financial institutions and small finance banks) will get 30 days to review the borrower account on default and decide on the resolution strategy, including the nature of the RP and the approach for its implementation.
2. In cases where the RP is to be implemented, all lenders will have to enter into an inter-creditor agreement (ICA) for the resolution of stressed assets during the review period, to provide for ground rules for finalization and implementation of the RP in respect of borrowers with credit facilities from more than one lender.
3. Under the ICA, any decision agreed to by the lenders representing 75% of the total outstanding credit facilities by value and 60% by number will be binding upon all the lenders.
4. In cases where the aggregate exposure of a borrower to lenders is ₹2,000 crore and above, the RP has to be implemented within 180 days from the end of the review period, with the reference date set as June 7, 2019.
5. In case of borrowers in the ₹1,500 crore and above but less than ₹2,000 crore category, the reference date is January 1, 2020.
6. The reference date for the less than ₹1,500 crore category, will be announced in due course.

C. Implementation Conditions for RP

1. RPs involving restructuring / change in ownership in respect of accounts where the aggregate exposure of lenders is ₹100 crores and above, shall require independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose.
2. While accounts with aggregate exposure of ₹500 crores and above shall require two such ICEs, others shall require one ICE.
3. Only such RPs which receive a credit opinion of RP4 or better for the residual debt from one or two CRAs, as the case may be, shall be considered for implementation.

D. Delayed Implementation of Resolution Plan

1. If the implementation of an RP crosses the stipulated 180 days from the end of the review period, the lenders have to make additional provision of 20% of the outstanding loan.
2. If this timeline exceeds 365 days, they have to make a further provision of 15%.
3. These additional provisions are over & above the provisions already held, or the provisions required to be made, as per the asset classification status of the borrower account.

For more details, please click on the link https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11580&Mode=0