

# RBI REVISES STRESSED ASSET RESOLUTION NORMS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

After the Supreme Court struck down the controversial February 12, 2018 circular of Reserve Bank of India (RBI) on stressed asset resolution, the banking regulator on Friday released revised set of norms which are substantially less stringent from the previous one.

In particular, neither there is a mandate to start resolution which results in higher provisioning if there is a single day default nor a mandate for initiating insolvency proceeding if resolution plan is not implemented for large accounts within a time frame. However, the RBI has sought to nudge banks towards the insolvency courts by introducing a disincentive in the form of additional provisions for delayed resolution.

At the same time, the central bank said it would issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults 'so that the momentum towards effective resolution remains uncompromised.'

The new circular asked lenders to undertake a prima facie review of the borrower account within 30 days from a default, which is termed as "review period."

During this review period, lenders may decide on the resolution strategy, including the nature of the resolution plan (RP), the approach for implementation of the RP etc.

## Legal proceedings

"The lenders may also choose to initiate legal proceedings for insolvency or recovery," the circular, which comes into effect immediately, said.

If the RP is to be implemented, lenders have been asked to enter into an inter-creditor agreement (ICA), within the review period, to provide for ground rules for finalisation and implementation of the RP.

"The ICA shall provide that any decision agreed by lenders representing 75% by value of total outstanding credit facilities (fund-based as well as non-fund based) and 60% of lenders by number shall be binding upon all the lenders," the circular said. The RP will have to implemented within 180 days from the end of review period, RBI said.

The review period shall commence not later than the date of the this circular for loans above Rs. 2000 crore; January 1 ,2020 for loans above Rs. 1,500 crore to Rs. 2,000 crore.

For loans less than Rs. 1,500 crore, the reference date would be announced later.

There is a disincentive for banks if they delay implementing a viable resolution plan. In case the plan is not implemented within 180 days from the end of review period, banks have to make additional provision of 20% and another 15% if the plan is not implemented within 365 days from the start of the review period.

The additional provisions would be reversed if resolution is pursued under Insolvency and Bankruptcy Code (IBC).

Half of the additional provisions could be reversed on filing of insolvency application and the

remaining additional provisions may be reversed once case is admitted for insolvency proceedings.

“Incentives to reverse 50% of these provisions upon reference under IBC will incentivise lenders to refer such stressed cases to IBC for faster resolution,” says Karthik Srinivasan, group head, financial sector ratings ICRA, who thinks the overall framework is positive and will continue to incentivise banks for accelerated resolution of stressed assets.

Debt recast tools like corporate debt restructuring scheme and strategic debt restructuring scheme are withdrawn. Apart from banks, these new norms are also applicable for non-banking financial companies, small finance banks and other financial institutions.

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