RBI New Norms for Stressed Assets

Why in news?

The Reserve Bank of India (RBI) has issued a new prudential framework for resolution of stressed assets.

What are the highlight provisions?

- The new framework effectively replaces RBI's controversial 12 February 2018 circular.
- The central bank has made it **voluntary for lenders** to take defaulters to the bankruptcy court i.e. to use the Insolvency and Bankruptcy Code.
- The norms give lenders 30 days to start working on a resolution plan from the day of default.
- [Earlier norms, struck down by the Supreme Court, stipulated that even a one-day default must be reported and acted upon.]
- A lender will now have to set aside -
    i. 20% more provisions if the plan is not implemented within 210 days from the date of default
    ii. 35% if the plan is not implemented within 365 days of default
- Besides, the new norms said that wherever necessary, the RBI will direct banks to start insolvency proceedings for specific defaults.
- The lenders may also choose to initiate legal proceedings for either insolvency or recovery.
- Meanwhile, the norms put in place penal provisions, for lenders, for resolution plans that are not implemented.
- The RBI circular also mandated signing of the inter-creditor agreement by all lenders.
- The RBI said that lenders must put in place **board-approved policies** for resolution of stressed assets.
- This must include the timelines for resolution.
- RBI said that it ideally expects lenders to initiate the process of implementing a resolution plan (RP) even before a default.
- During 30 days review period, lenders may decide on the resolution strategy.
- These include the nature of the RP and the approach for implementation of the RP.
- Here, the review period for defaulters of Rs.2,000 crore and above will start

immediately.

- And that for defaulters between Rs. 1,500 crore and less than Rs. 2,000 crore will start only from 1 January 2020.
- The **framework now applies to** a larger universe of lenders including small banks and non-banking finance companies (NBFCs).
- This essentially means that the lenders will also have to follow the early stress recognition guidelines of RBI.
- These specify that borrowers must be categorized into special mention accounts based on their delay in repayment, which are:
    1. special mention account-0 (SMA-0) loans, where the repayment overdue is between 1-30 days
    2. SMA-1 where the repayment overdue is between 31-60 days
    3. SMA-2 where the repayment overdue is between 61-90 days

Source: Livemint