# RBI's New Framework for Resolving NPAs

## Why in news?

\n\n

The RBI has come up with a revised framework for quicker and time-bound resolution of non-performing assets (NPA).
\n**How will the new framework look like?**

\n\n

\n
- The new framework will subsume most of the existing stressed asset schemes such as the Strategic Debt Restructuring Scheme (SDR) and the Scheme for Sustainable Structuring of Stressed Assets (S4A).
\n
- It would give primacy to the Insolvency and Bankruptcy Code (IBC) of 2016, Click here to know more about IBC.
\n
- It will also disband the concept of a Joint Lenders' Forum (JLF), which is a dedicated grouping of lender banks that is formed to speed up decisions when an asset (loan) of Rs.100 Crore or more turns out to be a stressed asset.
\n
- With the JLF out of the way, the new RBI guidelines demand that banks identify stressed accounts as soon as they go into default.
\n
- The banks are supposed to categorise them as special mention accounts, report to the RBI and start the resolution process straight away.
\n

\n\n

## What is the prime focus of the new framework?

\n\n

\n
- A focus on timely identification of bad loans and the speedy resolution of such assets has been roped in.
\n
- The central bank has toughened the reporting of default to the central

repository by making it a monthly, instead of a quarterly, requirement.
\n

- All borrower entities in default with an exposure of more than Rs 50 million have to be reported on a weekly basis.
\n
- RBI made it clear that default in the borrower entity's account with any lender all banks, singly or jointly shall initiate steps to address it, which makes the banks to start the resolution process.
\n
- The RBI has laid clear timelines, not exceeding 180 days from March 1, for the resolution process to yield results, failing which insolvency proceeding will have to commence within 15 days.
\n

\n\n

## What are the significances?

\n\n

\n

- The new framework will obviously lead to short-term pain for many banks and may throw up challenges for borrowers.
\n
- For example, the strict timelines to come up with a resolution plan could mean that a larger number of accounts will go into insolvency.
\n
- The condition that a restructuring plan must be agreed upon by all banks involved in large accounts may be difficult to implement as experience shows such a thing rarely happens.
\n
- Over the long term, however, the revised framework should work well as the process still provides over one year to resolve a stressed assets problem initial 180 days to implement the resolution plan and then another 270 days under the IBC.
\n

\n\n

\n\n

**Source: Business standard**

\n