

Info Capsule

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RBI releases Prudential Framework for Resolution of Stressed Assets

Hon'ble Supreme Court, vide its order dated April 2, 2019, had held the RBI circular dated February 12, 2018 on Resolution of Stressed Assets as ultra vires. In light of the same, the Statement on Framework for Resolution of Stressed Assets issued by the Governor on April 4, 2019 had clarified that the Reserve Bank of India will take necessary steps, including issuance of a revised circular, as may be necessary, for expeditious and effective resolution of stressed assets.

Accordingly, the Reserve Bank has today placed on its website 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:

- (i) Early recognition and reporting of default in respect of large borrowers by banks, FIs and NBFCs;
- (ii) 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;
- (iii) A system of disincentives in the form of additional provisioning for delay in implementation of resolution plan or initiation of insolvency proceedings;
- (iv) Withdrawal of asset classification dispensations on restructuring. Future upgrades to be contingent on a meaningful demonstration of satisfactory performance for a reasonable period;
- (v) 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,
- (vi) Signing of inter-creditor agreement (ICA) by all lenders to be mandatory, which will provide for a majority decision making criteria.

Notwithstanding anything contained in this framework, wherever necessary, RBI will issue directions to banks for initiation of insolvency proceedings against borrowers for specific defaults so that the momentum towards effective resolution remains uncompromised.

It is expected that the current circular will sustain the improvements in credit culture that have been ushered in by the efforts of the Government and the Reserve Bank of India so far and that it will go a long way in promoting a strong and resilient financial system in India.

The details are available at:
<https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR28863756DE3EF9F7484EB4A04D03CF1589C4.PDF>