भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2021-22/118
DOS.CO.PPG.SEC.No.4/11.01.005/2021-22 November 02, 2021

All Scheduled Commercial Banks
(Excluding Small Finance Banks, Payment Banks and Regional Rural Banks)

Madam/ Dear Sir,

**Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks**

Please refer to the circular No. DBS.CO.PPD.BC.No.8/11.01.005/2016-17 dated April 13, 2017 on the Revised Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks (SCBs).

2. The existing PCA Framework for SCBs has since been reviewed and revised. The revised Framework is provided in the **Annex**.

3. The provisions of the revised PCA Framework will be effective from January 1, 2022.

4. The objective of the PCA Framework is to enable Supervisory intervention at appropriate time and require the Supervised Entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health. The PCA Framework is also intended to act as a tool for effective market discipline. The PCA Framework does not preclude the Reserve Bank of India from taking any other action as it deems fit at any time, in addition to the corrective actions prescribed in the Framework.

5. The contents of the circular may be brought to the attention of the bank's Board of Directors.

Yours faithfully

**(Ajay Kumar Choudhary)**
**Chief General Manager In-Charge**

Enclosure: PCA Framework for Scheduled Commercial Banks

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**Annex**

## PCA Framework for Scheduled Commercial Banks[1]

A. Capital, Asset Quality and Leverage will be the key areas for monitoring in the revised framework.

B. Indicators to be tracked for Capital, Asset Quality and Leverage would be CRAR/ Common Equity Tier I Ratio[2], Net NPA Ratio[3] and Tier I Leverage Ratio[4] respectively.

C. Breach of any risk threshold (as detailed under) may result in invocation of PCA.

| PCA matrix – Parameters, indicators and risk thresholds | | | | |
|---|---|---|---|---|
| **Parameter** | **Indicator** | **Risk Threshold 1** | **Risk Threshold 2** | **Risk Threshold 3** |
| (1) | (2) | (3) | (4) | (5) |
| **Capital (Breach of either CRAR or CET 1 ratio)** | CRAR - Minimum regulatory prescription for Capital to Risk Assets Ratio + applicable Capital Conservation Buffer (CCB) | Upto 250 bps below the Indicator prescribed at column (2) | More than 250 bps but not exceeding 400 bps below the Indicator prescribed at column (2) | In excess of 400 bps below the Indicator prescribed at column (2) |
| | **and/or** | | | |
| | Regulatory Pre-Specified Trigger of Common Equity Tier 1 Ratio (CET 1 PST) + applicable Capital Conservation Buffer (CCB) | Upto 162.50 bps below the Indicator prescribed at column (2) | More than 162.50 bps below but not exceeding 312.50 bps below the Indicator prescribed at column (2) | In excess of 312.50 bps below the Indicator prescribed at column (2) |

[1] In this circular 'banks' mean all Scheduled Commercial Banks (excluding Small Finance Banks, Payment Banks and Regional Rural Banks)

[2] CET 1 ratio – the percentage of common equity capital, net of regulatory adjustments, to total risk weighted assets as defined in RBI Basel III guidelines

[3] NNPA ratio – the percentage of net NPAs to net advances

[4] Tier 1 Leverage ratio – the percentage of the capital measure to the exposure measure as defined in RBI guidelines on Leverage ratio

| Parameter | Indicator | Risk Threshold 1 | Risk Threshold 2 | Risk Threshold 3 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| | **Breach of either CRAR or CET 1 ratio to trigger PCA** | | | |
| **Asset Quality** | Net Non-Performing Advances (NNPA) ratio | >=6.0% but <9.0% | >=9.0% but < 12.0% | >=12.0% |
| **Leverage** | Regulatory minimum Tier 1 Leverage Ratio | Upto 50 bps below the regulatory minimum | More than 50 bps but not exceeding 100 bps below the regulatory minimum | More than 100 bps below the regulatory minimum |

D. The PCA Framework would apply to all banks operating in India including foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators.

E. A bank will generally be placed under PCA Framework based on the Audited Annual Financial Results and the ongoing Supervisory Assessment made by RBI. RBI may impose PCA on any bank during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

F. Exit from PCA and Withdrawal of Restrictions under PCA - Once a bank is placed under PCA, taking the bank out of PCA Framework and/or withdrawal of restrictions imposed under the PCA Framework will be considered: a) if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Audited Annual Financial Statement (subject to assessment by RBI); and b) based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the bank.

G. When a bank is placed under PCA, one or more of the following corrective actions may be prescribed:

<table>
<tr><th colspan="3">Mandatory and Discretionary actions</th></tr>
<tr><th>Specifications</th><th>Mandatory actions</th><th>Discretionary actions</th></tr>
<tr><td>Risk Threshold 1</td><td>i. Restriction on dividend distribution/remittance of profits.<br><br>ii. Promoters/Owners/Parent (in the case of foreign banks) to bring in capital</td><td rowspan="3"><u>Common menu</u><br>i. Special Supervisory Actions<br>ii. Strategy related<br>iii. Governance related<br>iv. Capital related<br>v. Credit risk related<br>vi. Market risk related<br>vii. HR related<br>viii. Profitability related<br>ix. Operations/Business related<br>x. Any other</td></tr>
<tr><td>Risk Threshold 2</td><td>In addition to mandatory actions of Threshold 1,<br>i. Restriction on branch expansion; domestic and/or overseas</td></tr>
<tr><td>Risk Threshold 3</td><td>In addition to mandatory actions of Threshold 1 & 2,<br>i. Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits</td></tr>
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**<u>Common menu for selection of Discretionary Corrective Actions</u>**

**1. Special Supervisory Actions**

- Special Supervisory Monitoring Meetings (SSMMs) at quarterly or other identified frequency
- Special inspections/targeted scrutiny of the bank
- Cause a special audit of the bank by the extant Supervisory mechanism and/or through external auditors
- Resolution of the bank by Amalgamation or Reconstruction (Ref. Section 45 of Banking Regulation Act 1949)

2. **Strategy related Actions**

RBI to advise the bank's Board to:

- Activate the Recovery Plan that has been duly approved by the Supervisor
- Undertake a detailed review of business model in terms of sustainability of the business model, profitability of business lines and activities, medium and long-term viability, etc.
- Review short term strategy focusing on addressing immediate concerns
- Review medium term business plans, identify achievable targets and set concrete milestones for progress and achievement
- Undertake business process reengineering as appropriate
- Undertake restructuring of operations as appropriate

3. **Governance related Actions**

- RBI to actively engage with the bank's Board on various aspects as considered appropriate
- RBI to recommend to Owners (Government/ Promoters/ Parent of foreign bank branch) to bring in new Management/ Board
- RBI to remove managerial persons under Section 36AA of the BR Act, 1949 as applicable
- RBI to supersede the Board under Section 36ACA of the BR Act, 1949/ recommend supersession of the Board as applicable
- RBI to require bank to invoke claw back and malus clauses and other actions as available in regulatory guidelines, and impose other restrictions or conditions permissible under the BR Act, 1949
- Impose restrictions on directors' or management compensation, as applicable.

4. **Capital related Actions**

- Detailed Board level review of capital planning
- Submission of plans and proposals for raising additional capital
- Requiring the bank to bolster reserves through retained profits
- Restriction on investment in subsidiaries/associates
- Restriction in expansion of high risk-weighted assets to conserve capital

- Reduction in exposure to high risk sectors to conserve capital
- Restrictions on increasing stake in subsidiaries and other group companies

**5. Credit Risk related Actions**

- Preparation of time bound plan and commitment for reduction of stock of NPAs
- Preparation of and commitment to plan for containing generation of fresh NPAs
- Higher provisions for NPAs/NPIs and as part of the coverage regime
- Strengthening of loan review mechanism
- Restrictions/reduction in total credit risk weight density (example: restriction/reduction in credit for borrowers below certain rating grades, restriction/reduction in unsecured exposures, etc.)
- Reduction in loan concentrations; in identified sectors, industries or borrowers
- Sale of assets
- Action plan for recovery of assets through identification of areas (geography wise, industry segment-wise, borrower-wise, etc.) and setting up of dedicated Recovery Task Forces, Adalats, etc.
- Prohibition on expansion of credit/ investment portfolios other than investment in government securities / other High-Quality Liquid Investments

**6. Market Risk related Actions**

- Restrictions on/reduction in borrowings from the inter-bank market
- Restrictions on accessing/ renewing wholesale deposits/ costly deposits/ certificates of deposits
- Restrictions on derivative activities, derivatives that permit collateral substitution
- Restriction on excess maintenance of collateral held that could contractually be called any time by the counterparty

**7. HR related Actions**

- Restriction on staff expansion
- Review of specialized training needs of existing staff

**8. Profitability related Actions**

- Restrictions on capital expenditure, other than for technological upgradation within Board approved limits
- Restrictions/reduction in variable operating costs

**9. Operations related Actions**

- Restrictions on branch expansion plans; domestic or overseas
- Reduction in business at overseas branches/ subsidiaries/ in other entities
- Restrictions on entering into new lines of business
- Reduction in leverage through reduction in non-fund based business
- Reduction in risky assets
- Restrictions on non-credit asset creation
- Restrictions on undertaking businesses as specified.
- Restriction/reduction of outsourcing activities
- Restrictions on new borrowings

**10. Other Actions**

- Any other specific action that RBI may deem fit considering specific circumstances of a bank.

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