Prudential norms on income recognition,
asset classification and provisioning

BP. BC. 25 / 21.04.048/ 2000- 2001

September 11, 2001

All Commercial Banks
(excluding RRBs and LABs)

Dear Sir,

Prudential norms on income recognition,
asset classification and provisioning

A meeting of the Bank Audit Committee, comprising the President and other representatives of the Institute of Chartered Accountants of India and Chairman, Executive Directors and senior officers of some major banks was convened to discuss the existing guidelines on prudential norms relating to income recognition, asset classification and provisioning etc. In the light of the discussions held , we advise as under :

1. Treatment of restructured accounts

The instructions regarding regulatory treatment of restructured standard and substandard loans were conveyed vide Circular No. DBOD. BP. BC. 98 & 113 / 21.04.048/ 2000-2001 dated 30 March 2001 and 30 April 2001 respectively. It is further clarified that :

(i) The instructions issued vide the above Circulars would be applicable to all type of credit facilities including working capital limits, extended to industrial units, provided they are fully covered by tangible securities.

(ii) As trading involves only buying and selling of commodities and the problems associated with manufacturing units such as bottleneck in commercial production, time and cost escalation etc. are not applicable to them, these guidelines should not be applied to restructuring/ rescheduling of credit facilities extended to traders.

(iii) While assessing the extent of security cover available to the credit facilities, which are being restructured/ rescheduled, collateral security would also be reckoned, provided such collateral is a tangible security properly charged to the bank and is not in the intangible form like guarantee etc. of the promoter/ others.

2. Accounting of broken period interest

Banks were advised vide the Circular No. BP. BC. 75/ 21.04.048/ 98 dated 4 August 1998, that they should not capitalise the broken period interest paid to seller as part of cost, but treat it as an item of expenditure under Profit and Loss Account. The AS-13 prescribes a modified procedure for treatment of broken period interest in respect of securities purchased with the objective of trading. Since AS - 13 is not applicable to banks, they may strictly follow the guidelines issued by RBI vide the above circular for accounting of broken period interest .

3. Recognition of income on investments treated as NPAs

The investments are also subject to the prudential norms on income recognition. Therefore, banks should not book income on accrual basis in respect of any security, irrespective of the category in which it is included, where the interest/ principal is in arrears for more than 180 days. With effect from 31 March 2004, banks should not book income on accrual basis if the interest/ principal is in arrears for more than 90 days.

4. Interest payable on matured deposits

Banks follow divergent practices in making provisions, or otherwise, for interest payable on matured deposits. It was decided that, banks may devise their own policy in the matter, based on the past trend/ experience and follow this policy consistently.

5. Credit Card Outstandings

Banks were advised vide Circular No. BC.BC. 24/ 21.04.048/ 99 dated 30 March 1999 that outstandings in credit card operations should be shown as part of " Advances". Some doubts were raised as to whether dues from other banks/ organisations would also be shown as part of 'Advances'. It is now clarified that banks should show all dues from credit card operations, including the dues from other banks/ organisations, under "Advances" as indicated vide our above circular. They should, however, not include any item which is in the nature of 'revenue' under 'advances'.

Yours faithfully,

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(B. Mahapatra)
General Manager