

**Prudential norms on income recognition, asset classification and provisioning-  
Projects under implementation involving time overrun**

February 27, 2003

DBOD. BP. BC.74 / 21.04.048/ 2002-03

All Scheduled Commercial Banks  
(excluding RRBs and LABs)

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classification and provisioning- Projects under  
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Banks were advised vide paragraph 3 of Circular No. DBOD. BP. BC. 108/ 21.04.048/ 2001-02 dated 28 May 2002 that the projects under implementation would be grouped under three categories for determining the date when the project ought to be completed and manner in which the asset classification of the underlying loan should be determined. It was indicated therein that :

- a) **Projects where financial closure had been achieved** and formally documented may be treated as standard asset for a period not exceeding two years beyond the date of completion of the project, as originally envisaged at the time of initial financial closure of the project.
- b) **Projects sanctioned before 1997 with original project cost of Rs.100 crore or more where financial closure was not formally documented** and where the deemed date of completion of the project has been decided by an independent group of outside experts may be treated as a standard asset for a period not exceeding two years beyond the deemed date of completion of the project, as decided by the Group.
- c) **Projects sanctioned before 1997 with original project cost of less than Rs. 100 crore where financial closure was not formally documented** may be treated as standard asset only for a period not exceeding two years beyond the date of completion of the project as originally envisaged at the time of sanction.

Banks were also advised that there was no change in the existing instructions on income recognition and were advised that they should not recognise income on accrual basis in respect of the above projects.

2. The matter has been reviewed in response to suggestions received from some banks. In partial modification of the above guidelines, it has been decided that banks may recognise income on accrual basis in respect of the above three categories of projects under implementation which are classified as 'standard' in terms of the guidelines contained in the above circular.

3. Please acknowledge receipt.

Yours faithfully,  
**(M. R. Srinivasan)**  
Chief General Manager-in-Charge