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October 21, 2014

All Scheduled Commercial Banks
(excluding RRBs)
All-India Term-lending and Refinancing Institutions
(Exim Bank, NABARD, NHB and SIDBI)

Dear Sir,

Framework for Revitalising Distressed Assets in the Economy – Review of the Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP)

Please refer to the ‘Framework for Revitalising Distressed Assets in the Economy’ issued on our website on January 30, 2014 and the circulars issued in this regard viz. (i) [DBOD.BP.BC.No.97/21.04.132/2013-14 dated February 26, 2014](#) – “Guidelines on Joint Lenders’ Forum (JLF) and Corrective Action Plan (CAP)” and (ii) [DBOD.BP.BC.No.98/21.04.132/2013-14 dated February 26, 2014](#) – “Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures” read with (iii) [DBS.No.OSMOS.9862/33.01.018/2013-14 dated February 13, 2014](#) - ‘Central Repository of Information on Large Credits (CRILC) – Revision in Reporting’ and (iv) [DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014](#) - ‘Reporting to Central Repository of Information on Large Credits (CRILC)’.

2. The Reserve Bank has recently reviewed the Framework based on the representations received from banks and the Indian Banks’ Association (IBA) on difficulties faced by them in its effective implementation and it has been decided to introduce certain changes in the Framework as given in the subsequent paragraphs:

3. Reporting of SMA-2

3.1 Banks were advised in terms of the ‘Framework’ issued on January 30, 2014 that *Lenders covered under the Framework must put in place a proper Management Information and Reporting System so that any account having principal or interest overdue for more than 60 days gets reported as SMA-2 on the 61st day itself.* Further, banks were advised vide our Department of Banking Supervision (DBS)

circulars DBS.No.OSMOS.9862/33.01.018/2013-14 dated February 13, 2014 and DBS.OSMOS.No.14703/33.01.001/2013-14 dated May 22, 2014 that whenever a large borrower's account becomes overdue for 61 days that account is required to be reported to CRILC as SMA-2.

3.2 On a review, it has been decided that banks will be permitted to report their SMA-2 accounts and JLF formations on a weekly basis at the close of business on every Friday. If Friday happens to be a holiday, they will report the same on the preceding working day of the week.

4. Exemption to certain exposures from reporting to CRILC

4.1 In terms of the Framework and circular dated February 26, 2014, banks are required to report credit information, including classification of an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based exposure of Rs.50 million and above with them.

4.2 On a review, it has been decided that crop loans will be exempted from such reporting. However, banks should continue to report their other agriculture loans in terms of the above instruction.

4.3 It is also clarified that banks need not report their interbank exposures to CRILC including exposures to NABARD, SIDBI, EXIM Bank and NHB.

5. Applicability of the Framework in Certain Cases

5.1 It is clarified that banks must report their Cash Credit (CC) and Overdraft (OD) accounts, including overdraft arising out of devolved LCs/invoked guarantees to CRILC as SMA 2 when these are 'out of order' for more than 60 days. Similarly, bills purchased or discounted (other than those backed by LCs issued by banks) and derivative exposures with receivables representing positive mark to market value remaining overdue for more than 60 days should be reported to CRILC as SMA-2.

5.2 Banks should continue to report the credit information and SMA status to CRILC on loans including loans extended by their overseas branches. However, formation of JLF will not be mandatory in cases of offshore borrowers which do not have any presence in India, either by way of a subsidiary, parent or a group entity. Further, the inclusion of offshore lenders as part of JLF shall not be mandatory.

5.3 Under CRILC-Main (Quarterly submission) return, banks are required to report their total investment exposure to the borrower being reported. It is clarified that formation of JLF will not be mandatory on reporting of investment portfolio as SMA, except in cases of bonds/debentures acquired on private placement basis or due to conversion of debt under restructuring of advances.

6. Corrective Action Plan (CAP) by JLF

6.1 In terms of paragraph 3.3 of the circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated February 26, 2014, the JLF is required to arrive at an agreement on the option to be adopted for CAP within 30 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress.

6.2 It has been decided to increase the above time limit to 45 days.

7. Evaluation by Independent Evaluation Committee (IEC)

7.1 In terms of paragraphs 4.3.3 and 4.4.4 of circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated February 26, 2014, for accounts with AE of Rs.5000 million and above, the TEV study and restructuring package prepared by CDR Cell/JLF are required to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts. The IEC is required to look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders and give their recommendation in these aspects to the CDR Cell/JLF within a period of 30 days.

7.2 It has been decided to allow the IEC a time limit of 45 days instead of 30 days for evaluation of the restructuring package and giving their recommendations for restructuring of accounts with AE of Rs.5000 million and above.

8. Restructuring within the specified time periods – special asset classification benefit

8.1 In terms of para 5.2 of circular DBOD.BP.BC.No.97/21.04.132/2013-14 dated February 26, 2014 read with para 6.2 of the said circular, as an incentive for quick implementation of a restructuring package, the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines, subject to adherence to the

overall timeframe for approval of restructuring package and implementation of the approved package within 90 days from the date of approval. Further, if the JLF/CDR takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

8.2 In this connection, it is clarified that the special asset classification benefit on restructuring of accounts as per extant instructions would be available for accounts undertaken for restructuring under these guidelines, subject to adherence to the overall timeframe for approval and implementation of restructuring package. Therefore, if the JLF/CDR takes a shorter time for an activity towards restructuring and implementation of the approved package as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

9. Accelerated Provisioning

9.1 In terms of paragraph 7.3 of the circular No.97 dated February 26, 2014, if lenders fail to convene the JLF or fail to agree upon a common CAP within the stipulated time frame, the account will be subjected to accelerated provisioning, if it is classified as an NPA. If the account is standard in those lenders' books, the provisioning requirement would be 5%. In this connection, banks have represented to us that in many cases JLF is not formed due to lead bank of the consortium/bank with the largest AE under the multiple banking arrangements, not convening the JLF and not taking initiatives in the matter.

9.2 It is emphasized that success of the Framework depends not only on early reporting but also on taking corrective action in time by the JLF. Thus, any delay in formation of JLF will defeat the objectives of the Framework. Accordingly, it has been decided that if an account is reported by any of the lenders to CRILC as SMA 2 and the JLF is not immediately formed or CAP is not decided within the prescribed time limit due to above reasons, then the accelerated provisioning will be applicable only on the bank having responsibility to convene JLF and not on all the lenders in consortium/multiple banking arrangement. In other cases, accelerated provisioning will be applicable on all banks in the consortium/multiple banking arrangement. Banks are also advised that in case the lead bank of the consortium/bank with the largest AE under the multiple banking arrangement fails to convene JLF within 15

days of reporting SMA-2 status, the bank with second largest AE shall convene the JLF within the next 15 days, and have the same responsibilities and disincentives as applicable to the lead bank/bank with largest AE.

9.3 In terms of paragraph 7.4 of the circular No.97 dated February 26, 2014, if an escrow maintaining bank under JLF / CDR mechanism does not appropriate proceeds of repayment by the borrower among the lenders as per agreed terms resulting into down gradation of asset classification of the account in books of other lenders, the account with the escrow maintaining bank will attract the asset classification which is lowest among the lending member banks, and corresponding provisioning requirement.

9.4 On a review, it has been decided that in such cases, account in the books of the escrow maintaining bank will not only attract the asset classification which is lowest among the lending member banks but will also be subjected to corresponding accelerated provision instead of normal provision. Further, such accelerated provision will be applicable for a period of one year from the effective date of provisioning or till rectification of the error, whichever is later.

10. Exit Option from Additional Finance and Sale of Financial Assets to Securitisation Company (SC) / Reconstruction Company (RC)

10.1 Under the Corporate Debt Restructuring (CDR) mechanism, in terms of paragraph 5.5.1 of Annex 4 to 'Master Circular – Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' dated July 1, 2014, *a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, will be payable along with the last instalment of the principal due to the creditor.*

10.2 Further, paragraph 5.5.2 of the Annex 4 of the Master Circular *ibid* prescribes that *the exit option will also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package*

approved by the Empowered Group. The exiting lenders may be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

10.3 It has been decided that banks, irrespective of whether they are within or outside the minimum 75 per cent and 60 per cent, can, henceforth, exercise the above exit option for providing additional finance only by way of arranging their *share of additional finance to be provided by a new or existing creditor*. The other provisions (paragraph 5.5.3 of Annex 4 of the Master Circular *ibid*) of extant exit options, i.e., to exit from the package by selling their existing share to either the existing lenders or fresh lenders will continue to remain in force.

10.4 In terms of paragraph 3.2 of circular No.98 dated February 26, 2014, a financial asset may be sold to the SC / RC by any bank / FI where the asset is reported as SMA-2 by the bank / FI to Central Repository for Information on Large Credit (CRILC).

10.5 It has been represented to us that sale of accounts to SCs/RCs after deciding the Corrective Action Plan (CAP) under the JLF disrupts the implementation of the CAP, especially in cases where lenders are required to provide additional finance under restructuring. In view of this, it has been decided that if restructuring has been decided as the CAP then banks will not be permitted to sell such assets to SCs/RCs, without arranging their *share of additional finance to be provided by a new or existing creditor*.

Yours faithfully,

(Sudarshan Sen)
Chief General Manager-in-Charge