भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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All Scheduled Commercial Banks
(Excluding Regional Rural Banks)

Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances –
Spread Over of Shortfall on Sale of NPAs to SCs/RCs

In terms of paragraph 3.4 of circular DBOD.BP.BC.No.98/21.04.132/2013-14 dated February 26, 2014, as an incentive for early sale of non-performing assets (NPAs) to Securitisation Companies/Reconstruction Companies (SCs/RCs) created under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, banks were allowed to spread over any shortfall, if the sale value is lower than the net book value (NBV), over a period of two years for NPAs sold up to March 31, 2015 and was subject to necessary disclosures in the Notes to Account in Annual Financial Statements of the banks. Vide our circular DBR.No.BP.BC.94/21.04.048/2014-15 dated May 21, 2015, this facility of spreading over the shortfall was extended for NPAs sold up to March 31, 2016 and was subject to necessary disclosures in the Notes to Account in Annual Financial Statements of the banks.

2. On a review, it has now been decided to extend the dispensation of amortising the shortfall on sale of NPAs to SCs/RCs up to March 31, 2017. However, for assets sold from April 1, 2016 to March 31, 2017, banks will be allowed to amortise the shortfall over a period of only four quarters from the quarter in which the sale took place.

3. Further, where a bank chooses to make the necessary provisions over more than one quarter and this results in the full provisioning remaining to be made as on the close of a financial year, banks should debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the

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amount remaining un-provided at the end of the financial year, by credit to specific provisions. However, banks should proportionately reverse the debits to ‘other reserves’ and complete the provisioning by debiting profit and loss account, in the subsequent quarters of the next financial year.

4. Banks shall make suitable disclosures in Notes to Accounts with regard to the quantum of provision made during the year to meet the shortfall in sale of NPAs to SCs/RCs and the quantum of unamortised provision debited to ‘other reserves’ as at the end of the year.

Yours faithfully,

(Sudarshan Sen)
Principal Chief General Manager