Stressed Assets

July 4, 2019

RBI's Prudential Framework for Resolution of Stressed Assets

Recently the Reserve Bank of India has released a prudential framework for resolution of stressed assets by banks.

Background

The prudential framework revises an earlier circular of RBI (issued in February 2018) on the resolution of stressed assets. **The 2018 circular was struck down by the Supreme Court in April 2019**. It held that the circular issued by RBI was outside the scope of the power given to it under Article 35AA of the Banking Regulation (Amendment) Act, 2017

Key highlights about Prudential Framework

- The prudential framework states that lenders should recognize stress in loan accounts immediately on default, by classifying such assets as special mention accounts (SMA) in the following categories:

Special Mention Account categories

SMA sub-categories	The basis for classification (amount overdue between)
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

Source: RBI

- **The revised circular:** The revised circular also allows lenders to categorize revolving credit facilities like cash credit into two SMA categories.
- The prudential framework provides for a review period of 30 days from the day a borrower is reported to be in

default. During this period, lenders may decide on a **Resolution Plan** or may choose to initiate legal proceedings for insolvency or recovery of the debt. (Resolution Plan refers to a plan put forth to revive an entity from insolvency)

- Further, all lenders should enter into an inter-creditor agreement (ICA) during this Review Period in all cases where a Resolution Plan is to be implemented. Any decision agreed by the ICA by:

1. Lenders representing 75% of the total outstanding credit, and
2. 60% of total lenders, shall be binding upon all lenders.

- The Resolution Plan shall be implemented within 180 days from the end of the Review Period