

# Stressed Assets

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## 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