RESOLUTION FRAMEWORK 2.0 (COVID-19 RESTRUCTUING POLICY)

BACKGROUND:

With the resurgence of COVID 19 pandemic, RBI vide circular DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 announced additional set of measures, which are broadly in line with the contours of the Resolution Framework-1.0, with some modifications. RBI also extended window of one-time restructuring to eligible MSME borrowers with some modifications vide circular DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021. Both these circulars are collectively referred to as **Resolution Framework 2.0.**

Further, The RBI vide it's circular DOR.STR.REC.21/21.04.048/2021-22 and DOR. STR. REC. 20/21.04.048/2021-22 dated June 4, 2021 revised the eligibility conditions, keeping all other provisions of the circular unchanged.

As per Resolution Framework–2.0, the Bank to ensure that the resolution under this facility is provided only to the borrowers having stress on account of COVID-19.

Part A: Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

Summary of key points -

1. The borrower should be classified as a Micro, Small or Medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
2. The aggregate exposure, including non-fund-based facilities, of all lending institutions to the borrower does not exceed **INR 50 Crore** as on **March 31, 2021**
3. The borrower's account was a 'standard asset' as on **March 31, 2021.**
4. The borrowing entity is **GST-registered** on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on basis of exemption limit obtaining as on **March 31, 2021.**
5. The borrower's accounts which are not restructured in terms of the circulars DOR.No.BP.BC/4/ 21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars) or DOR. No. BP. BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related stress can avail benefits under Resolution Framework 2.0.
6. The restructuring of the borrower account is invoked by **September 30, 2021.** The restructuring shall be treated as invoked when Bank and the borrower agree to proceed with efforts towards finalizing a restructuring plan to be implemented in respect of such borrower.
7. The decisions on applications received by the Bank for invoking restructuring under this facility shall be communicated in writing to the applicant within **30 days** of receipt of such applications.
8. The decision to invoke the restructuring under this facility shall be taken by the Bank having exposure to a borrower **independent of invocation decisions taken by other lending institutions**, if any, having exposure to the same borrower.
9. The restructuring of the borrower account to be implemented within **90 days** from the date of invocation.

10. **If the borrower is not registered in the Udyam Registration portal,** such registration shall be required to be completed before the date of **implementation** of the restructuring plan for the plan to be treated as implemented.
11. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between **April 1, 2021** and date of implementation may be **upgraded as 'standard asset'**, as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.
12. Upon implementation of the restructuring plan, Bank shall keep provision of **10 percent** of the residual debt of the borrower.
13. **Re-assessment of Working Capital Cycle** (Applicable for already restructured accounts under MSME): In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, as a one-time measure, Bank can review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The terms of re-assessment are proposed as under:

    i. The Reduction in margins on DP will be allowed maximum up to 10%
    ii. The Debtors period can be increased to Maximum 270 days.

    Bank shall complete such re-assessment by September 30, 2021.

    The reassessed sanctioned limit / drawing power shall be subject to review by the Bank at least on a half yearly basis and the Renewal/Reassessment at least on an annual basis.

    The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

All other instructions specified as per existing policy shall remain applicable.

PART B: Resolution of advances to individuals and small businesses

Summary of key points –

1. **Eligible borrowers**
    a) Individuals who have availed of personal loans *(as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics")*, excluding the credit facilities provided by Bank to its own personnel/staff.
    b) **Individuals** who have availed of loans and advances for business purposes and to whom all the lending institutions have aggregate exposure of not more than **INR 50 Crore** as on March 31, 2021
    c) Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the all lending institutions have aggregate exposure of not more than **INR 50 Crore** as on March 31, 2021

Exposures/borrowers kept out of resolution framework are as below:

a) Exceptions specified in paragraphs 25-28 of the Prudential Framework for Resolution of Stressed Assets (*i.e. restructuring for projects under implementation involving shift in DCCO, revival and rehabilitation of MSMEs, restructuring of loans in the event of a natural calamity and borrower entities in respect of which specific instructions have already been issued or are issued by the Reserve Bank to the banks for initiation of insolvency proceedings under the IBC*)

b) MSME borrowers (*Restructuring for MSME borrower with exposure <50 Cr has been covered in Part A of this note)*

c) Farm Credit Exposure *(Excluding farmer/JLG loans for Agri allied activities, viz., dairy, fishery, animal husbandry, poultry, beekeeping and sericulture. Loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusions listed in the Resolution Framework, <u>As per FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020</u>)*

d) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) & Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture

e) Exposure to Financial Service Providers, Central/State Governments, Local Government bodies, body corporates established by an Act of parliament/state legislature and exposure etc.

f) Credit facilities provided to own personnel/staff.

g) Borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 9 below

2. The credit facilities / investment exposure to the above borrowers was classified as **Standard** by the Bank as on **March 31, 2021.**
3. The restructuring of the borrower account is invoked by **September 30, 2021.**
4. The restructuring of the borrower account is implemented within 90 days from the date of invocation.
5. The resolution process under this window shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower. In respect of applications received by the Bank from customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this circular and the Board approved policy, and the decision on the application shall be communicated in writing to the applicant by the Banks within **30 days** of receipt of such applications.
6. The Bank shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or **10 percent** of the renegotiated debt exposure of the Bank post implementation (residual debt)
7. The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two Yr.
8. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation. Further, if a resolution plan is implemented in adherence to the provisions of Resolution Framework 2.0, borrowers' accounts which may have slipped into NPA between April 1, 2021 and implementation of the resolution plan may be upgraded as Standard, as on the date of implementation of the resolution plan
9. **<u>Convergence of the norms for loans resolved previously</u> -** In cases of loans of eligible borrowers specified above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratorium

or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, the Bank is permitted to use this window to modify such plans **only to the extent of increasing the period of moratorium / extension of residual tenor subject to the maximum 2 Years.**

10. **Working capital support for small businesses where resolution plans were implemented previously:** Individuals who have availed of loans for business purposes & Small businesses, where resolution plans were implemented previously , as a one-time measure, Bank can review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The terms of re-assessment are proposed as below:
    a. The reduction in margins on DP will be allowed maximum up to 10%
    b. The Debtors period can be increased to Maximum 270 days.

    Bank shall complete such re-assessment by September 30, 2021. Such re-assessment with the margins and working capital limits to be restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

Note: All other instructions specified as per existing policy shall remain applicable.

Resolution of other exposure as mentioned under PART B of RBI circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress" will continue to be governed by existing board approved policy (resolution framework 1.0).

PART C – Other Guidelines

i. **Documentation:** Borrower request letter indicating the current issues and repayment plan to be collected along with income/financial documents (wherever applicable)/ Income self-declaration to assess the financial position of the borrower. Bank shall ascertain the borrower's repayment capability basis the financial/cash flow position/Income self-declaration and discussion with borrower.

ii. **Due diligence:** Will be carried out by Credit team and viability of the future repayment capability to be evaluated. Latest Bureau check will be done on the borrower to evaluate the latest health of other running relationships of the borrowers. Bank shall exclude accounts classified as RFA/Fraud/Wilful Defaulters/Non-Cooperative Borrowers from the purview of borrowers eligible for restructuring under these guidelines.

iii. **Nature of Restructuring –** Installment revision, Tenor extension, Conversion of outstanding/interest into other facility, installment/principal/Interest moratorium etc. subject to a maximum of two years (for Non MSME segment). Correspondingly, the overall tenor of the loan to be modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan. However, compromise settlements are not permitted as a resolution plan for this purpose

iv. **Delegation Authority –**
    - Sanction Delegation for Retail Asset, Business Banking, RBG & Credit Cards to be as per delegation of financial powers (DFP)

- Sanction Delegation for Wholesale Banking to be as per existing resolution/ restructuring policy.
- Sanction Delegation for JLG loans in ISB to rest with ISB operations basis PSM viability assessment

v. Resolution Plan Invocation & Implementation timelines:

- Maximum Permissible Invocation date timeline: Sept 30, 2021.
- Implementation timeline: within 90 days from date of invocation.

The decisions on applications received by the Bank from customers for invoking restructuring under this facility shall be communicated in writing to the applicant by the Bank within **30 days** of receipt of such applications.

The resolution plan shall be deemed to be implemented only if all the conditions prescribed in the RBI circular on resolution of COVID 19 related stress is complied with.

Operational guidelines for implementation of restructuring under Resolution Framework 2.0 may be amended with approval from CRO within the framework of regulatory circular.

PART D: Asset Classification and Provisioning

Non MSME (Borrowers covered under PART B of this note)**:**

a) If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation. **Further, if a resolution plan is implemented in adherence to the provisions of Resolution Framework 2.0, borrowers' accounts which may have slipped into NPA between April 1, 2021 and implementation of the resolution plan may be upgraded as Standard, as on the date of implementation of the resolution plan**

b) The subsequent asset classification for such exposures to be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of Bank ("extant IRAC norms").

c) In respect of borrowers where the resolution process has been invoked, the Bank is permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance would be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.

d) The Bank shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or **10%** of the renegotiated debt exposure of the Bank post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund-based facilities that may have devolved into fund-based facilities after the date of implementation.

e) Half of the above provisions would be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently. Provided that in respect of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.
f) The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

PART E. Disclosures and Credit Reporting

a) The Bank publishing quarterly financial statements shall, at the minimum, make disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework 1.0.
b) The number of borrower accounts where modifications were sanctioned and implemented in terms of Convergence of the norms for loans resolved previously, and the aggregate exposure of the Bank to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
c) Lending institutions that are required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.
d) The credit reporting by the Bank in respect of borrowers where the resolution plan is implemented under Part A of this window shall reflect the "restructured due to COVID-19" status of the account. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured