

# **IRAC NORMS AND PROVISIONING**

**(RESTRUCTURED ASSETS)**

# RESTRUCTURING IRAC NORMS

## Recommendation No: 1

RBI may do away with forbearance regarding asset classification, provisioning norms and capital adequacy on restructuring of loans and advances after 2 years

### **Current guidelines**

“Accounts classified as ‘standard assets’ should be immediately reclassified as ‘sub-standard assets on restructuring”

(11.2.1 of Master Circular)

# **IRAC STATUS ON RESTUCTURING**

## **However**

Special regulatory treatment for Asset Classification available to certain categories and subject to compliance with conditions as per para 14.2

### **Not extended to:**

**Consumer and personal advances**

**Advances classified as Capital Market Exposures**

**Commercial Real Estate Exposures**

## **RESTRUCTURING – IRAC NORMS**

**Intention to do away with forbearance in line with international best practices.**

**Banks in India do not operate in a similar environment as in developed countries.**

**Even with Sarfaesi, our legal system is not as efficient. (DRT, DRAT, CJM, BIFR, Civil Courts)**

**Ease of enforcement of security, enforcing a change in management, impact of adverse credit scores are all issues.**

# **IRAC NORMS ON RESTRUCTURING**

- **The entire eco-system in which Banks operate needs to be made more efficient and supportive in recovery processes.**
- **Special provision for asset classification is available only for fully secured accounts.**
- **In terms of master circular this means “ the amounts due to the Bank are fully covered by the value of the security duly charged in its favour in respect of those dues.”**
- **Rather than implement the recommendation after two years, it may be revisited after two years.**

# PROVISIONING NORMS

- **Proposal is to enhance the provision for restructured standard assets to 5%.**
- **Banks are already making full provision on the NPV loss or diminution in fair value which works out to around 8 -10%.**
- **FITL component is fully provided for.**
- **The dues are fully secured as defined in the master circular.**
- **With the existing 2% provisioning the total provisioning comes to around 10 -12%.**
- **The current provisioning norm should be allowed to continue**

## **INFRASTRUCTURE LOANS**

- **Servicing of Infrastructure loans are affected by many external circumstances beyond the control of the business.**
- **Realisation of receivables have been unduly delayed.**
- **Additional provisioning may dissuade the lenders from actively participating in such loans or lending further to existing projects.**
- **DCCO norms should be made more flexible and more time should be allowed in the current scenario**

# REPEATED RESTRUCTURING

- **The factors leading to the second restructuring to be given weightage.**
- **If due to external reasons beyond the control of the business which affect the entire industry, special dispensation to be given.**
- **However additional provision may be considered in such cases .**

## **OBJECTIVE**

**Focus should be on**

- **Encouraging restructuring based on viability and need rather than disincentivising.**
- **Timely identification and recognition of non performing assets**
- **Working towards improving performance of the support systems.**
- **Encouraging promoters to share the sacrifice and contribute more**