



Synopsis of RBI guidelines dated Aug 06, 2020

Resolution Framework for COVID-19-related Stress

Key Highlights



- ❑ Framework enables lenders to implement a resolution plan for eligible corporate exposures (without change in ownership) and personal loans & continue to be classified as **Standard assets**, subject to specific conditions
- ❑ Resolution under this framework extended only to borrowers having stress on account of Covid-19
- ❑ **Reference date** for outstanding debt to be considered for resolution: **March 1, 2020**
- ❑ Board approved policies of Lending Institutions (LIs)* to be in place detailing (i) Eligibility of borrowers and (ii) Due diligence considerations
- ❑ **Major thrust on signing of ICA by LIs through incentives related to provisioning** (*highlighted in relevant sections herein*)
- ❑ All norms applicable to implementation of resolution plan, including mandatory requirement of ICA and specific implementation conditions, as per Prudential Framework for Resolution of Stressed Assets, dated June 7, 2019 (Prudential Framework) to be applicable to all lending institutions for any resolution plan implemented under this framework
- ❑ Borrowers/ credit facilities not eligible under this framework:
 - MSME borrowers with aggregate exposure <= Rs. 25 Crs to all LIs as on March 1, 2020
 - Farm credit
 - Loans to PACS, FSS and LAMPS for on-lending to agriculture
 - Exposures to financial service providers
 - Exposures to Central and State Governments; Local Government bodies; and body corporates established by an Act of Parliament or State Legislature
 - Exposures of housing finance companies where account is rescheduled after March 1, 2020, unless a resolution plan under this framework has been invoked by other LIs

**Lending institutions includes (i) All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks); (ii) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks; (iii) All All-India Financial Institutions; and (iv) All Non-Banking Financial Companies (including Housing Finance Companies)*

LIs: Lending Institutions; ICA: Inter-Creditor Agreement; MSME: Micro, Small, and Medium Enterprises; PACS: Primary Agricultural Credit Societies; FSS: Farmers' Service Societies; LAMPS: Large-sized Adivasi Multi- Purpose Societies

Resolution of Personal Loans



Applicability	<ul style="list-style-type: none">Resolution of personal loans sanctioned to individual borrowers by LIs<ul style="list-style-type: none">Personal loans consist of (a) consumer credit, (b) education loan, (c) loans given for creation/enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.)Credit facilities provided by LIs to their own personnel/staff not eligible
Eligibility	<ul style="list-style-type: none">Borrower accounts classified as Standard, but not in default for more than 30 days with the LI as on March 1, 2020Eligible borrowers' accounts should continue to be classified as Standard till the Date of Invocation* of resolution under this framework
Invocation Date and Implementation	<ul style="list-style-type: none">Invocation Date: Should not be later than December 31, 2020Implementation Period: Within 90 days from Date of Invocation
Resolution Plan Features	<ul style="list-style-type: none">To include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium (maximum of two years)Moratorium period, if granted, to be effective immediately upon implementation of resolution plan and would lead to overall tenor of loan to be modified commensurately
Implementation Conditions	<ul style="list-style-type: none">Completion of all documentation & creation/perfection of securityRevised terms of conditions of loans duly reflected in books of lending institutionsBorrower not in default with the lending institution as per revised terms

**Date of Invocation (for Personal Loans): Date on which both the borrower and LI have agreed to proceed with a resolution plan under this framework.*

Note: Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

Resolution of Other Exposures (1/2)



Eligibility	<ul style="list-style-type: none"> ▪ Borrower accounts classified as Standard, but not in default for more than 30 days with any LI as on March 1, 2020 ▪ Account should continue to remain standard till the date of invocation ▪ Resolution for other accounts to be done as per June 7, 2019 circular
Invocation Date & Implementation	<ul style="list-style-type: none"> ▪ Invocation Date: Resolution may be invoked not later than December 31, 2020 <ul style="list-style-type: none"> - For Sole LI: Date on which both the borrower & LI agree to proceed with resolution plan - Multiple LIs : LIs representing 75% by value of total outstanding (FB & NFB) & 60% by number agree to invoke ▪ Implementation: Within 180 days from the date of invocation
Signing of ICA	<ul style="list-style-type: none"> ▪ Required to be signed by all LIs within 30 days from date of invocation – Consequences for LI not signing ICA discussed subsequently ▪ Invocation to lapse in case LIs representing 75% by value & 60% by number do not sign ICA within 30 days from invocation; process can't be invoked again ▪ Lenders other than the LIs as per this circular may also sign ICA ▪ ICA to contain dispute redressal mechanism (disputes in signatories to be settled according to same) and suitable mechanism for information sharing amongst LIs
Expert Committee	<ul style="list-style-type: none"> ▪ RBI shall constitute an Expert Committee which shall recommend: <ul style="list-style-type: none"> - List of financial parameters to be factored into assumptions for each resolution plan - Sector specific benchmark ranges for such parameters - Parameters shall cover aspects related to leverage, liquidity, debt serviceability, etc ▪ For accounts with aggregate exposure >= Rs. 1500 Crs: Expert Committee shall do vetting of the resolution plans with only purpose to verify that all the processes have been followed

Resolution of Other Exposures (2/2)



General Guidelines

- On any timelines breach, the resolution process ceases to apply immediately
- **Compromise settlement to be excluded** from this framework
- Additional funding as Resolution plan permitted **even if no renegotiation of existing debt**
- **Extension of loan tenor should not be more than 2 years** (with/without moratorium)
- Resolution plan to adhere financial parameters to be notified by RBI
- For **aggregate exposures >= Rs. 100 Crs, ICE from one CRA required**

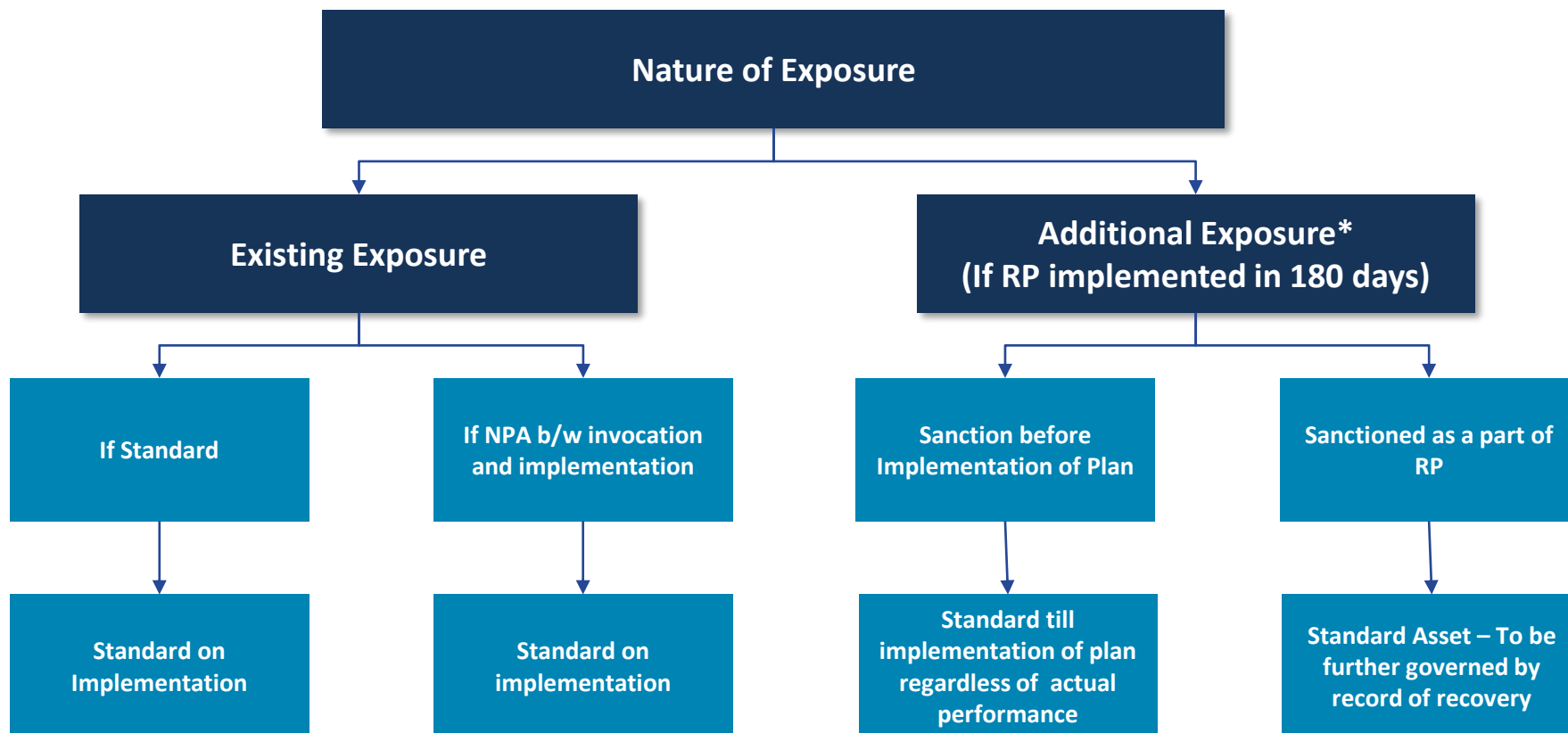
Conversion of Loans into Securities & Valuation

- **Conversion of loans into equity or other marketable non convertible debt securities** permitted
- Amortization and coupon of such debt securities to be in line with residual debt terms
- Valuation of such converted equity shall be as per June 7, 2019 circular
- Valuation of debt securities shall be as per Master Circular for Investments dated Jul 1, 2015 or other relevant instructions as applicable
- **Valuation of converted debt into other securities to be collectively valued at Re. 1**

Escrow Mechanism

- Escrow account to be in place to route entire cash inflows/outflows of the borrower including fresh disbursement as per plan
- Formal agreement with escrow manager detailing duties and responsibilities of escrow manager to be entered
- Contractual empowerment to Escrow manager with proper enforcement mechanism to ensure disbursement commitment of LIs

Asset Classification Norms

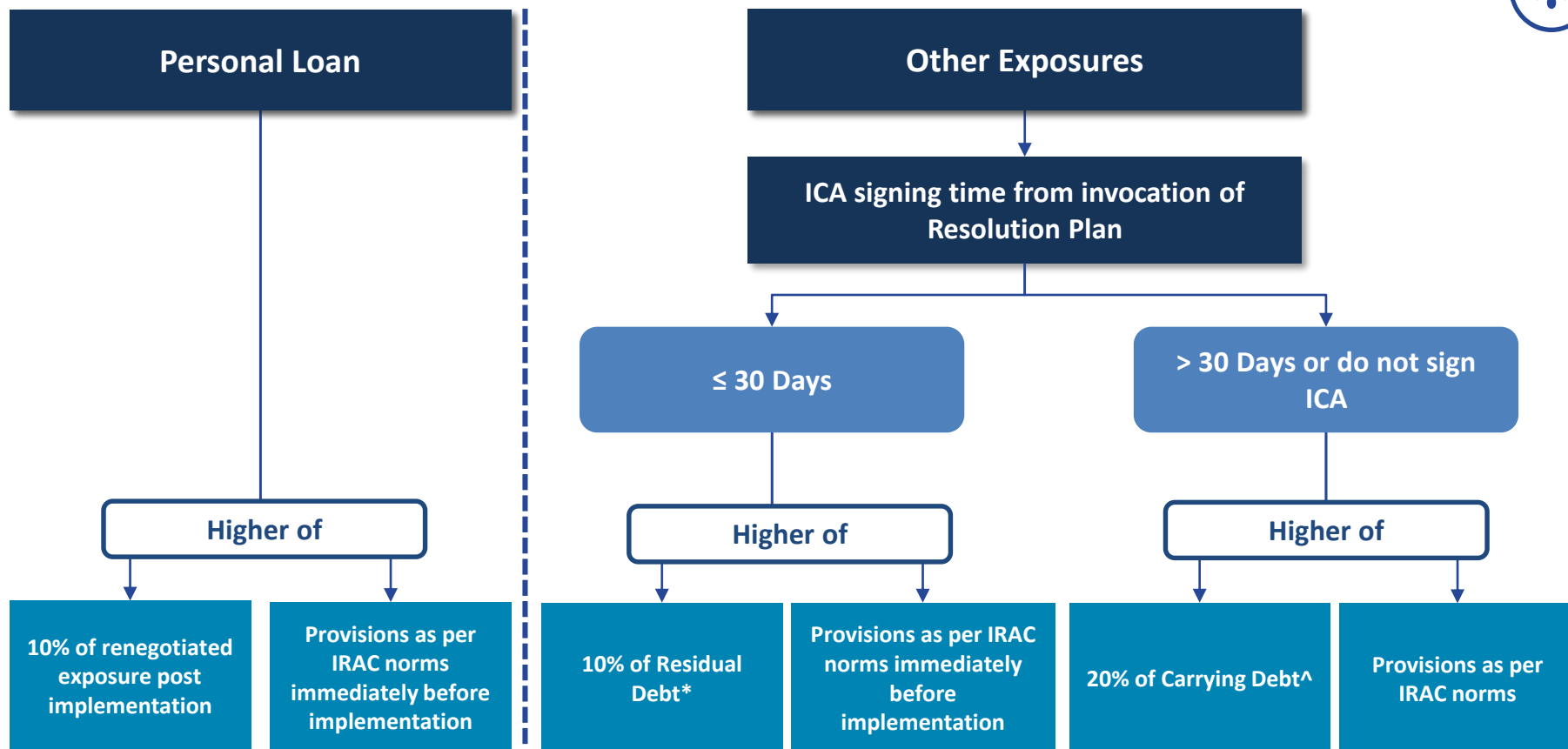


** In case non implementation of plan within stipulated timelines asset classification of additional finance worse of:*

- Actual Performance
- Classification of all other credit facilities

RP: Resolution Plan

Provisioning Norms



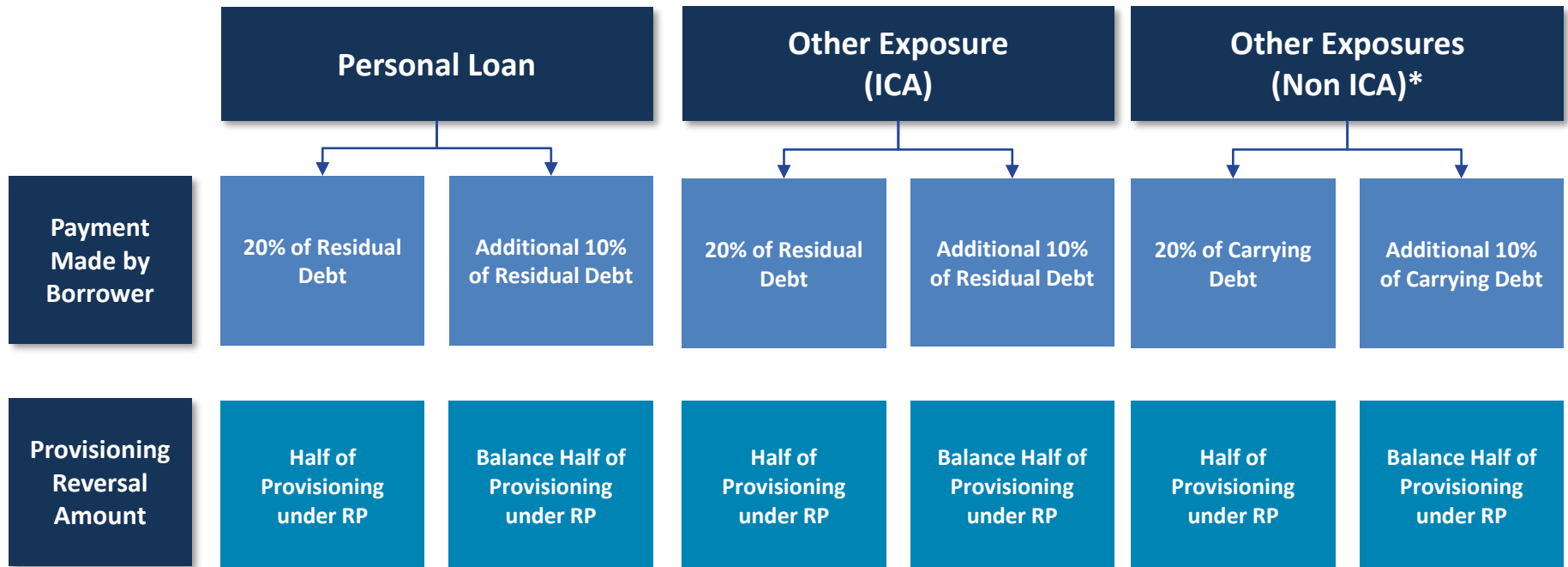
Additional Provisions - Reversal

- Additional provisions maintained by LIs under April 17, 2020 Circular, to the extent not reversed – may be utilized for meeting provisioning requirements in all cases under this facility
- Any additional provisions maintained in terms of Paragraph 17 of Prudential Framework, wherever applicable may be reversed at the time of invocation of the resolution plan
 - If plan not implemented within 180 days from invocation, provisions as per the Prudential Framework will be maintained – as if resolution process never invoked under this window

*Total debt, Including debt securities issued as part of resolution plan, held by the ICA signatories post-implementation of the plan.

^ Debt on their books as on 30th day post invocation.

Reversal of Provisioning

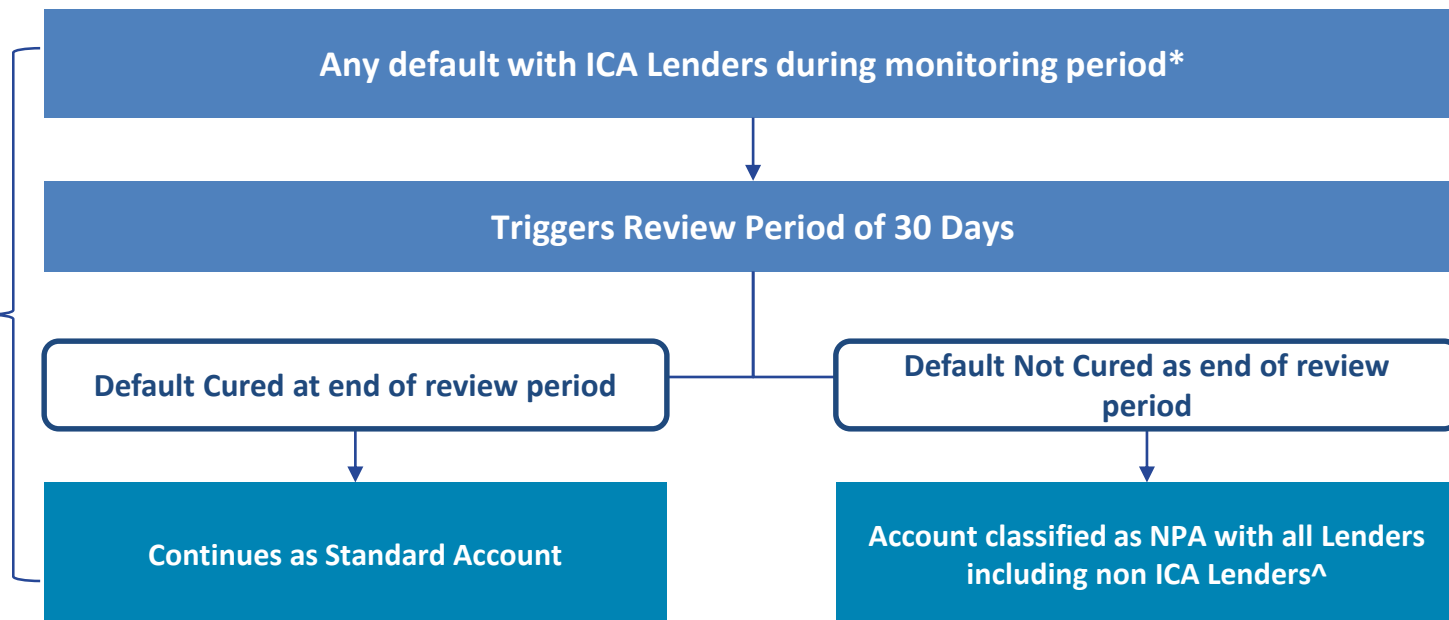


**Reversal of provisioning subject to the required IRAC provisions being maintained.*

Asset Classification Post Implementation



Other Exposures



Personal Loans

- After implementation of resolution plan in terms of this facility, the subsequent asset classification will be governed by criteria laid out in Master Circular dated July 1, 2015 or other relevant instructions as applicable to specific category of LIs.

^Account to be classified as NPA from the date earlier of :

- *Date of implementation of RP*
- *Date of classification as NPA before implementation of RP*

**Monitoring Period - Period starting from the date of implementation of the RP till the borrower pays 10% of the residual debt, subject to a minimum of 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.*



Disclosure & Reporting

- Quarterly statements (at minimum) in prescribed Format A) in Financials statements for quarter ended March 2021 to September 2021
- Half Yearly disclosures in Format B commencing Sep 2021 till earlier of :
 - All exposures under RP fully extinguished
 - Completely slips into NPA
- Annual Disclosure mandatory
- Where RP implemented, credit reporting will reflect “restructured” status of account if RP involves renegotiation that would be classified as restructuring under Prudential Framework



This presentation provides gist of the RBI guidelines on “Resolution Framework for COVID-19-related Stress”, dated August 6, 2020.

Glad to interact further on this

Special Situation Advisory

Services

Debt
Restructuring /
Refinancing

Change in
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Re-Cap

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Stress
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