



RBI/2020-21/16

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August 6, 2020

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)  
All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks  
All All-India Financial Institutions  
All Non-Banking Financial Companies (including Housing Finance Companies)

Madam / Dear Sir,

### **Resolution Framework for COVID-19-related Stress**

The Reserve Bank of India ([Prudential Framework for Resolution of Stressed Assets](#)) Directions 2019, dated June 7, 2019 (“Prudential Framework”) provides a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under guidelines of “Prudential Framework”<sup>1</sup> which involves granting of any concession on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained as or upgraded to Standard, subject to the prescribed conditions.

2. The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.

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<sup>1</sup> The term “Prudential Framework”, wherever used in this circular, refers to the [“Prudential Framework for Resolution of Stressed Assets](#)) Directions 2019, dated June 7, 2019”.

3. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, it has been decided to provide a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The details of the facility are given in the [Annex](#).

4. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19. Further, the lending institutions will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in this [Annex](#). Towards this end, each lending institution shall put in place a Board approved policy detailing the manner in which such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

5. Accounts which do not fulfill the required eligibility conditions to be considered for resolution under this framework may continue to be considered for resolution under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

6. While the Prudential Framework is otherwise not applicable to certain categories of lending institutions to which this circular is addressed, exposures of these lending institutions shall also be included for any resolution under this facility. Consequently, without prejudice to the specific conditions applicable to this facility, all the norms applicable to implementation of a resolution plan, including the mandatory requirement of Inter-Creditor Agreements (ICA) and specific implementation conditions, as laid out in the Prudential Framework shall be applicable to all lending institutions for any resolution plan implemented under this facility. Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

Yours faithfully,

(Saurav Sinha)

Chief General Manager-in-Charge

**Conditions for the Resolution Framework for COVID-19-related Stress**

1. The framework shall be applicable to eligible borrowers – corporate persons or otherwise – subject to the conditions specified herein. Part A of this Annex pertains to requirements specific to resolution of personal loans and Part B pertains to resolution of other eligible borrowers. Part C prescribes the prudential treatment of the exposures in respect of which resolution plans are implemented under this facility while Part D lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this framework. For this purpose, lending institution shall mean the entities to which the covering circular is addressed.
2. Without prejudice to the exceptions specified in paragraphs 25-28 of the Prudential Framework, the following categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework:
  - a. MSME borrowers whose aggregate exposure to lending institutions collectively, is ₹25 crore or less as on March 1, 2020.
  - b. Farm credit as listed in Paragraph 6.1 of [Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 \(as updated\)](#) or other relevant instructions as applicable to specific category of lending institutions.
  - c. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
  - d. Exposures of lending institutions to financial service providers<sup>2</sup>.

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<sup>2</sup> Financial service providers shall have the same meaning as in sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016.

- e. Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.
  - f. Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.
3. The lending institutions shall frame Board approved policies pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid19. The Board approved policy shall, *inter alia*, detail the eligibility of borrowers in respect of whom the lending institutions may be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the lending institutions to establish the necessity of implementing a resolution plan in respect of the concerned borrower.
4. The reference date for the outstanding amount of debt that may be considered for resolution shall be March 1, 2020.

#### **A. Resolution of Stress in Personal Loans**

5. This part shall be applicable to resolution of personal loans<sup>3</sup> sanctioned to individual borrowers by lending institutions. However, credit facilities provided by lending institutions to their own personnel/staff shall not be eligible for resolution under this framework.

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<sup>3</sup> 'Personal loans', for the purpose of this circular shall have the same meaning 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".

6. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with the lending institution as on March 1, 2020.
7. The eligible borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution under this framework. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework.
8. Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 90 days from the date of invocation. However, the lending institutions should strive for early invocation.
9. The resolution plans may *inter alia* include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years. Correspondingly, the overall tenor of the loan may also get modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
10. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
  - a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented;
  - b. the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
  - c. borrower is not in default with the lending institution as per the revised terms.
11. 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.

### **B. Resolution of Other Exposures**

12. This part shall be applicable to all other eligible exposures of lending institutions not covered in Part 'A'.
13. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation.
14. In case where there is only one lending institution with exposure to the borrower, the decision regarding the request for resolution by the borrower may be taken by the lending institution as per the Board approved policy of the institution and within the contours of this framework. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework.
15. If there are multiple lending institutions with exposure to the borrower, the resolution process shall be treated as invoked in respect of any borrower if lending institutions representing 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based), and not less than 60 per cent of lending institutions by number agree to invoke the same.
16. Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 180 days from the date of invocation.
17. In all cases involving multiple lending institutions, where the resolution process is invoked and consequently a resolution plan has to be implemented, ICA shall be required to be signed by all lending institutions within 30 days from the date of invocation. In case of housing finance companies, this shall be applicable irrespective of whether the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010.

18. In cases where the resolution process has been invoked but lending institutions representing not less than 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60 per cent of lending institutions by number, do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework.
19. Lenders to the borrower which are other than the lending institutions as per this circular may also sign the ICA, if they so desire. If such lenders sign the ICA, they shall be fully bound by the stipulations of the ICA.
20. All disputes, if any, between signatories to the ICA regarding the resolution process shall be settled as per the provisions of the ICA and the Reserve Bank will not intermediate any such disputes. Lending institutions shall ensure that the ICA contains such a dispute redressal mechanism that clearly lays down the recourse available to a signatory to the ICA who wants to raise a dispute.
21. As the resolution process requirements and the prudential treatment subsequent to the implementation are applied collectively to all lenders, including those to which the Prudential Framework is not applicable, the ICA should provide for suitable mechanisms for information sharing amongst lending institutions during and after implementation of the resolution plan.
22. If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. Any resolution plan implemented in breach of the above stipulated timelines 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, as if the resolution process was never invoked under this framework.

***Expert Committee***

23. The Reserve Bank shall constitute a Committee which shall recommend a list of financial parameters which, in their opinion would be required to be

factored into the assumptions that go into each resolution plan, and the sector specific benchmark ranges for such parameters. The parameters shall *inter alia* cover aspects related to leverage, liquidity, debt serviceability etc. The Committee shall be called the Expert Committee.

24. The Expert Committee shall submit such list of financial parameters and the sector-specific desirable ranges for such parameters to the Reserve Bank, which, in turn, will notify the same, along with modifications, if any, within 30 days.
25. The Expert Committee shall also have the responsibility of vetting the resolution plans to be implemented under this window in respect of all accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is ₹1500 crore and above. The Committee shall check and verify that all the processes have been followed by the parties concerned as desired without interfering with the commercial judgments exercised by the lenders.
26. The Expert Committee shall have its secretariat at the Indian Banks' Association. The compensation to the members of the Committee and all expenses related to the Committee and its secretariat shall be borne by the Reserve Bank.

***Permitted features of the resolution plan***

27. The resolution plan may involve any action as provided in Paragraph 13 of the "Prudential Framework", except compromise settlements which shall continue to be governed by the provisions of the Prudential Framework or the relevant instructions, if any, applicable to specific category of lending institutions where the Prudential Framework is not applicable. The resolution plan may also include sanctioning of additional credit facilities to address the financial stress of the borrower on account of Covid19 even if there is no renegotiation of existing debt.
28. The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years. The



moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.

29. The revised assumptions that go into the plan shall, at the minimum, factor in the financial parameters decided by the Expert Committee and the ranges for such parameters, as notified by the Reserve Bank.

***Conversion into other securities and valuation***

30. The resolution plan may provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, provided the amortisation schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the resolution plan. The holding of such instruments by the respective lending institutions shall be subject to the extant instructions on investments as applicable to them.
31. The valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the [Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015](#) (as amended from time to time), or other relevant instructions as applicable to specific category of lending institutions.
32. In case the lending institutions convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

***Other features***

33. Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is ₹100 crore and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) authorized by the Reserve Bank under the Prudential Framework.
34. The resolution plan shall further provide that in accounts involving consortium or multiple banking arrangements, post implementation of the plan, all receipts

by the borrower, all repayments by the borrower to the lending institutions, as well as all additional disbursements, if any, to the borrower by the lending institutions as part of the resolution plan, shall be routed through an escrow account maintained with one of the lending institutions.

35. To ensure that the above operations are carried out smoothly, lending institutions shall enter into a formal agreement with the escrow manager detailing the duties and responsibilities of the escrow manager and the lending institutions, as well as the enforcement mechanism that will be contractually available to the escrow manager to ensure that lending institutions service their disbursement obligations on a timely basis.

### **C. Asset classification and provisioning**

36. Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.
37. 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 the additional finance or the rest of the credit facilities, whichever is worse.
38. If a resolution plan is implemented in adherence to the provisions of this facility, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the plan.
39. In respect of personal loans where a resolution plan is implemented under this facility, the lending institutions 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 lending institution post implementation (residual debt).

40. In other cases where a resolution plan is implemented under this facility, the lending institutions, which had signed the ICA within 30 days of invocation, 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 total debt, including the debt securities issued in terms of clause 30, held by the ICA signatories post-implementation of the plan (residual debt).
41. However, lending institutions which did not sign the ICA within 30 days of invocation shall, immediately upon the expiry of 30 days, keep provisions of 20 per cent of the debt on their books as on this date (carrying debt), or the provisions required as per extant IRAC norms, whichever is higher. Even in cases where the invocation lapses on account of the thresholds for ICA signing not being met, in terms of clause 18, such lending institutions which had earlier agreed for invocation but did not sign the ICA shall also be required to hold 20 percent provisions on their carrying debt.
42. The additional provisions maintained, if any, by lending institutions in terms of the [circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020](#) in respect of such borrowers, to the extent not already reversed, may be utilised for meeting the provision requirements in all cases under this facility.
43. Any additional provisions maintained in terms of Paragraph 17 of the Prudential Framework, wherever applicable, may be reversed at the time of invocation of the resolution plan under this facility. However, if the plan is not implemented within 180 days from invocation, provisions as per the Prudential Framework shall be required to be maintained, as if a resolution process was never invoked under this window.

#### ***Reversal of Provisions***

44. In case of personal loans resolved under this facility, half of the above provisions may 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.

45. In case of resolution of other exposures, the provisions maintained by the ICA signatories may be reversed as prescribed in clause 44. However, in respect of the non-ICA signatories while half of the provisions may be reversed upon repayment of 20 percent of the carrying debt, the other half may be reversed upon repayment of another 10 per cent of the carrying debt, subject to the required IRAC provisions being maintained.

### ***Post Implementation Performance***

46. For personal loans, after implementation of the resolution plan in terms of this facility, the subsequent asset classification will 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 lending institutions.
47. In respect of exposures other than personal loans, any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a Review Period of 30 days.

*Monitoring period, for this purpose, is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10 percent 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.*

48. If the borrower is in default with any of the signatories to the ICA at the end of the Review Period, the asset classification of the borrower with all lending institutions, including those who did not sign the ICA, shall be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.

49. In all cases, further upgradation shall be subject to implementation of a fresh restructuring under the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.
50. Upon completion of the monitoring period without being classified as NPA, the asset classification norms will revert to 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 lending institutions.
51. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for: (i) the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA; as well as, (ii) the additional provisioning requirements on account of Paragraph 17 of the Prudential Framework, as and when the Prudential Framework becomes applicable in respect of the particular account.

#### **D. Disclosures and Credit Reporting**

52. Lending institutions publishing quarterly statements shall, at the minimum, make disclosures as per the format prescribed in [Format-A](#) in their financial statements for the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021. Such lending institutions shall also make disclosures in the format prescribed in [Format-B](#) every half-year, i.e., in the financial statements as on September 30 and March 31, starting from the half-year ending September 30, 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier.
53. Lending institutions required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.
54. The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under this facility shall reflect the

“restructured” status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework. 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.

## Format for disclosures to be made in the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021

Type of borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan and implementation	(E) Increase in provisions on account of the implementation of the resolution plan
Personal Loans					
Corporate persons*					
<i>Of which, MSMEs</i>					
Others					
Total					

\*As defined in Section 3(7) of the Insolvency and Bankruptcy Code, 2016

**Format for disclosures to be made half yearly starting September 30, 2021**

Type of borrower	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A)	Of (A), aggregate debt that slipped into NPA during the half-year	Of (A) amount written off during the half-year	Of (A) amount paid by the borrowers during the half-year	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year
Personal Loans					
Corporate persons*					
<i>Of which MSMEs</i>					
Others					
Total					

\* As defined in Section 3(7) of the Insolvency and Bankruptcy Code, 2016