

Resolution of Stressed Assets

The Reserve Bank of India (RBI) on February 12, 2018 released new revised framework on 'Resolution of Stressed Assets' for all scheduled commercial banks and All-India financial institutions. The key feature is that with immediate effect the following schemes introduced by RBI are done away with i.e. Scheme for Sustainable Structuring of Stressed Assets (S4A), Strategic Debt Restructuring (SDR) and the Corporate Debt Restructuring (CDR) scheme, Flexible Structuring of Existing Long Term Project Loans and Change in Ownership outside SDR. Also, the joint lenders' forum overseeing resolution of stressed accounts has been discontinued.

The notable objectives and compliance aspects for all scheduled commercial banks and All-India financial institutions under the revised framework on resolution of stressed assets are as follows:

- Lenders will need to identify stressed loan accounts immediately on default (i.e. non-payment of debt) and classify them as special mention accounts (SMA). Lenders will need to report the SMA for all borrowers having aggregate exposure of INR 50 million to the RBI's large credit database (CRILC) on a weekly basis and initiate resolution.
- The resolution plan has to be initiated by lenders once there is a default and may involve restructuring, change in ownership, regularisation of the account by payment of all overdues by the borrower, sale of the exposures to other entities / investors.
- Such resolution plans involving restructuring / change in ownership in respect of 'large' accounts (i.e., accounts with aggregate exposure of INR 1 Billion and above), will require independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) authorised by RBI, and accounts with aggregate exposure of INR 5 Billion will require 2 ICEs.
- Under this new framework, the RBI has now put in a timeline (which comes into effect starting March 1, 2018) within which a resolution must be implemented: (a) for accounts with an aggregate exposure of INR 20 Billion or more, lenders will have to ensure that a resolution plan is implemented within 180 days after a 'default' or March 31, 2018 (if the account was in default as on such date); (b) if the resolution plan is not implemented within 180 days, the account must be referred to resolution under the Insolvency and Bankruptcy Code, 2016 within 15 days.
- Separately, RBI will announce over a two-year period, timeline for resolution of accounts with exposure of INR 1 Billion to INR 20 Billion.

If you have any questions, please contact:

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