

POLICY ON RESOLUTION FRAMEWORK 2.0 & ONE-TIME RESTRUCTURING FOR ADVANCES

VERSION CONTROL:

Version	Date of Adoption	Change Reference	Owner	Custodian	Approving Authority
1.0	02-Jun-2021	Policy on Resolution Framework 2.0 & One-Time Restructuring for Advances	Credit-Risk Team and Finance Team	Compliance Team	Board of Directors

PREFACE & SUMMARY

The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress had impacted the long-term viability of many firms, otherwise having a good track record, due to their debt burden becoming disproportionate relative to their cash flow generation abilities.

To mitigate the stress RBI had earlier in August 2020 announced measures categorized as “Resolution Framework 1.0” allowing one-time restructuring for certain type of advances. Accordingly, we had framed a policy on resolution framework & One-Time restructuring for Advances for our borrowers which was approved by board on 28th September 2020.

The resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties. With the objective of alleviating the potential stress to individual borrowers, small businesses & MSME’s, RBI has announced a fresh set of measures (called Resolution Framework 2.0) broadly in line with the contours of Resolution Framework 1.0, with suitable modifications.

The following table summarizes the overall guidelines framed by RBI under Restructuring framework 2.0. Detailed guidelines are discussed further in note:

Borrower Type	Max Aggregate Exposure from Lending institutions as on Mar’21	Restructuring Availed Earlier (Under Restructuring framework 1.0 or others)	Guideline
Individuals, Small Businesses & MSME’s	<= Rs. 25 Cr Asset Classification: Standard	Not Availed	Eligible under Restructuring framework 2.0 to be invoked before September 30, 2021
Individuals & Small Businesses	<= Rs. 25 Cr Asset Classification: Standard	Availed under framework 1.0	Eligible under Restructuring framework 2.0 to be invoked before September 30, 2021
MSME’s	<= Rs. 25 Cr Asset Classification: Standard	Availed under framework 1.0 or any previous circular	No fresh dispensation/relief w.r.t restructuring available

The following detailed note describes the policies & processes to be followed for Ashv borrowers for availing the dispensations within the overall RBI resolution framework 2.0. The policy note has been detailed out for two categories of borrowers:

PART A: Advances to Individuals & Small Businesses (including those engaged in retail and wholesale trade, other than MSME’s).

PART B: Advances to borrowers classified as MSME’s.

PART A**Resolution of Advances to “Individuals & Small Businesses”:**

For exposures falling under this bracket, RBI vide circular dated May 5, 2021 has provided a Resolution Framework to enable the lenders to implement a resolution plan while classifying such exposures as Standard, subject to specified conditions/parameters as detailed below:

PARAMETERS	GUIDELINE
ELIGIBLE BORROWERS/EXPOSURES CONSIDERED UNDER THE FRAMEWORK	<ul style="list-style-type: none"> • Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021. • 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 lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021. • Credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.
BORROWERS/EXPOSURES “NOT” CONSIDERED UNDER THE FRAMEWORK	<p>The following categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework:</p> <ol style="list-style-type: none"> a. MSME borrowers. b. Farm credit as listed/defined in Master Directions/Circulars. 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 to financial service providers e. Exposures to Central and State Governments; Local Government bodies (e.g., Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature. <ul style="list-style-type: none"> • Accounts which do not fulfil 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.

PARAMETERS	GUIDELINE
INVOCATION OF RESOLUTION PLAN	<p>The resolution process under this window shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.</p> <p>The decision to invoke the resolution process under this window shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.</p>
TIMELINES FOR INITATING & IMPLEMENTATION OF RESOLUTION PLAN	<ul style="list-style-type: none"> • Last date for invocation of resolution permitted under this window is September 30, 2021. • The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. <p>The resolution plan shall be deemed to be implemented only if all the following conditions are met:</p> <ol style="list-style-type: none"> 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.
FEATURES OF THE RESOLUTION PLAN	<p>Resolution Plan may include the following:</p> <ul style="list-style-type: none"> • rescheduling of payments; • conversion of any interest accrued or to be accrued into another credit facility; • granting of moratorium etc. <p>Compromise settlements are not permitted as a resolution plan for this purpose.</p> <p>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</p>

PARAMETERS	GUIDELINE
<p>ELIGIBLE LOANS/ADVANCES WHICH HAVE BEEN RESTRUCTURED/RESOLVED PREVIOUSLY</p>	<p>extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.</p> <p>In cases of loans of eligible borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, lending institutions are 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 cap mentioned for moratorium period, and the consequent changes necessary in the terms of the loan for implementing such extension.</p> <p>The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.</p> <p>Where resolution plans had been implemented in terms of the Resolution Framework – 1.0, it is permitted, as a one-time measure, to 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</p>
<p>EVALUATION & OBJECTIVE CRITERIA</p>	<p>It shall be ensured that the resolution under this facility is extended only to borrowers having stress on account of Covid19. The resolution plan shall be assessed for the same.</p>
<p>SANCTIONING AUTHORITY</p>	<p>Any resolution plan under this framework for eligible exposures shall be put up to IRC for approval. Any deviations with respect to documents obtained/format of the restructuring note will also fall under the purview of IRC.</p>
<p>ASSET CLASSIFICATION</p>	<p>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, 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 resolution plan.</p> <p>In respect of borrowers where the resolution process has been invoked, lending institutions are 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 may be classified as 'Standard' till implementation of the plan regardless</p>

PARAMETERS	GUIDELINE
	<p>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.</p>
PROVISIONS	<ul style="list-style-type: none"> • 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% of the renegotiated debt exposure of the lending institution 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. • 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. 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. • 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.
DISCLOSURES IN REPORTING	<p>Lending institutions publishing quarterly financial statements shall, at the minimum, make disclosures as per the format (Attached in Annexure) prescribed in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of this framework should also be included in the continuous disclosures required as prescribed in the Resolution Framework – 1.0.</p>

PARAMETERS	GUIDELINE
	<p>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.</p> <p>The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under 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.</p> <p>The Board approved policy shall be sufficiently publicised and should be available on the website of the lending institutions in an easily accessible manner.</p>

PART B**Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSME's)**

For MSME exposures with aggregate exposure up to Rs. 25 Cr, RBI vide circular dated January 1, 2019 permitted a **one-time restructuring** of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification. RBI vide circular dated August 6, 2020 had extended this scheme timeline till March 31, 2021.

In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, RBI has extended the above facility for restructuring of MSME exposures without a downgrade in the asset classification till September 30, 2021 subject to the specific conditions/parameters detailed below:

PARAMETER	GUIDELINE
APPLICABILITY/ELIGIBILITY	<ul style="list-style-type: none"> a. 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. b. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021. c. The borrower's account to be a 'standard asset' as on March 31, 2021. d. 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 the basis of exemption limit obtaining as on March 31, 2021. <ul style="list-style-type: none"> • The borrower's account was 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). <p>Accounts which have already been restructured in terms of the above circulars (one-time restructuring) shall be ineligible for restructuring under this framework.</p>
TIMELINE FOR RESTRUCTURING	<ul style="list-style-type: none"> • Restructuring of the borrower account to be invoked maximum by September 30, 2021. • For this purpose, the restructuring shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower.

PARAMETER	GUIDELINE
	<ul style="list-style-type: none"> The restructuring of the borrower account is implemented within 90 days from the date of invocation. 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.
ASSET CLASSIFICATION	<ul style="list-style-type: none"> 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.
REMEDIAL ACTIONS PERMITTED	<ul style="list-style-type: none"> Reschedulement of Instalments; Providing Moratorium etc. <p>In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, it is permitted, as a one-time measure, to 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.</p>
ASSESSMENT	It shall be ensured that the one-time restructuring is provided to MSME where economic fallout has happened due to Covid-19.
SANCTIONING AUTHORITY	Any one-time restructuring recommendation under this framework for eligible exposures shall be put up to IRC for approval. Any deviations with respect to documents obtained/format of the restructuring note will also fall under the purview of IRC.
PROVISIONS	Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.
RESTRUCTURING PROCESS COMPLETION	<p>A restructuring would be treated as implemented if the following conditions are met:</p> <ol style="list-style-type: none"> all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.
DISCLOSURES	Lender shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under these instructions as per the following format:

PARAMETER	GUIDELINE		
	No. of accounts restructured	Amount (₹ in million)	

PART C:**Restructuring Note/Resolution Plan Details to be covered (applicable for all type of borrowers)**

The following section outlines the guidance for documents that may be collected from borrowers who have requested for restructuring under Resolution framework 2.0

- a. Letter from the borrower requesting for restructuring.
- b. Self-Declaration from borrower stating the borrower is MSME/Small business/others with aggregate borrowing less than Rs. 25 Cr as on March 31, 2021.
- c. Declaration from borrower stating whether they have availed restructuring in the past or not
- d. Bank account statements or financials as required on case-to-case basis.
- e. GST returns as required on case-to-case basis
- f. Any other declarations as necessitated from case-to-case basis.

Concerned department may rely on above documents or discussion with borrower to ascertain that the resolution framework 2.0 is necessitated on account of the economic fallout from Covid-19 and accordingly recommend the case for restructuring as per guidelines stated in the policy document.

Annexure

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

Sr No	Description	Individual Borrowers		Small Businesses
		Personal Loans	Business Loans	
A)	Number of requests received for invoking resolution process under Part A			
(B)	Number of accounts where resolution plan has been implemented under this window			
(C)	Exposure to accounts mentioned at (B) before implementation of the plan			
(D)	Of (C), aggregate amount of debt that was converted into other securities			
(E)	Additional funding sanctioned, if any, including between invocation of the plan and implementation			
(F)	Increase in provisions on account of the implementation of the resolution plan			