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# Resolution Framework 2.0 for COVID-19-related Stress

May 5, 2021

Addendum to Account Restructuring & Settlement Policy

**Adopted by:**

**Approval Date: May 2021**

**Effective date: May 2021**

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## A. RBI Guidelines on Resolution Framework 2.0

### 1 Overview

The resurgence of Covid-19 pandemic in India in 2021 and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties in India. With the objective of alleviating the potential stress on borrowers, Reserve Bank of India (RBI) on **5<sup>th</sup> May 2021** vide notification **RBI/2021-22/31 & 32 DOR.STR.REC.12/21.04.048/2021-22** has decided to extend Resolution Framework 2.0 for Individuals, Small Businesses and MSME borrowers. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0 permitted in circular **RBI/2020-21/16 & 17 DOR.No.BP.BC/4/21.04.048/2020-21** dated **6<sup>th</sup> August 2020** to viable Individual Borrowers, MSME entities & Large Corporate Borrowers on account of the fallout of COVID 19 with some modifications. The said policy is an addendum and an extension to Board approved **Account Restructuring & Settlement Policy dated 11<sup>th</sup> September 2020** for RattanIndia Finance Pvt. Ltd (RFIN).

### 2 Highlights of the Scheme

- a) Restructuring scheme is only available to borrowers which are facing stress on account of COVID-19.
- b) The framework shall not be available for exposures to financial sector entities regulated by RBI, SEBI, IRDA, Pension fund regulated authority etc., Central and State governments, Local government bodies and any Body corporate established by an act of parliament or State legislature.
- c) Exposures of lending institutions to financial service providers
- d) 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 (Prudential framework for resolution of stressed assets direction 2019, dated June 7,2019)
- e) The approach under the Resolution Framework 2.0 guidelines is split across 2 sections:
  - i. Personal Loans & Loans to Small Businesses (refer Section B)
  - ii. MSME Loans (refer Section C)

### 3 Common Eligibility Criteria for all Sections stated below

- a) The resolution under this facility is extended only to borrowers having stress on account of COVID19.
- b) Borrowers who were in default for not more than 90 days as on March 31st, 2021 will be eligible for such restructuring. The Borrowers account was "Standard" as on March 31st, 2021.
- c) All other stressed accounts will have to follow Prudential framework of June 2019 (RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19) for resolution.

### 4 Other notable points

- a) Resolution under this framework may be invoked not later than September 30, 2021 and must be implemented within 90 days from the date of invocation.
- b) The resolution process under this window shall be treated as invoked when RFIN and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- c) In respect of applications received by RFIN from their customers for invoking resolution process under this window, the assessment of eligibility for resolution shall be completed, and the decision on the application shall be communicated in writing to the applicant by RFIN within 30 days of receipt of such applications.
- d) The decision to invoke the resolution process under this window shall be taken by RFIN independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- e) The resolution plan can be implemented only if all the following conditions are met:

- all related documentation, including execution of necessary agreements between RFPL and borrower and collaterals provided, if any, are completed by RFPL in consonance with the resolution plan being implemented.
- the changes in the terms of conditions of the loans get duly reflected in the books of RFPL and,
- borrower is not in default with RFPL as per the revised terms.

## B. Personal Loans & Loans to Small Businesses

### 1. Coverage

This section is applicable to following borrowers which shall be eligible for Resolution Framework 2.0:

- Individuals who have availed of personal loans (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"), excluding the credit facilities provided by RFIN to their own personnel / staff.
- 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.
- Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned in Clause 5 below.

Personal Loans & Loans to Small Businesses are covered under the said category:

Personal Loans for the said section refer to loans given to Individuals and consists of:

- Consumer credit (*refer below for inclusions*)
- E-Bikes

Consumer Credit for the said section is further defined as loans given to individuals, which includes:

- Loans for consumer durables
- Credit card receivables
- Personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR(B)), shares and bonds, etc., (other than for business / commercial purposes)
- Personal Loans to professionals (excluding loans for business purposes)
- Loans given for other consumptions purposes (e.g., social ceremonies, etc.)

Therefore, from RFPL perspective, section B is applicable to

- Personal Loans customer (Salaried Individual borrowers)
- Consumer Vehicles (E-Bikes) borrowers
- Salaried LAP Individual borrowers
- NON MSME Business Loans and LAP borrowers and to whom RFIN have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

Therefore, with reference to RFPL, Personal Loan & Small Businesses would comprise of – Salaried Personal loans (excluding loans given to employees), CV (E-bikes) and Non MSME BL and LAP borrowers. Therefore, restructuring proposals from these product lines can be evaluated under the Resolution Framework 2.0 guidelines.

### 2. Resolution Plan terms:

- The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower.
- However, compromise settlements are not permitted as a resolution plan for this purpose.

- c) 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.
- d) The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium.
- e) The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.
- f) The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed in terms of clause 5 (ii) to (iv) of the Addendum to Board Approved Policy on Account Restructuring & Settlement Policy approved by Board on 11<sup>th</sup> September 2020.

### **3. Asset Classification**

- a) If a resolution plan is implemented in adherence to the provisions of this policy, 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.
- b) The subsequent asset classification for such exposures 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 ("extant IRAC norms").
- c) In respect of borrowers where the resolution process has been invoked, RFIN is 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 of the actual performance of the borrower in the interim.
- d) 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.

### **4. Provisions & Reversal of Provisions**

- a) RFIN 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 RFIN post implementation (residual debt).
- b) 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.
- c) Provisions under this facility will be reversed once the monitoring period as stated below is completed:
  - 50% 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.
  - Remaining 50% may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.
- d) 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.
- e) 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.

### **5. Convergence of the norms for loans resolved previously:**

- a) In cases of loans of borrowers specified in Clause 1 of Part B above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratorium or moratorium of less than two years and / or extension of residual

tenor by a period of less than two years, RFIN is 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 caps in Clause 2 (C) of Part B above, and the consequent changes necessary in the terms of the loan for implementing such extension.

- b) 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.
- c) This modification shall also follow the timelines specified in Clauses 4 of Part A above. For loans where modifications are implemented in line with this clause, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

#### **6. Working capital support for small businesses where resolution plans were implemented previously:**

- a) In respect of borrowers specified at sub-clauses (b) and (c) of Clause 1 of Part B above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, RFIN 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.
- b) The decision with regard to above shall be taken by RFIN by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.
- c) The above measures shall be contingent on RFIN satisfying itself that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

### **C. Micro, Small and Medium Enterprises Loans (MSME loans)**

#### **1. Coverage**

The said section is not applicable to MSME customers whose aggregate exposure (including non-fund-based facilities, of banks and NBFCs to the borrower exceeds ₹25 crores as on March 31, 2021.

Therefore, from RFPL perspective, section C is applicable to following products:

- a) Business Loans – MSME customers (Individual / Non- Individual borrowers)
- b) Small Business Loans – MSME customers (Individual / Non-Individual borrowers)
- c) Loan Against Property – MSME customers (Individual / Non-Individual borrowers)

#### **2. Eligibility Criteria for Restructuring of MSME Loans:**

- 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 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.
- c) 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.
- d) 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).

- e) 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.

### **3. Resolution Plan terms:**

- a) The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower.
- b) However, compromise settlements are not permitted as a resolution plan for this purpose.
- c) 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.
- d) The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium.
- e) The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.

### **4. Asset Classification:**

- a) The restructuring for above stated eligible Standard accounts is allowed without a downgrade in the asset classification i.e. account will continue to retain standard asset classification after implementation of the plan.
- b) 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. The asset classification benefit will be available only if the restructuring is done as per provisions of the RBI circular and policy.

### **5. Provisions & Reversal of Provisions:**

For accounts restructured under these guidelines, RFPL shall maintain provision of 10% of the residual debt of the borrower.

### **6. Working capital support for MSME Borrowers where resolution plans were implemented previously:**

- a) In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, RFIN 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.
- b) The decision with regard to above shall be taken by RFIN by September 30, 2021.
- c) The reassessed sanctioned limit / drawing power shall be subject to review by RFIN at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.
- d) The above measures shall be contingent on RFIN satisfying itself that the same is necessitated on account of the economic fallout from Covid-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from Covid-19.

## **D. Common Guidelines**

### **1. System Tagging & Monitoring**

All restructured accounts under this policy will need to be tagged separately on system for reporting and monitoring. Performance to be tracked for compliance and Portfolio MIS to have separate section for re-write and re-age.

## 2. **Disclosures**

a) For Personal Loans & Loans to Small Businesses:

- The resolution plans implemented in terms of Part B of this policy should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.
- The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 5 & 6 of Part B above, and the aggregate exposure of RFIN to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- RFIN is required to publish in annual financial statements the required disclosures in their annual financial statements, along with other prescribed disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021.
- The credit reporting by RFIN in respect of borrowers where the resolution plan is implemented under Part B of this window shall reflect the “restructured due to COVID19” 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.

*Illustration – Format A*

Sl. No.	Description	Individual Borrowers		Small Business
		Personal Loans	Business Loans	
A	Number of requests received for invoking resolution process under Part B			
B	Number of accounts where resolution plan has been implemented under this window – Part B			
C	Exposure to accounts mentioned under clause 6 of part 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			

b) For MSME borrower’s disclosure requirements under the earlier policy shall continue

## 3. **Exception to the Policy**

Any deviation to this policy can be jointly signed off by Head Retail Assets and the CRO – Retail & SME / Head Credit subject to regulatory compliance and final approval by the Credit Committee.

## 4. **Other Norms**

The said policy is an addendum to Board approved **Account Restructuring & Settlement Policy dated 11<sup>th</sup> September 2020**. For any other norms / clauses not stated here, please refer Board














approved policy on Board approved **Account Restructuring & Settlement Policy dated 11<sup>th</sup> September 2020.**

## 5. Policy Review

The Board is responsible for the RFPL's overall process of implementation of restructuring. The Board shall, therefore, review and approve the Restructuring & Settlement Policy and any amendments thereto and ensure its smooth implementation after the approval of the Credit Committee and the shareholders of RFPL. Respective Business heads shall assist the Board in ensuring Compliance to the said guidelines.

### Annexures to RBI Circulars on Restructuring:

S.N	Circular Reference	Dated	Document	Comment, if any
1	RBI Master Direction- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 [RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17	17 <sup>th</sup> Feb' 20	 RBI Circular dated - 170220.PDF	
2	RBI notification DOR.No.BP.BC.47 / 21.04.048 / 2020-21 and DOR.No.BP.BC.71 / 21.04.048 / 2019-20.	27 <sup>th</sup> Mar'20 & 23 <sup>rd</sup> May 20	 RBI Circular dated - 270320.PDF  RBI Circular dated - 230520.PDF	
3	RBI vide Circular - RBI/2020-21/16 - DOR.No.BP.BC/3/21.04.048/2020-21	6 <sup>th</sup> Aug' 20	 RBI Circular 1 dated - 060820.pdf	
4	RBI circular on Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances (DOR.No.BP.BC.34/21.04.048/2019-20) dated February 11, 2020	11 <sup>th</sup> Feb' 20	 RBI Circular dated - 110220.PDF	With reference to MSME with exposure less than equal to Rs 25 Cr
5	RBI/2015-16/101 DBR.No.BP.BC.2/21.04.048/2015-16 - Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (Paragraph 17)	1 <sup>st</sup> July 2015	 RBI Circular dated - 010715.PDF	

6	RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21	6th Aug'20	 <b>RBI Circular 2 dated - 060820.pdf</b>	With reference to MSME with exposure less than equal to Rs 25 Cr
7	RBI/2018-19/100 DBR.No.BP.BC.18/21.04.048/2018-19	1st Jan'19	 <b>RBI Circular dated - 010119.pdf</b>	With reference to MSME with exposure less than equal to Rs 25 Cr
8	RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19	7th Jun'19	 <b>RBI Circular dated - 070619.pdf</b>	Prudential Framework for Resolution of Stressed Assets
9	RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22	5th May 2021	 Circular on Restructuring 2.0 dt	Resolution Framework 2.0 – Resolution of Covid-19 related stress of (MSMEs)
10	RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22	5th May 2021	 Circular on Restructuring 2.0 dt	Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses