

IRACP Norms

Issued by RBI





IRACP Norms

Income
Recognition

Asset
Classification

Provisioning

Income Recognition



1. Accrual Basis

Can record the income when the income is accrued in standard accounts



2. Cash Basis

in case of NPA

Other Points related to Income Recognition

Reversal of Income

- If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realized. **This will also apply to Central Government guaranteed accounts.**

Appropriation of recovery in NPAs

- Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

Income recognition

Interest Application

- In NPAs, banks to reverse interest already charged and not collected and stop further application of interest.

Income recognition policy for loans with moratorium on payment of interest

- LIs to recognize income on accrual basis for those accounts which continue to be classified as “Standard”. Same shall be evaluated as per definition of “Restructuring” (Ref: Para 1 of **the Annex-1 of RBI circular on “Prudential Framework for Resolution of Stressed Assets” dated June 7, 2019**)
- Interest recognized during moratorium (Permitted at the time of sanction of the loan) **need not be** reversed, if the account turns NPA after the moratorium is over

NPA



| Nature of Facility | Parameters |
|---|---|
| Term Loan | Interest and/or instalment of principal remain overdue beyond 90 days |
| Overdraft/ Cash Credit | Remains 'out of order' for 90 days |
| Bills Purchased/Discounted | Remains overdue beyond 90 days |
| Agriculture Loan (Short Duration Crops) | Instalment of principal or interest thereon remains overdue for 2 crop seasons |
| Agriculture Loan (Long Duration Crops) | Instalment of principal or interest thereon remains overdue for 1 crop seasons |
| Securitization Transaction | Amount of liquidity facility remains outstanding beyond 90 days |
| Derivative Transactions | Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment |

Non Performing Assets

- Record of Recovery is the Thumb Rule
- Availability of security is irrelevant
- NPA date is very important – System based NPAs (30.06.2021)
- Term Loan : Para 2.1.2(i) of Master Circular
- Cash Credit / OD – NPA when “Out of Order”
 - Clarification - para 2.2.1 of Master Circular of RBI dated 02.04.2024
 - Evergreening
 - Inherent weakness – Solitary or a few credits before the balance sheet date
 - Regular / ad-hoc limits not reviewed / regularized within 180 days
 - Stock statement older than three months – Deemed irregular
 - Early Warning Signals – RBI Master Direction updated on July 3, 2017

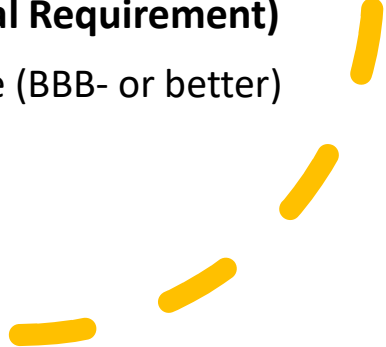
Non Performing Assets (Cntd.)

- NPA classification – Borrower wise & **not** Facility wise
- Accelerated provision in NPA Accounts
 - Direct Doubtful : Security less than 50%
 - Direct Loss : Security less than 10%
- Provision in respect of Frauds
 - 100% provision over a period not exceeding four quarters from the “date of detection”
- Upgradation of NPAs
 - In case of Normal NPAs : Entire arrears of interest and principal
 - In case of Restructured NPAs : Satisfactory Performance during Specified Period
 - NPA regularized after balance sheet date – Not to upgrade

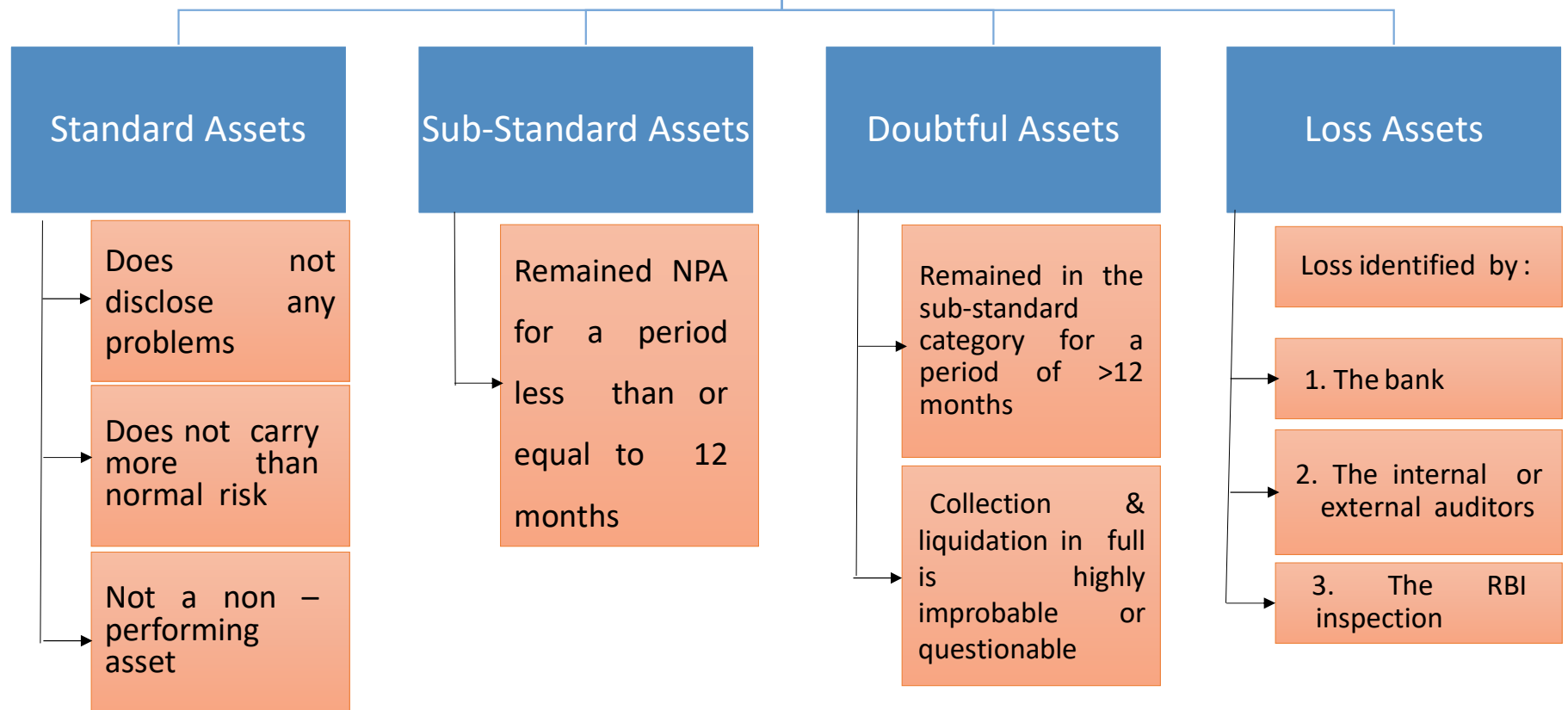
Restructuring of Advance (Para 16)

- **Standard Advance** – To be immediately downgraded as NPA (Applicable to all resolution plans, including those undertaken under IBC)
- **NPAs**, upon restructuring, would continue to have the same asset classification
- **Instances of Restructuring**
 - Any change in the sanction terms during the tenure of loan except :
 - Change in DCCO in respect of infra & non-infra projects (Para 4.2.15 of RBI Master Circular)
 - Change in MCLR / Floating rate
 - Change in ROI due to internal / external credit rating
 - Specific Forbearance by RBI : e.g. COVID-19 relief package, MSME One time restructuring etc.
 - Interchangeability in line with sanction terms as per original sanction
 - Restructuring in case of Natural Calamities (RBI Master Direction dated 17.10.2018)

Upgradation – Restructured Accounts

- **MSMEs wherein exposure is less than Rs. 25 Crore**
 - Satisfactory Performance during Specified Period
 - Satisfactory Performance : No overdue for more than 30 days
 - Specified Period : One year from the date of payment of interest / principal whichever is later
 - **Other than MSME : Exposure upto Rs. 100 Crore**
 - Satisfactory Performance during the period from the “date of implementation” of the RP upto the date by which at least 10% of the outstanding is paid
 - Satisfactory Performance : Borrower is not in default at any time during the period
 - **Exposure above Rs. 100 Crore : (Additional Requirement)**
 - Should be atleast rated as investment grade (BBB- or better)
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Classification of Advances / Assets



Down-gradation

PATTERN TO BE FOLLOWED FOR
DEGRADING ASSET IS AS PER FLOW OF
CLASSIFICATION -

SUB-STANDARD

DOUBTFUL – D1,D2,D3

LOSS





In certain cases, the same can directly be classified to Doubtful / Loss asset category

1. If erosion in value of securities is more than 50% , then asset will be classified to Doubtful Category
 2. If erosion in value of securities is more than 90% or fraud case , then asset will be classified to Loss Asset
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Upgradation

- Only option is to **Standard account** from any of the categories i.e., a step-by-step ladder not be followed at the time of upgrading the account.
- Only upon receipt of entire arrears of interest and principal, account should be upgraded.
- With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of DCCO, the instruction as specified for such cases shall continue to be applicable.
- **Where the LIs has multiple exposure : “No overdue” status needs to be achieved with reference to all the exposures of borrower. One NPA & other SMA is not permitted.**

Treatment of Bill Discounting under LC

- The bills discounted under LC favoring a borrower **may not be classified as a Non-performing assets (NPA)**, when any other facility granted to the borrower is classified as NPA.
- **However, in case documents under LC are not accepted on presentation** or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, **the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.**



Provisioning for Loans & Advances

Provisioning norms - Standard Assets

| Loan Category | % |
|---|------|
| Farm Credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors | 0.25 |
| Commercial Real Estate (CRE) Sector | 1.00 |
| Commercial Real Estate – Residential Housing Sector (CRE - RH) | 0.75 |
| All other loans and advances | 0.40 |

- The provisions towards Standard Assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' in Schedule 5 of the balance sheet.

Provisioning norms – Sub - Standard Assets

1

A general provision of **15 percent** on total outstanding should be made without making any allowance for ECGC guarantee cover and **securities available**.

2

The '**unsecured exposures**' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., **a total of 25 per cent** on the outstanding balance.

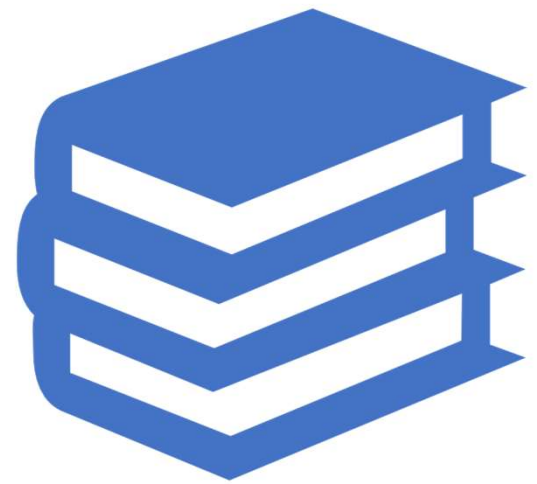
Provisioning Norms – Doubtful Assets

- 100 percent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse, and the realizable value is estimated on a realistic basis.
- Regarding the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

| Period for which the advance has remained in 'doubtful' category | % |
|---|----------|
| Upto 1 Year | 25 |
| 1-3 Year | 40 |
| More than 3 Year | 100 |

Loss ASSETS

- Loss assets should be written off.
- If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for





Thank You

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