FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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June 12, 2021

CA Nihar N Jambusaria,
President,
The Institute Of Chartered Accountants of India,
ICAI Bhawan, Indraprastha Estate,
New Delhi 110002

Respected Sir,

Request for providing necessary guidance on stage classification arising out of restructuring arrangement for borrowers suffering from resurgence of Covid-19 pandemic in the country

Background

On May 5, 2021, the Reserve Bank of India issued 2 circulars to provide a Resolution Framework for alleviating the potential stress to individual borrowers and small businesses arising out of resurgence of Covid-19 pandemic in the country.

1. DOR.STR.REC.11/21.04.048/2021-22 (Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses) (Circular 1)
2. DOR.STR.REC.11/21.04.048/2021-22 (Resolution Framework – 2.0: Resolution of Covid-19 related stress of MSMEs) (Circular 2)

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We have annexed both these circulars to this representation for ease of reference (Kindly refer Annex 1 and Annex 2)

These Frameworks have provided a detailed guidance of eligibility, invocation, permitted features of implementation plan, asset classification & provisioning etc.

Paragraph 16 of Circular 1 states as under: "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."

Paragraph 3 of Circular 2 states as under: "In respect of restructuring plans implemented as per Clause 2 above, 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 relief package for individuals and small businesses vide Circular 1 omits, though may be unintentionally, to benefit the customers who may have slipped into NPA between April 1 and May 5 as it refers to invocation date and implementation date.

Representation to RBI

Finance Industry Development Council (FIDC), a Representative Body of Assets and Loan Financing NBFCs), made a representation to RBI to seek its guidance with a view to remove this seeming inconsistency. We have annexed the

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representation as Annex 3 to this representation. Vide this, FIDC made two pleas as under:

"(1) We believe that the eligible loan accounts of individuals and small businesses which were standard as on March 31, 2021 and may have slipped into NPA between April 1 and May 5 can be restructured if the restructuring is invoked by September 30, 2021, on the same lines as mentioned in RBI circular for MSMEs and can be upgraded as standard assets on implementation of the resolution plan. We request RBI confirmation in this regard.

(2) Further, since a number of NBFCs are under the Ind AS reporting framework, where a restructuring is invoked and implemented as per the timelines stated in the RBI circulars above, we would also request that this treatment of classifying the eligible loan accounts as 'standard assets' is permitted for Ind AS reporting i.e. precluding a Stage 3 classification, since the stress faced by the borrower on account of COVID 19 is agnostic of the financial reporting framework."

RBI Response

Responding quickly to this request, the RBI responded on June 7, 2021 as under (a copy of RBI's response is annexed as Annex 4 to this representation)
"In this context, we clarify that if a resolution plan is implemented in adherence to the provisions of Resolution Framework 2.0 for individuals and small businesses, borrowers' accounts which may have slipped into NPA between April 1, 2021 and implementation of the resolution plan may be upgraded as Standard, as on the date of implementation of the resolution plan.

Further, we advise that recognition of significant increase in credit risk for the purpose of IndAS reporting shall be as per the applicable guidance issued by the ICAI."

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Need for aligning IND-AS with RBI guidance

1. The RBI has clarified that all those borrowers that were standard as on 31st March 2021 and have slipped into NPA (that is 90+ DPD) may be upgraded as Standard as on the date of implementation of the resolution plan.
2. This clarification acknowledges that the mere fact of slippage into NPA post March is not an indication of any impairment in the quality of the borrower and that the borrower should be upgraded to Standard in so far the resolution plan is in conformity with the Framework.
3. Under IND-AS, typically, any borrower who is 90+DPD is classified as Stage 3, that is, an impaired asset. However, this is a rebuttable presumption if the circumstances suggest otherwise.
4. The RBI guidance as above clearly suggests that the pain is temporary and therefore the asset should be retained as Standard once resolution plan has been implemented.
5. A joint reading of points 3 and 4 above suggests that the presumption of "90+ DPD = Stage 3" can be rebutted and consequently, the companies be allowed to classify such borrowers as Stage 2 instead of Stage 3 in line with RBI guidance.

Our Request to the ICAI

We, on behalf of our member institutions, request the Institute to issue necessary guidance to financial companies and their auditors to allow them to classify assets that were Standard as on 31st March 2021 and which may have slipped into NPA, prior to being restructured, as Standard, that is, Stage 2, where a restructuring is invoked and implemented as per the timelines stated in the RBI circulars above.

We would also request that this treatment of classifying the eligible loan accounts as 'standard assets' is permitted for Ind AS reporting also i.e. precluding a Stage 3 classification, since the stress faced by the borrower on account of COVID 19 is agnostic of the financial reporting framework.

This will remove the hardship that these companies may otherwise go through in terms of elevated Stage 3, associated ECL provisions and a possible breach of various lender covenants.

We request your kind and favourable consideration of the above request. We seek an audience with your kind-self through Virtual Conference.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
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