VOLUME 6

COVID-19:

FURTHER REGULATORY MEASURES ANNOUNCED BY RBI

April 18, 2020

Introduction

Yesterday, the Reserve Bank of India ("**RBI**") announced certain incremental measures in order to maintain adequate liquidity in the system and ease the financial stress in the wake of the COVID-19 outbreak.

Prior to this, on March 27, 2020, RBI had announced certain relaxations, which we had summarised in our earlier update which can be found here – http://www.argus-p.com/papers-publications/thought-paper/covid-19-relaxations-announced-by-rbi/. In this update, we have summarised some of the key measures announced by RBI on April 17, 2020.

COVID-19 – Regulatory Package

On March 27, 2020, RBI had issued the COVID-19 – Regulatory Package setting out the instructions to banks, all-India financial institutions and non-banking financial companies ("**NBFCs**") including housing finance companies ("**Lenders**"), *inter alia*, permitting them to grant a moratorium of 3 (three) months on payment of all term loan instalments falling due between March 1, 2020 and May 31, 2020 ("**Moratorium Period**") as well as to defer the recovery of interest applied in respect of working capital facilities sanctioned in the form of cash credit/ overdraft during the period from March 1, 2020 upto May 31, 2020 ("**Deferment Period**").

Asset classification

Pursuant to notification bearing no. DOR.No.BP.BC.63/21.04.048/2019-20, dated April 17, 2020, RBI has clarified that in respect of all accounts classified as standard assets as on February 29, 2020, even if overdue, the Moratorium Period (where granted) shall be excluded from the number of days past-due for the purpose of asset classification under the prudential norms on income recognition and asset classification.

In respect of cash credit/ overdraft facilities, it has been clarified that the Deferment Period (where granted), for facilities classified as standard assets (including special mention accounts) as on February 29, 2020, shall be excluded for the determination of out of order status of such account.

Further, NBFCs which are required to comply with Indian Accounting Standards have been directed to continue to be guided by the guidelines duly approved by their boards and as per the advisories issued by Institute of Chartered Accountants of India for recognition of the impairments.

Provisioning

In respect of accounts where default has occurred but the account is classified as a standard asset, and where the asset classification benefit as mentioned hereinabove is extended, the Lenders are required to make general provisions of not less than 10% (ten percent) of the total outstanding amount in respect of such accounts, to be phased over the quarter ended March 31, 2020 (5% (five percent)) and the quarter ending June 30, 2020 (5% (five percent)).

The provisions as aforesaid can be adjusted against the actual provisioning requirements for slippages from the accounts reckoned for such provisions. The residual provisions at the end of the financial year can be written back or adjusted against the provisions required for all other accounts. Further, the provisions as aforesaid will not be reckoned for arriving at net non-performing assets ("**NPAs**") till they are adjusted against the actual provisioning requirements as mentioned above. These provisions will also not be netted from gross advances but shown separately in the balance sheet till the aforesaid adjustments are made.

All other provisions required to be maintained by the Lenders, including the provisions for accounts classified as NPAs as on February 29, 2020 as well as subsequent ageing in such accounts, should be made in the usual manner.

Other compliances

The exclusion of the Moratorium Period/ Deferment Period for the purposes of asset classification as mentioned above is required to be duly reckoned by the Lenders in their supervisory reporting as well as reporting to credit information companies.

Further, the Lenders are required to suitably disclose, *inter alia*, details in respect of the accounts where moratorium/ deferment and asset classification benefits have been extended in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years 2019-20 and 2020-2021.

Resolution of Stressed Assets

As per the extant circular issued by RBI on 'Prudential Framework for Resolution of Stressed Assets' dated June 7, 2019 ("**Prudential Framework**"), after the expiry of the review period of 30 (thirty) days in respect of defaulting borrowers, a resolution plan is required to be implemented by the lenders within 180 (one hundred eighty) days.

In relation to the accounts which were within the aforesaid review period as on March 1, 2020, it has been decided that the period from March 1, 2020 to May 31, 2020 will be excluded from the calculation of the aforesaid review period of 30 (thirty) days. Further, in respect of accounts where the review period was over, but the aforesaid resolution period of 180 (one hundred eighty) days had not expired as on March 1, 2020, it has been decided that the timeline for resolution of such accounts will be extended by 90 (ninety) days.

Accordingly, the requirement of making additional provisions as per the Prudential Framework will be triggered as and when the extended resolution period expires. Further, lenders are required to make suitable disclosures in respect of accounts where the resolution period is extended as aforesaid in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years 2019-20 and 2020-2021.

CRE Projects under Implementation

On February 7, 2020, RBI had issued certain guidelines for deferment of the date of commencement of commercial operations ("**DCCO**") for commercial real estate projects ("**CRE Projects**"). The aforesaid guidelines have now been made applicable to NBFCs as well.

Accordingly, any revision in DCCO for CRE Projects funded by NBFCs and consequent shift in the repayment schedule will not be treated as restructuring, subject to the revised DCCO falling within a period of 1 (one) year from the original DCCO specified at the time of financial closure and all other terms of the loan remaining unchanged.

Further, in case of CRE Projects delayed for reasons beyond the control of the promoter, NBFCs may revise the DCCO up to an additional 1 (one) year and retain the account as a 'standard asset', if the account continues to be serviced as per the revised terms of restructuring.

Other Measures

The liquidity coverage ratio ("**LCR**") required to be maintained by banks has been reduced to 80% (eighty percent) for the period till September 30, 2020, to be increased to 90% (ninety percent) for the half year ending on March 31, 2021 and to 100% (one hundred percent) from April 1, 2021. However, small finance banks are required to maintain LCR of 90% (ninety percent) with effect from January 1, 2020 and 100% (one hundred percent) from January 1, 2021.

Additionally, RBI has cut the interest rate on fixed rate reverse repo under the liquidity adjustment facility from 4% (four percent) to 3.75% (three point seven five percent) and also announced another targeted long-term repo operation for an amount of upto Rs. 500,000,000,000 (Rupees five hundred billion) to be deployed in investment grade bonds, commercial papers and non-convertible debentures of NBFCs/ MFIs.

RBI has also restricted banks from making any further dividend payouts from the profits pertaining to the financial year ended March 31, 2020 until further instructions, in order to enable banks to conserve capital to retain capacity to support the economy and absorb losses.

This update has been contributed by Aastha (Partner), Shradha Rakhecha and Ashwarya Bhargava (Associates).

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