Annex – 1

Norms Applicable to Restructuring

1. Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty[12], grants concessions to the borrower. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest / roll over of credit facilities / sanction of additional credit facility / enhancement of existing credit limits / compromise settlements where time for payment of settlement amount exceeds three months.

I. Prudential Norms[13]

A. Asset Classification

2. In case of restructuring, the accounts classified as 'standard' shall be immediately downgraded as non-performing assets (NPAs), i.e., 'sub-standard' to begin with. The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring. In both cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms.

B. Conditions for Upgrade

3. Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the lenders may be upgraded only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance' (i.e., the payments in respect of borrower entity are not in default at any point of time) during the 'specified period' (as defined in paragraph 10 of the covering circular)[14].

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[12] An illustrative (but not exhaustive) list of indicators of financial difficulty are in Appendix.
[13] Applicable to all resolution plans, including those undertaken under IBC.
[14] For accounts under IBC, the specified period shall be deemed to commence from the date of implementation of the resolution plan as approved by the Adjudicating Authority.

4. For the large accounts (i.e., accounts where the aggregate exposure of lenders is ₹ 1 billion and above) to qualify for an upgrade, in addition to demonstration of satisfactory performance, the credit facilities of the borrower shall also be rated as investment grade[15] (BBB- or better) as at the end of the 'specified period' by CRAs accredited by the Reserve Bank for the purpose of bank loan ratings. While accounts with aggregate exposure of ₹ 5 billion and above shall require two ratings, those below ₹ 5 billion shall require one rating. If the ratings are obtained from more than the required number of CRAs, all such ratings shall be investment grade to qualify for an upgrade.

5. In case satisfactory performance during the specified period is not demonstrated, the account shall, immediately on such default, be reclassified as per the repayment schedule that existed before the restructuring[16]. Any future upgrade for such accounts shall be contingent on implementation of a fresh RP and demonstration of satisfactory performance thereafter.

C. Provisioning Norms

6. Accounts restructured under the revised framework shall attract provisioning as per the asset classification category as laid out in the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015, as amended from time to time. However, the provisions made in respect of accounts restructured before the date of the circular under any of the earlier schemes shall continue to be held as per the requirements specified therein.

D. Additional Finance

7. Any additional finance approved under the RP (including any resolution plan approved by the Adjudicating Authority under IBC) may be treated as 'standard asset' during the specified period under the approved RP, provided the account performs satisfactorily (as defined in paragraphs 3-5 above) during the specified period. If the restructured asset fails to perform satisfactorily during the specified

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[15] These ratings shall be the normal ratings provided by the CRAs and not ICEs referred to in paragraph 6 of the covering circular.
[16] For large accounts, this will be in addition to mandatory IBC filing.

period or does not qualify for upgradation at the end of the specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

E. Income recognition norms

8. Interest income in respect of restructured accounts classified as 'standard assets' may be recognized on accrual basis and that in respect of the restructured accounts classified as 'non-performing assets' shall be recognised on cash basis.

9. In the case of additional finance in accounts where the pre-restructuring facilities were classified as NPA, the interest income shall be recognised only on cash basis except when the restructuring is accompanied by a change in ownership.

F. Conversion of Principal into Debt / Equity and Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

10. The FITL / debt / equity instruments created by conversion of part of principal / unpaid interest, as the case may be, will be placed in the same asset classification category in which the restructured advance has been classified.

11. These instruments shall be valued as per usual valuation norms and marked to market. Equity instruments, whether classified as standard or NPA, shall be valued at market value, if quoted, or else at break-up value (without considering the revaluation reserve, if any) as ascertained from the company's balance sheet as on March 31st of the immediate preceding financial year. In case balance sheet as on March 31st of the immediate preceding financial year is not available, the entire portfolio of equity shares of the company held by the bank shall be valued at Re.1. Depreciation on these instruments shall not be offset against the appreciation in any other securities held under the AFS category.

12. The unrealised income represented by FITL / Debt or equity instrument can only be recognised in the profit and loss account as under:
    a. FITL/debt instruments: only on sale or redemption, as the case may be;

b. Unquoted equity/ quoted equity (where classified as NPA): only on sale;

c. Quoted equity (where classified as standard): market value of the equity as on the date of upgradation, not exceeding the amount of unrealised income converted to such equity. Subsequent changes to value of the equity will be dealt as per the extant prudential norms on investment portfolio of banks.

G. <u>Change in Ownership</u>

13. In case of change in ownership of the borrowing entities, credit facilities of the concerned borrowing entities may be continued/upgraded as ‘standard’ after the change in ownership is implemented, either under the IBC or under this framework. If the change in ownership is implemented under this framework, then the classification as ‘standard, shall be subject to the following conditions:

    i) Banks shall conduct necessary due diligence in this regard and clearly establish that the acquirer is not a person disqualified in terms of Section 29A of the Insolvency and Bankruptcy Code, 2016.

    ii) The new promoter shall have acquired at least 26 per cent of the paid up equity capital of the borrower entity and shall be the single largest shareholder of the borrower entity.

    iii) The new promoter shall be in ‘control’ of the borrower entity as per the definition of ‘control’ in the Companies Act 2013 / regulations issued by the Securities and Exchange Board of India/any other applicable regulations / accounting standards as the case may be.

    iv) The conditions for implementation of RP as per Section I-C of the covering circular are complied with.

14. For such accounts to continue to be classified as standard, all the outstanding loans/credit facilities of the borrowing entity need to demonstrate satisfactory performance (as defined above in paragraph 3 above) during the specified period. If the account fails to perform satisfactorily at any point of time during the specified period, the credit facilities shall be immediately downgraded as non-

performing assets (NPAs) i.e., ‘sub-standard’. Any future upgrade for such accounts shall be contingent on implementation of a fresh RP (either under IBC, wherever mandatory filings are applicable or initiated voluntarily by the lenders, or outside IBC) and demonstration of satisfactory performance thereafter.

15. Further, the quantum of provisions held by the bank against the said account as on the date of change in ownership of the borrowing entities can be reversed only after satisfactory performance during the specified period.

II. Principles on classification of sale and lease back transactions as restructuring

16. A sale and leaseback transaction of the assets of a borrower or other transactions of similar nature will be treated as an event of restructuring for the purpose of asset classification and provisioning in the books of banks with regard to the residual debt of the seller as well as the debt of the buyer if all the following conditions are met:
    (i) The seller of the assets is in financial difficulty;
    (ii) Significant portion, i.e. more than 50 per cent, of the revenues of the buyer from the specific asset is dependent upon the cash flows from the seller;
    (iii) 25 per cent or more of the loans availed by the buyer for the purchase of the specific asset is funded by the lenders who already have a credit exposure to the seller.

III. Prudential Norms relating to Refinancing of Exposures to Borrowers in different currency

17. If foreign currency borrowings/export advances for the purpose of repayment/refinancing of rupee loans are obtained from:
    a. lenders who are part of Indian banking system (where permitted); or
    b. with support (where permitted) from the Indian banking system in the form of Guarantees/Standby Letters of Credit/Letters of Comfort, etc.,

    such events shall be treated as ‘restructuring’ if the borrower concerned is under financial difficulty.

18. Similarly, rupee loans for repayment/refinancing of foreign currency borrowings/export advances will also be treated as 'restructuring' if such rupee loans are extended to a borrower who is under financial difficulty.

IV. Regulatory Exemptions

Exemptions from RBI Regulations

19. Acquisition of non-SLR securities by way of conversion of debt is exempted from the restrictions and the prudential limit on investment in unlisted non-SLR securities prescribed by the RBI.

20. Acquisition of shares due to conversion of debt to equity during a restructuring process will be exempted from regulatory ceilings/restrictions on Capital Market Exposures, investment in Para-Banking activities and intra-group exposure. However, these will require reporting to RBI (reporting to DBS, CO every month along with the regular DSB Return on Asset Quality) and disclosure by banks in the Notes to Accounts in Annual Financial Statements. Nonetheless, banks will have to comply with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

Exemptions from Regulations of Securities and Exchange Board of India (SEBI)

21. SEBI has provided exemptions, under certain conditions, from the requirements of Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) (ICDR) Regulations, 2009 as well as SEBI (Substantial Acquisition of Shares and Takeovers) (SAST) Regulations, 2011 for restructurings carried out as per the regulations issued by the Reserve Bank.

22. With reference to the requirements contained in sub-regulations 70 (5) (a) and 70 (6) (a) of ICDR Regulations, 2009, the issue price of the equity shall be the lower of (i) or (ii) below:
    (i) The average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock

exchange during the twenty six weeks preceding the 'reference date' or the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the 'reference date', whichever is lower; and

(ii) Book value: Book value per share to be calculated from the audited balance sheet as on March 31st of the immediate preceding financial year (without considering 'revaluation reserves', if any) adjusted for cash flows and financials post the earlier restructuring, if any. The balance sheet shall not be more than a year old. In case the audited balance sheet as on March 31st of the immediate preceding financial year is not available the total book value of the borrower company shall be reckoned at Re.1.

23. In the case of conversion of debt into equities, the 'reference date' shall be the date on which the bank approves the restructuring scheme. In the case of conversion of convertible securities into equities, the 'reference date' shall be the date on which the bank approves the conversion of the convertible securities into equities. In case of issuance of fresh shares to the new promoter, the 'reference date' shall be the date of signing of the binding agreement between the bank and the new promoter.

24. With reference to the requirements contained in sub-regulations 10 (1) (ia) (a) of the SAST Regulations, 2001, at the time of selling the equity instruments acquired by banks (as part of a restructuring exercise) in favour of a new promoter, the selling price may be a negotiated price. However, the selling price shall not be lower than the 'fair value', which shall be the higher of (i) and (ii) below:

(i) The average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the 'reference date' or the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the ‘reference date’, whichever is higher; and

(ii) Book value: Book value per share to be calculated from the company's latest audited balance sheet (without considering 'revaluation reserves', if any) adjusted for cash flows and financials post the earlier restructuring, if any.

25. In case of sale of equity held by banks as a result of conversion/invocation of pledge, the ‘reference date’ shall be the date on which the share purchase agreement between the bank and the new promoter is executed.

V. Non-applicability of these guidelines

26. The revival and rehabilitation of MSMEs as defined under ‘The Micro, Small and Medium Enterprises Development Act, 2006’ shall continue to be guided by the instructions contained in Circular No. FIDD.MSME & NFS.BC.No.21/ 06.02.31/ 2015-16 dated March 17, 2016, as amended from time to time.

27. Restructuring of loans in the event of a natural calamity shall continue to be as per the directions contained in the Master Directions FIDD.CO.FSD.BC No.8/05.10.001/2017-18, as amended from time to time.

VI. Cases of frauds/wilful defaulters.

28. Borrowers who have committed frauds/ malfeasance/ wilful default will remain ineligible for restructuring. However, in cases where the existing promoters are replaced by new promoters, and the borrower company is totally delinked from such erstwhile promoters/management, lenders may take a view on restructuring such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/management.

Appendix

Non – Exhaustive Indicative List of Signs of Financial Difficulty

- Irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin basis or drawings exceeding sanctioned limits, periodic interest debited remaining unrealised;
- Failure/anticipated failure to make timely payment of instalments of principal and interest on term loans;
- Delay in meeting commitments towards payments of installments due, crystallized liabilities under LC/BGs, etc.
- Excessive leverage;
- Inability to adhere to financial loan covenants;
- Failure to pay statutory liabilities, non- payment of bills to operational creditors, etc.;
- Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements, delay in publication of financial statements and adversely qualified financial statements;
- Steep decline in production figures, downward trends in sales and fall in profits, margin erosion etc.;
- Elongation of working capital cycle, excessive inventory build-up;
- Significant delay in project implementation;
- Downward migration of internal/external ratings/rating outlook.

Annex – 2

ICE Symbols	Definition
RP1	Debt facilities/instruments with this symbol are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry lowest credit risk.
RP2	Debt facilities/instruments with this symbol are considered to have high degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry very low credit risk.
RP3	Debt facilities/instruments with this symbol are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry low credit risk.
RP4	Debt facilities/instruments with this symbol are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such debt facilities/instruments carry moderate credit risk.
RP5	Debt facilities/instruments with this symbol are considered to have moderate risk of default regarding timely servicing of financial obligations.
RP6	Debt facilities/instruments with this symbol are considered to have high risk of default regarding timely servicing of financial obligations.
RP7	Debt facilities/instruments with this symbol are considered to have very high risk of default regarding timely servicing of financial obligations.

Annex – 3

List of circulars repealed

S. No.	Circular number	Date of issue	Subject
1	DBR.BP.BC.No.67/21.04.048/2016-17	05-05-2017	Timelines for Stressed Assets Resolution
2	DBR.No.BP.BC.33/21.04.132/2016-17	10-11-2016	Scheme for Sustainable Structuring of Stressed Assets – Revisions
3	DBR.No.BP.BC.34/21.04.132/2016-17 (Excluding instructions on deferment of DCCO)	10-11-2016	Schemes for Stressed Assets – Revisions
4	DBR.No.BP.BC.103/21.04.132/2015-16	13-06-2016	Scheme for Sustainable Structuring of Stressed Assets
5	DBR.BP.BC.No.82/21.04.132/2015-16 (Excluding Part E on Sale of Financial Assets to SCs/RCs)	25-02-2016	Review of Prudential Guidelines - Revitalising Stressed Assets in the Economy
6	DBR.BP.BC.No.41/21.04.048/2015-16	24-09-2015	Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)
7	DBR.BP.BC.No.39/21.04.132/2015-16	24-09-2015	Framework for Revitalising Distressed Assets in the Economy - Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
8	DBR.No.BP.BC.101/21.04.132/2014-15	08-06-2015	Strategic Debt Restructuring Scheme
9	DBR.No.BP.BC.53/21.04.048/2014-15	15-12-2014	Flexible Structuring of Existing Long Term Project Loans to Infrastructure and Core Industries
10	DBOD.No.BP.BC.45/21.04.132/2014-15	21-10-2014	Framework for Revitalising Distressed Assets in the Economy – Review of the Guidelines on Joint Lenders Forum (JLF) and Corrective Action Plan CAP)

11	DBOD.No.BP.BC.31/21.04.132 /2014-15	07-08-2014	Refinancing of Project Loans
12	DBOD.No.BP.BC.24/21.04.132 /2014-15	15-07-2014	Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries
13	DBOD.No.BP.BC.97/21.04.132 /2013-14 (Excluding paragraph 8 on ‘Wilful Defaulters and Non-cooperative Borrowers’ and paragraph 9 on ‘Dissemination of Information’)	26.02.2014	Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders Forum (JLF) and Corrective Action Plan
14	Para 2 of circular DBOD.BP.BC.No. 98/21.04.132/2013-14	26.02.2014	Framework for Revitalising Distressed Assets in the Economy - Refinancing of Project Loans, Sale of NPA and Other Regulatory Measures
15	DBOD.No.BP.BC-99/21.04.048/2012-13 (Excluding paragraph 2 on change in DCCO)	30.05.2013	Review of Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions
16	DBOD.BP.BC.No.80/21.04.132 /2012-13	31.01.2013	Disclosure Requirements on Advances Restructured by Banks and Financial Institutions
17	DBOD.No.BP.BC-63/21.04.048/2012-13	26.11.2012	Review of Prudential Guidelines on Restructuring of Advances by Banks and Financial Institutions
18	DBOD.BP.BC.No.99/21.04.132 /2010-11	10.06.2011	Prudential Guidelines on Restructuring of Advances by Banks
19	DBOD.BP.BC.No.74/21.04.132 /2010-11	19.01.2011	Credit Support to Micro Finance Institutions
20	DBOD.BP.No.49/21.04.132/2010-11	07.10.2010	Prudential Guidelines on Restructuring of Advances by Banks
21	DBOD.No.BP.BC.No.124/21.04.132/2008-09	17.04.2009	Prudential Guidelines on Restructuring of Advances
22	DBOD.BP.BC.121/21.04.132/2008-09	09.04.2009	Prudential guidelines on Restructuring of Advances

23	DBOD.BP.BC.76/21.04.132/2008-09	03.11.2008	Prudential guidelines on Restructuring of Advances
24	DBOD.BP.BC.58/21.04.048/2008-09	13.10.2008	(i) Disbursal of Loans against Sanctioned Limits (ii) Restructuring of Dues of the Small and Medium Enterprises (SMEs)
25	DBOD.BP.BC.37/21.04.132/2008-09	27.08.2008	Prudential guidelines on Restructuring of Advances-comprehensive guidelines
26	DBOD.NO.BP.BC.45/21.0421.04.048/2005-06	10.11.2005	Revised Guidelines on Corporate Debt Restructuring(CDR) Mechanism
27	DBOD No.BP.BC.101/ 21.01.002/2001-02	09.05.2002	Corporate Debt Restructuring
28	DBOD No.BP.BC.15/ 21.04.114/2000-2001	23.08.2001	Corporate Debt Restructuring