



RBI instructions on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances dated 12th November, 2021.

With reference to the recently issued RBI circular no. RBI/2021-2022/125/DOR.STR.REC.68/21.04.048/2021-22 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances - Clarifications' dated 12th November, 2021, the following clarifications may kindly be noted.

1. Clarification on 'Overdue'

An amount is to be treated as 'Overdue' if it is not paid on the due date fixed by the Bank.

2. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated 7th June, 2019 on 'Prudential Framework for Resolution of Stressed Assets' requires the lenders to recognise incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA). It is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

Loans other than revolving facilities		Loans in the nature of revolving facilities like cash credit/overdraft	
SMA categories	Sub Basis for classification - Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA 0	Up to 30 days	NA	NA
SMA 1	More than 30 days and Up to 60 days	SMA 1	More than 30 days and Up to 60 days
SMA 2	More than 60 days and Up to 90 days	SMA 2	More than 60 days and Up to 90 days

Accordingly, the date of SMA/NPA shall reflect the asset classification status of the loan account, at the day- end of that calendar date. An illustration of such classification is as follows:

- **SMA 0** - If due date of a loan account is 31st March, 2021, and full dues are not received on this date, the account shall be SMA 0 on day end of 31st March, 2021.
- **SMA 1** - If the account continues to remain overdue, then this account shall get tagged as SMA-1 upon completion of 30 days of being continuously overdue i.e. 30th April, 2021.

- **SMA 2** - If the account continues to remain overdue, it shall get tagged as SMA-2 on 30th May, 2021
- **NPA** - If the account continues to remain overdue further, it shall get classified as NPA on 29th June, 2021

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes.

3. Clarification regarding definition of 'Out of Order'

The circular further states that in order to avoid any ambiguity regarding determination of 'Out of Order' status of CC/OD accounts on a continuous basis, it is clarified that an account shall be treated as 'Out of Order' if:

- The Outstanding Balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- The Outstanding Balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Accordingly, treatment of CC/OD accounts as 'Out of Order' on or after the date of the circular, shall be based on the instructions in this RBI circular.

4. NPA classification in case of interest payments

In case of interest payments in respect of Term loans, an account will be classified as NPA, if the interest applied at a specified date remains overdue for more than 90 days.

These instructions shall be effective 31st March, 2022. Accordingly, in respect of any borrower account which becomes overdue on or after 31st March, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.

5. Upgradation of accounts classified as NPAs

In this regard, it is clarified that loan accounts classified as NPAs may be upgraded as 'Standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgrade of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.