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Regulatory Update | Covid-19

Relaxations announced by Reserve Bank of India due to Covid-19 – Policy related changes

In light of the economic distress caused by the outbreak of Covid-19 pandemic, the Reserve Bank of India (RBI) has announced slew of measures to tackle the situation.

The measures announced by RBI aim to mitigate the burden on debt-servicing, improving access to working capital and to ease the burden on retail as well as institutional players in the Indian market.

The key policy related changes announced by RBI are summarized hereunder:

Policy related changes

1(a) **Reduction in Policy Repo Rate** - The Policy Repo Rate under the Liquidity Adjustment Facility (LAF) has been reduced to 4 percent.

1(b) **Reduction in Marginal Standing Facility (MSF) Rate** - MSF Rate and the Bank Rate has been reduced to 4.25 percent. Further, it has been decided to raise the borrowing limit under the MSF scheme from 2 percent to 3 percent of the Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight with immediate effect. The enhanced limit will be applicable up to June 30, 2020.

1(c) **Reduction in the Reverse Repo Rate** - Reverse Repo Rate under the LAF reduced to 3.35 percent.

1(d) **Relaxation from maintaining LCR** – The requirement to maintain 100% Liquidity Coverage Ratio (LCR) has been reduced to 80% till September 2020 and 90% from October 2020 to March 2021.

2(a) **Targeted Long Term Repos Operations (TLTROs) -** RBI will conduct auctions of targeted term repos of up to 3 years of appropriate sizes for a total amount of up to INR 1,00,000 crore at a floating rate linked to the Policy Repo Rate.

2(b) **Cash Reserve Ratio** – RBI has reduced the Cash Reserve Ratio (CRR) of all banks by 100 basis points to 3.0 percent of net demand and time liabilities (NDTL) for a period of 1 year. This will release primary liquidity of about INR 1,37,000 crore across the banking system. Further, the requirement of minimum daily CRR balance maintenance has been reduced from 90 percent to 80 percent.

3. Widening of the Monetary Policy Rate Corridor - The Monetary Policy Rate has been increased from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the Policy Repo Rate.

4. **Moratorium on Term Loans -** All commercial banks, co-operative banks, all-India Financial Institutions, and NBFCs (including HFCs and MFIs) ("lending institutions") are permitted to allow a moratorium till 31 August 2020 on payment of instalments in respect of all term loans outstanding as on 1 March 2020.

5. **Deferment of Interest on Working Capital Facilities -** In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions have been permitted to allow a deferment on payment of interest till 31 August 2020 in respect of all such facilities outstanding as on 1 March 2020. The accumulated interest for the period will be paid after the expiry of the deferment period. This will not result in asset classification downgrade.

6. **Easing of Working Capital Financing -** In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins till the extended period, i.e., 31 August 2020. Further, lending institutions are permitted to reassess the working capital cycle of a borrowing entity up to an extended period till 31 March 2021.

7. **Refinancing facility for certain AIFIs** - RBI has announced a special refinance facility of INR 50,000 crore for All India financial institutions (AIFIs) such as the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB). This will comprise INR 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); INR 15,000 crore to SIDBI for on-lending/refinancing; and INR 10,000 crore to NHB for supporting housing finance companies (HFCs). Advances under this facility are provided at the RBI's policy repo rate at the time of availment for a period of 90 days. Further, RBI has rolled-over the above facility for SIDBI for another period of 90 days.

   Additional standing liquidity facility (ASLF): An ASLF of INR 5,000 crore will be provided to NHB (which will be over and above INR 10,000 crore) for supporting HFCs. Further, in order to reduce the stress being faced by non-systemically important NBFCs and micro-finance institutions (MFIs) in obtaining access to liquidity, RBI has provided ASLF of INR 5,000 crore to NABARD for refinancing NBFC-MFIs and non-systemically important NBFCs to support agriculture and allied activities and the rural non-farm sector. The above facility will be for a period of one year and will be charged at the RBI's repo rate.

8. **Liquidity facility for Exim Bank of India –** RBI has extended a line of credit of INR 15,000 crore to the Exim Bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year so as to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.

9. **Deferment of Implementation of Net Stable Funding Ratio (NSFR) -** Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate

the risk of future funding stress. As per the prescribed timeline, banks in India were required to maintain NSFR of 100 percent from 1 April 2020. RBI has deferred the implementation of NSFR by 6 months to 1 October 2020.

10. **Deferment of last tranche of Capital Conservation Buffer (CCB) -** The CCB, which is formulated to ensure that banks build up capital buffers during normal times (i.e. outside periods of stress) which can be drawn down as losses are incurred during a stressed period. As per Basel standards, CCB was to be implemented in tranches of 0.625 percent and the transition to full CCB of 2.5 percent was set to be completed by 31 March 2019, which was subsequently deferred to 31 March 2020. RBI has deferred this further to 31 March 2020 to 30 September 2020. Consequently, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5 per cent of risk-weighted assets (RWAs) and will rise to 6.125 percent of RWAs on 30 September 2020.

11. **Permission to Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)** – RBI has permitted banks in India which operate in International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from 1 June 2020. Banks may participate through their branches in India, their foreign branches or through their IBUs.

12. **Special Liquidity Facility for Mutual Funds (SLF-MF) -** RBI has decided to open a special liquidity facility (MFs) for mutual funds for INR 50,000 crore.

13. **Special Liquidity Facility for NBFCs and HFCs -** The Government of India has approved a scheme to improve the liquidity position of NBFCs and HFCs through a Special Purpose Vehicle (SPV) to avoid any potential systemic risks to the financial sector. NBFCs (excluding Core Investment Companies) and HFCs which fulfil certain prescribed conditions are eligible to take benefit of the scheme. NBFCs and HFCs in order avail the benefit need to approach the SPV set up by SBI Capital Markets Limited. The SPV will purchase short-term papers from eligible NBFCs / HFCs, who shall utilise the proceeds under this scheme solely for the purpose of extinguishing existing liabilities. The instruments will be Commercial Papers and Non-Convertible Debentures with a residual maturity of not more than three months and rated as investment grade. The facility will not be available for any paper issued after 30 September 2020 and the SPV would cease to make fresh purchases after 30 September 2020 and would recover all dues by 31 December 2020; or as may be modified subsequently under the scheme.

14. **Deferment of implementation of Countercyclical Capital Buffer (CCyB) -** The framework on CCyB framework envisages the credit-to-GDP gap as the main indicator, which is used in conjunction with other supplementary indicators. RBI has decided to defer activating CCyB by 1 year or earlier, as may be necessary.

15. **Relaxation in limits on Group Exposures –** RBI has allowed bank's to increase its exposure to a group of connected counterparties from 25 percent to 30 percent of the eligible capital base of the bank. The increased limit will be applicable up to 30 June 2021.

16. **Relaxation of withdrawal norms from Consolidated Sinking Fund (CSF) –** RBI has decided to relax the rules governing withdrawal from CSF (maintained by State Government with RBI) till 31 March 2021.

17. **Relief in respect of CRE loans by NBFC -** Loans by NBFCs to delayed Commercial Real Estate Projects (CRE) can be extended by a year without restructuring.

18. **Asset classification benefit extended by RBI –** '90-day NPA norms' shall not apply on standard accounts and there will be a standstill on asset classification of such standard accounts during moratorium period. However, lending institutions shall make provisions of not less than 10 percent of the total outstanding of such accounts to be equally phased for quarter ending 31 March 2020 and 30 June 2020. Relevant disclosures will have to be made in respect to the provisioning and amount where asset classification benefits is extended by lending institutions in accounts.

19. **RBI resolution framework to address Covid-19 related stress**
    - RBI based on Monitoring Policy Committee's decision, has notified the "Resolution Framework for Covid-19 Related Stress ("Resolution Framework") vide notification dated 6 August 2020. The Resolution Framework will be under the Prudential Framework on Resolution of Stressed Assets ("Prudential Framework") which is notified with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers.

    - The Resolution Framework enables the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard subject to specified conditions.

    - The Resolution Framework shall not be available for exposures to financial sector entities as well as Central and State Governments, Local Government bodies (e.g. Municipal Corporations) and any body corporate established by an Act of Parliament or State Legislature. The key features of the Resolution Framework are provided in Annexure A.

20. **Restructuring of MSME debt -** RBI has extended the existing debt restructuring scheme for stressed MSMEs by three months upto 31 March 2021 provided following conditions are met:
    - The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed INR 25 crore as on 1 March 2020.
    - The borrower's account was a 'standard asset' as on 1 March 2020.
    - The restructuring of the borrower account is implemented by 31 March 2021.
    - The borrowing entity is GST registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST registration. This shall be determined on the basis of exemption limit obtaining as on 1 March 2020.

- Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between 2 March 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.
- For accounts restructured, banks shall maintain additional provision of 5% over and above the provision already held by them.

21. **Advances against Gold Ornaments and Jewellery -** With a view to mitigate the economic impact of the Covid 19 pandemic on households, entrepreneurs and small businesses, it has been decided to increase the permissible loan to value ratio for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75% to 90% till 31 March 2021.

Conclusion:

The measures announced by RBI will help improve functioning of the markets and market participants, provide much needed relief to borrowers in times of distress and ease financial stress caused by Covid-19 disruptions by providing relief on debt servicing and improving access to working capital etc.

Annexure A

The key features of the resolution framework are as under:

Eligible exposures:
All borrowers, except the following categories, shall be eligible under the Resolution Framework:

i. MSME borrowers whose aggregate exposure to lending institutions collectively, is INR 25 crore or less as on 1 March 2020.
ii. Farm credit as mentioned in Master Direction issued by the RBI on priority sector lending.
iii. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.
iv. Exposures of lending institutions to financial service providers.
v. Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.
vi. Exposures of housing finance companies where the account has been rescheduled after 1 March 2020, unless a resolution plan under this framework has been invoked by other lending institutions.

Eligible Borrowers under Resolution Framework: Only those borrower accounts shall be eligible for resolution under the Resolution Framework which were classified as standard, but not in default for more than 30 days with any lending institution as on 1 March 2020. Further, the accounts should continue to remain standard till the date of invocation of resolution under the Resolution Framework.

Part A - Resolution Framework for personal loans

i. Credit facilities provided by lending institutions to their own personnel/staff shall not be eligible for resolution under this framework.
ii. Resolution under this framework may be invoked not later than 31 December 2020 and must be implemented within 90 days from the date of invocation. However, the lending institutions should strive for early invocation.
iii. The resolution plans may inter alia include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years. Correspondingly, the overall tenor of the loan may also get modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
iv. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
    - all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed

by the lenders concerned in consonance with the resolution plan being implemented;

- the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
- borrower is not in default with the lending institution as per the revised terms.

v. Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

Part B - Resolution Framework for other than personal loans (i.e. loans to corporates)

i. The resolution plan may be invoked till 31 December 2020 and shall have to be implemented within 180 days from the date of invocation.

ii. **Single lending exposure:** In case where there is only one lending institution with exposure to the borrower, the decision regarding the request for resolution by the borrower may be taken by the lending institution as per the Board approved policy of the institution and within the contours of this framework. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under the Resolution Framework.

iii. **Multiple lending exposures:**

- If there are multiple lending institutions with exposure to the borrower, the resolution process shall be treated as invoked in respect of any borrower if lending institutions representing 75% by value of the total outstanding credit facilities (fund based as well non-fund based) , and not less than 60% of lending institutions by number agree to invoke the same.
- In all cases involving multiple lending institutions, where the resolution process is invoked and consequently a resolution plan has to be implemented, ICA shall be required to be signed by all lending institutions within 30 days from the date of invocation. In case of housing finance companies, this shall be applicable irrespective of whether the account has been rescheduled.
- In cases where the resolution process has been invoked but lending institutions representing not less than 75% by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60% of lending institutions by number, do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework.

iv. Other lending institutions (not covered in under the Resolution Framework) may also sign the ICA, if they so desire. If such lenders sign the ICA, they shall be fully bound by the stipulations of the ICA.

v. In order to enforce collective action, specific voting thresholds are being prescribed even for invocation of the resolution plan; and those lending institutions not signing the inter-creditor agreement (ICA) within 30 days from the date of invocation shall attract higher provisions of 20%.

vi. Post-implementation, the asset classification of the account shall be retained as standard, or if the account had slipped into NPA after invocation but before implementation, the asset classification shall be restored upon implementation.

vii. The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years.

viii. Wherever the resolution plans involve conversion of a portion of debt into equity and other debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into other non-equity instruments shall be fully written down.

ix. **Large exposures and escrow account**: Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is INR 100 crore and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) authorized by the Reserve Bank under the Prudential Framework. Further, in the event of multiple banking arrangements, the borrower and the lending institutions are also required to enter into an escrow arrangement with one of the lending institutions for routing of the cash flows. The lending institutions shall enter into formal agreement to record the duties and responsibilities of the escrow manager and the lending institutions, as well as the enforcement mechanisms.

Part C - Asset Classification and Provisioning

a. Asset classification and provisioning:

i. Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.

ii. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to the additional finance or the rest of the credit facilities, whichever is worse.

iii. If a resolution plan is implemented in adherence to the provisions of this facility, 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 plan.

iv. In respect of personal loans where a resolution plan is implemented under this facility, the lending institutions shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).

v. Any additional provisions maintained by the lenders in terms of the RBI's circular on 'Covid-19 regulatory Package', dated 17 April 2020, to the extent not already reversed, can be utilised for meeting the provisioning requirements under the Resolution Framework.

vi. Further, any additional provisions maintained in terms of the Prudential Framework can be reversed at the time of invocation of the resolution plan under the Resolution Framework. However, if the plan is not implemented within 180 (one hundred eighty) days from its invocation, the provisions as per the Prudential Framework will have to be maintained as if a resolution process was never invoked under the Resolution Framework.

b. Reversal of Provisions:

i. In case of personal loans resolved under this facility, half of the above provisions may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

ii. In case of resolution of other exposures, the provisions maintained by the ICA signatories may be reversed as prescribed in clause 44. However, in respect of the non-ICA signatories while half of the provisions may be reversed upon repayment of 20 percent of the carrying debt, the other half may be reversed upon repayment of another 10 per cent of the carrying debt, subject to the required IRAC provisions being maintained.

c. Post implementation compliances:

i. For personal loans, post implementation of the resolution plan, the subsequent asset classification shall be as per the IRAC norms or other relevant instructions as applicable to a specific category of Lending Institutions.

ii. In respect of exposures other than personal loans, any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a Review Period of 30 days. Monitoring period, for this purpose, is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10 percent of the residual debt, subject to a minimum of one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

Part D: Disclosures and Credit Reporting

i. Lending institutions shall make disclosures in the prescribed format in their financial statements for the quarters ending 31 March 2021, 30 June 2021 and 30 September 2021. Such lending institutions shall also make disclosures in the prescribed format every half-year, i.e., in the financial statements as on 30 September and 31 March, starting from the half-year ending 30 September 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier.

ii. Lending institutions required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.