

Draft Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025

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Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025

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Introduction

These directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets. As compromise settlements are a valid resolution plan, these Directions also rationalise and harmonise the instructions on compromise settlements and technical write-offs across all regulated entities, in order to provide further impetus to resolution of stressed assets in the system. Further, these Directions lay down the consolidated regulatory treatment upon change in the Date of Commencement of Commercial Operations of projects in infrastructure and non-infrastructure (including commercial real estate & commercial real estate- residential housing).

Some of the regulated entities may also be involved in implementation of various forms of Debt Relief Schemes (DRS) announced by State Governments that inter alia entail sacrifice / waiver of debt obligations of a targeted segment of borrowers, against fiscal support. If such schemes are announced frequently, incommensurately, or without due consideration to the principles of financial discipline, they would negatively affect credit discipline and in the long run, may be counter-productive to the credit flow to such borrowers. Apart from the broader implications for the credit discipline and moral hazard issues, DRS also raises certain prudential concerns, which include delay in receipt of dues; mismatch between the claims admitted / submitted by the REs and accepted by the concerned Government as per the terms of the scheme; mandatory requirement of fresh credit by the REs, etc. These Directions also lay down certain broad principles regarding participation of regulated entities in DRS and specifies a model operating procedure, which has been shared with the State Governments for their consideration while designing and implementing such DRS to avoid any non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

Accordingly, in exercise of the powers conferred by Chapter IIIB of the Reserve Bank of India Act, 1934, the Reserve Bank, being satisfied that it is necessary and expedient in public interest to do so, hereby, issues these Directions hereinafter specified.

Chapter I - Preliminary

1. Short title and commencement

- (1) These directions shall be called the Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025.
- (2) These directions shall come into force with immediate effect unless specified otherwise.

2. Applicability

- (1) These Directions shall be applicable to all Non-Banking Finance Companies (hereinafter collectively referred to as ‘NBFCs’ and individually as an ‘NBFC’) excluding Housing Finance Companies (HFCs).
- (2) Part A of these Directions shall apply to a NBFC which is a non-deposit taking NBFC with asset size of ₹500 crore or more, or a deposit taking NBFC.
- (3) Part B of these Directions shall apply to a NBFC which is a non-deposit taking NBFC with asset size of less than ₹500 crore.
- (4) NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall continue to be guided by the Standards and the advisories issued by the Institute of Chartered Accountants of India (ICAI Advisories) in case of any inconsistencies between these directions and the Standards.

**Part A: Resolution of Stressed Assets by a non-deposit taking NBFC
with asset size of ₹500 crore or more, or a deposit taking NBFC**

Chapter II - Definitions and General Requirements

3. Definitions

- (1) In Part A of these Directions, the following definitions shall apply, unless the context otherwise requires:
- (i) '*aggregate exposure*' shall include all fund based and non-fund based exposure, including investment exposure;
 - (ii) '*compromise settlement*' shall refer to any negotiated arrangement with the borrower to fully settle the claims of a NBFC against the borrower in cash.

Explanation: Compromise settlement may entail some sacrifice of the amount due from the borrower on the part of the NBFC with corresponding waiver of claims of the NBFC against the borrower to that extent.
 - (iii) '*credit event*' in the context of projects under implementation shall be deemed to have been triggered on the occurrence of any of the following:
 - (a) default with any lender;
 - (b) one or more lenders determine a need for extension of the original / extended DCCO, as the case may be, of a project;
 - (c) expiry of original / extended DCCO, as the case may be;
 - (d) one or more lenders determine a need for infusion of additional debt;
 - (e) the project is faced with financial difficulty determined as per Paragraphs 4(1) to 4(3);
 - (iv) '*default*' shall mean non-payment of debt (as defined under the Insolvency and Bankruptcy Code, 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.
 - (v) '*interest during construction*' shall mean the interest accrued on debt provided by a NBFC and capitalised during the construction phase of the project;

(vi) '*lender*', in the context of project Finance directions, shall mean any of the following entities:

- (a) a Commercial Bank (including Small Finance Banks (SFBs) but excluding Payments Banks (PBs), Local Area Banks (LABs) and Regional Rural Banks (RRBs));
- (b) a Non-Banking Financial Company (NBFC) (including a Housing Finance Company (HFC));
- (c) a Primary (Urban) Cooperative Bank;
- (d) an All India Financial Institution.

(vii) '*liquidation value*' shall mean the estimated realisable value of the assets of the relevant borrower, if such borrower were to be liquidated as on the date of commencement of the Review Period;

(viii) '*monitoring period*' shall mean the period from the date of implementation of resolution plan up to the date by which at least 10 per cent of the sum of outstanding principal debt as per the resolution plan and interest capitalisation sanctioned as part of the restructuring, if any, is repaid;

(ix) '*outstanding principal debt*' shall include all credit facilities, including debt / debt like instruments (viz., non-convertible debentures, optionally convertible debentures, optionally convertible preference shares, non-convertible preference shares etc.) that exist post implementation of the resolution plan.

Explanation: Only equity and instruments compulsorily convertible into equity (without any embedded optionality) shall be exempt from determining outstanding principal debt.

(x) '*residual debt*' shall mean the aggregate outstanding principal debt envisaged to be held by all the specified lenders as per the proposed resolution plan;

(xi) '*resolution plan*' in the context of projects under implementation shall mean a mutually agreed, legally binding, feasible and time-bound plan for resolution of stress in a project finance account. The resolution plan may involve any action / plan / reorganization including, but not limited to, regularisation of the account by

payment of all overdues by the debtor entity, sale of the exposures to other entities / investors, change in ownership, extension of DCCO and restructuring.

(xii) '*restructuring*' shall mean an act in which a NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

Explanation: Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

(xiii) '*review period*' shall mean a period of 30 days from the date of default or a credit event, as the case may be;

(xiv) '*satisfactory performance*' shall mean that the borrower entity is not in default with any specified lender at any point of time during the period concerned;

(xv) '*specified lender*' shall mean any of the following entities:

(a) a Commercial Bank (including SFBs but excluding PBs, LABs and RRBs);

(b) an All India Financial Institution.

(c) a deposit taking NBFC (excluding a HFC);

(d) a non-deposit taking NBFC (excluding a HFC) having asset size of ₹500 crore and above.

(xvi) '*specified period*' shall mean the period from the date of implementation of resolution plan up to the date by which at least 20 per cent of the sum of outstanding principal debt as per the resolution plan and interest capitalisation sanctioned as part of the restructuring, if any, is repaid.

Provided that for accounts restructured 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.

(xvii) '*standby credit facility*' shall mean a contingent credit line sanctioned for the project at the time of financial closure to fund any cost overrun during the construction phase of the project.

(xviii) '*technical write-off*' shall refer to cases where the non- performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by a NBFC only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

(2) The terms '*Appointed Date, Commercial Real Estate (CRE)*', '*Commercial Real Estate – Housing (CRE-RH)*', '*Construction phase*', '*Date of Financial Closure*', '*Infrastructure Sector*', '*Original Date of Commencement of Commercial Operations (Original DCCO)*', '*Extended DCCO*', '*Actual DCCO*', '*Project*', and '*Project Finance*' shall have the same meaning assigned to them in the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025.

(3) All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

4. Board approved policies:

(1) A NBFC shall put in place Board-approved policies for resolution of stressed assets, including the timelines for resolution as well as detailed policies on various signs of financial difficulty, providing quantitative as well as qualitative parameters, for determining financial difficulty.

(2) A non-exhaustive indicative list of signs of financial difficulty, which is based on the Basel Committee Guidelines on 'Prudential treatment of problem assets – definitions of non-performing exposures and forbearance', is provided as under for reference:

- (i) A default, as per the definition provided in the framework, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default.

- (ii) A borrower not in default, but it is probable that the borrower will default on any of its exposures in the foreseeable future without the concession, for instance, when there has been a pattern of delinquency in payments on its exposures.
 - (iii) A borrower's outstanding securities have been delisted, or are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.
 - (iv) On the basis of actual performance, estimates and projections that encompass the borrower's current level of operations, the borrower's cash flows are assessed to be insufficient to service all of its loans or debt securities (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
 - (v) A borrower's credit facilities are in non-performing status or would be categorised as nonperforming without the concessions.
 - (vi) A borrower's existing exposures are categorised as exposures that have already evidenced difficulty in the borrower's ability to repay in accordance with the NBFC's internal credit rating system.
- (3) A NBFC shall complement the above list of non-exhaustive enumeration of financial difficulty indicators with key financial ratios and operational parameters which may include quantitative and qualitative aspects.

Explanation: Financial difficulty may be identified even in the absence of arrears on an exposure.

- (4) A NBFC shall put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs, which shall *inter alia* include the following:
- (i) comprehensive prescription of the process to be followed for all compromise settlements and technical write-offs, with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value etc.;
 - (ii) graded framework for examination of staff accountability in such cases with reasonable thresholds and timelines as may be decided by the Board;

- (iii) provisions relating to permissible sacrifice for various categories of exposures while arriving at the settlement amount, after prudently reckoning the current realisable value of security/collateral, where available;
- (iv) methodology for arriving at the realisable value of the security in respect of compromise settlements.
- (v) delegation of powers for approval / sanction of compromise settlements and technical write-offs, subject to the following:
 - (a) delegation of power for such approvals rests with an authority (individual or committee, as the case may be) which is at least one level higher in hierarchy than the authority vested with power to sanction the credit / investment exposure.

Provided that any official who was part of sanctioning the loan (as individual or part of a committee) shall not be part of the approving the proposal for compromise settlement of the same loan account, in any capacity.

- (b) proposals for compromise settlements in respect of borrowers classified as fraud or wilful defaulter, as permitted in terms of Paragraph 23, shall require approval of the Board in all cases.
- (5) The robustness of the board approved policy and the outcomes would be examined as part of the supervisory oversight of the Reserve Bank.

5. Early identification and reporting of stress

- (1) A NBFC shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

- (2) The instructions on classification of borrower accounts into SMA categories are applicable for all loans (including retail loans) irrespective of size of exposure of the regulated entity.
- (3) A NBFC shall report credit information, including classification of an account as SMA, to Central Repository of Information on Large Credits (CRLC), on all borrowers having aggregate exposure of ₹5 crore and above with them, on a monthly basis.
- (4) A NBFC shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of ₹5 crore and above) by close of business on every Friday, or the preceding working day if Friday happens to be a holiday.
- (5) In cases where a NBFC fails to report SMA status of the accounts to CRLC or resort to methods with the intent to conceal the actual status of the accounts or evergreen the account, the NBFCs shall be subjected to accelerated provisioning for these accounts and/ or other supervisory actions as deemed appropriate by the Reserve Bank.
- (6) The accelerated provisioning in respect of such accounts which are classified as non-performing accounts are as under:

Asset Classification	Period as NPA		Current provisioning (%)	Revised accelerated provisioning (%)
	NBFC-Base Layer	Other NBFCs		
Sub-standard (secured)	Up to 6 months	Up to 6 months	10	No change
	6 to 18 months	6 months to 1 year	10	25
Sub-standard (unsecured ab initio)	Up to 6 months	Up to 6 months	10	25
	6 to 18 months	6 months to 1 year	10	40
Doubtful I	Up to 1 year as Doubtful (secured portion)		20	40
	Up to 1 year as Doubtful (unsecured portion)		100	100
Doubtful II	1-3 years as Doubtful (secured portion)		30	40
	1-3 years as Doubtful (unsecured portion)		100	100
Doubtful III	More than 3 years as Doubtful (secured portion)		50	100
	More than 3 years as Doubtful (secured portion)		100	100

(7) A NBFC shall adhere to the relevant provisions on submission of financial information to information utilities of Insolvency and Bankruptcy Code, 2016 and Insolvency and Bankruptcy Board of India (Information Utilities) Regulations, 2017 and immediately put in place appropriate systems and procedures to ensure compliance to the provisions of the Code and Regulations.

6. Disclosures

A NBFC shall make suitable disclosures in its financial statements in the ‘Notes to Accounts’, as specified in the Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025.

7. Supervisory Review

Any action by a NBFC with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory / enforcement actions as deemed appropriate by the Reserve Bank, including, but not limited to, higher provisioning on such accounts and monetary penalties.

Chapter III - Resolution Process

8. Review Period

- (1) Once a borrower is reported to be in default by any of the specified lenders other than a NBFC, the specified lenders shall jointly undertake a *prima facie* review of the borrower account within the Review Period.
- (2) During this Review Period, the specified lenders shall jointly decide on the resolution strategy, including the nature of the resolution plan, the approach for implementation of the resolution plan, etc.
- (3) A NBFC may also choose to initiate legal proceedings for insolvency or recovery.
- (4) Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that a NBFC initiates the process of implementing a resolution plan even before a default.

9. Inter Creditor Agreement

- (1) In cases where resolution plan is to be implemented, all specified lenders, shall enter into an inter-creditor agreement, during the Review Period, to provide for ground rules for finalisation and implementation of the resolution plan in respect of borrowers with credit facilities from more than one specified lender.
- (2) The inter-creditor agreement shall provide that:
 - (i) any decision agreed by signatories representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of signatories by number shall be binding upon all the signatories; and
 - (ii) resolution plans shall provide for payment not less than the liquidation value due to the dissenting signatories.
- (3) In addition to the requirements in sub-paragraph (2) above, the inter-creditor agreement shall, *inter alia*, provide for rights and duties of majority signatories, duties and protection of rights of dissenting signatories, treatment of signatories with priority in cash flows / differential security interest, etc.

10. Resolution Plan

- (1) A resolution plan may involve any action / plan / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership and restructuring.
- (2) The resolution plan shall be clearly documented by the NBFC (even if there is no change in any terms and conditions).
- (3) A resolution plan involving restructuring / change in ownership in respect of accounts where the aggregate exposure of specified lenders is ₹100 crore and above, shall require independent credit evaluation of the residual debt by credit rating agencies specifically authorised by the Reserve Bank for this purpose.
- (4) The list of RP symbols that can be provided by credit rating agencies as independent credit evaluation and their meanings are as follows:

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.
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(5) While accounts with aggregate exposure of ₹500 crore and above shall require two such independent credit evaluations, others shall require one independent credit evaluation.

(6) Only such resolution plans which receive a credit opinion of RP4 or better for the residual debt from one or two credit rating agencies, as the case may be, shall be considered for implementation.

(7) If independent credit evaluation is obtained from more than the required number of credit rating agencies, all such independent credit evaluation opinions shall be RP4 or better for the resolution plan to be considered for implementation.

(8) The credit rating agencies shall be directly engaged by the specified lenders for the purpose of independent credit evaluation and the payment of fee for such assignments shall be made by the specified lenders.

(9) During the period when the RP is being finalised and implemented, the usual asset classification norms would continue to apply subject to additional provisioning requirements of Chapter IV of this Direction. The process of re-classification of an asset should not stop merely because RP is under consideration.

(10) A resolution plan in respect of borrowers to whom one or more specified lenders continue to have credit exposure, shall be deemed to be ‘implemented’ only if the following conditions are met:

(i) A resolution plan which does not involve restructuring / change in ownership shall be deemed to be implemented only if the borrower is not in default with any of the specified lenders as on 180th day from the end of the Review Period. Any subsequent default after the 180-day period shall be treated as a fresh default, triggering a fresh review.

(ii) A resolution plan which involves restructuring / change in ownership shall be deemed to be implemented only if all of the following conditions are met:

- (a) all related documentation, including execution of necessary agreements between specified lenders and borrower / creation of security charge / perfection of securities, are completed by the specified lenders concerned in consonance with the resolution plan being implemented;
- (b) the new capital structure and / or changes in the terms of conditions of the existing loans get duly reflected in the books of all the specified lenders and the borrower; and,
- (c) borrower is not in default with any of the specified lenders.

(11) A resolution plan which involves specified lenders exiting the exposure by assigning the exposures to third party or a resolution plan involving recovery action shall be deemed to be implemented only if the exposure to the borrower is fully extinguished.

(12) In respect of accounts with aggregate exposure above a specified threshold with the specified lenders on or after the ‘reference date’, resolution plan shall be implemented within 180 days from the end of Review Period, which shall commence not later than:

- (i) the reference date, if in default as on the reference date; or
- (ii) the date of first default after the reference date.

(13) The reference dates for the purpose of sub-paragraph (12) above shall be as under:

Aggregate exposure of a borrower to specified lenders other than NBFC	Reference date
₹ 2000 crore and above	June 07, 2019
₹ 1500 crore and above, but less than ₹ 2000 crore	January 1, 2020
Less than ₹ 1500 crore	To be announced in due course

(14) In respect of accounts having aggregate exposure below ₹1,500 crore, the requirements as laid down under Chapter IV of these Directions shall not apply.

Chapter IV - Additional Provisioning

11. Delayed Implementation of Resolution Plan – Additional Provisioning

(1) Where a viable resolution plan in respect of a borrower specified in Paragraphs 10(10) and 10(11) is not implemented within the timelines given below, a NBFC having exposure to the borrower shall make additional specific provisions as under:

Timeline for implementation of viable RP	Additional specific provisions to be made as a % of total outstanding, if RP not implemented within the timeline
180 days from the end of Review Period	20%
365 days from the commencement of Review Period	15% (i.e. total additional provisioning of 35%)

(2) The additional specific provisions shall be made over and above the higher of the following, subject to the total provisions held being capped at 100% of total outstanding:

- (i) the provisions already held; or,
- (ii) the provisions required to be made as per the asset classification status of the borrower account.

(3) The additional specific provisions shall also be required to be made in cases where recovery proceedings have been initiated in respect of the borrower, unless the recovery proceedings are fully completed.

(4) The additional specific provisions specified in sub-paragraph (1) may be reversed as under:

- (i) where the resolution plan involves only payment of overdues by the borrower – the additional provisions may be reversed only if the borrower is not in default for a period of six months from the date of clearing of the overdues with all the specified lenders;
- (ii) where resolution plan involves restructuring / change in ownership outside the Insolvency and Bankruptcy Code, 2016 – the additional provisions may be reversed upon implementation of the resolution plan;

- (iii) where resolution is pursued under the Insolvency and Bankruptcy Code, 2016 – half of the additional provisions made may be reversed on filing of insolvency application and the remaining additional provisions may be reversed upon admission of the borrower into the insolvency resolution process under the Insolvency and Bankruptcy Code, 2016; or,
- (iv) where assignment of debt / recovery proceedings is initiated – the additional provisions may be reversed upon completion of the assignment of debt / recovery.

Chapter V - Prudential Norms Applicable to Restructuring

12. Applicability

The provisions of this Chapter shall be applicable to all restructurings, including those undertaken under the Insolvency and Bankruptcy Code, 2016.

13. Asset Classification Post Restructuring

- (1) An account classified as 'standard' shall be immediately downgraded as non-performing assets, i.e., 'sub-standard' to begin with, following a restructuring by a NBFC.
- (2) An account classified as non-performing asset, upon restructuring by a NBFC, shall continue to have the same asset classification as prior to restructuring.
- (3) In both above cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms contained in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

14. Additional Finance

- (1) Any additional finance approved under the resolution plan (including any resolution plan approved by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016) may be treated by a NBFC as standard asset during the monitoring period under the approved resolution plan, provided the account demonstrates satisfactory performance during the monitoring period.
- (2) If the restructured asset fails to perform satisfactorily during the monitoring period or does not qualify for upgradation at the end of the monitoring period, the additional finance shall be placed in the same asset classification category as the restructured debt by a NBFC.
- (3) Any interim finance [as defined in section 5 (15) of the Insolvency and Bankruptcy Code, 2016] extended by the specified lenders to borrowers undergoing insolvency proceedings under the Insolvency and Bankruptcy Code, 2016 may be treated as standard asset during the insolvency resolution process period as defined in the Insolvency and Bankruptcy Code, 2016.

15. Asset classification upgrade after satisfactory performance

(1) Standard accounts classified as non-performing and non-performing accounts retained in the same category on restructuring by a NBFC may be upgraded only when all the outstanding loan / credit facilities in the account demonstrate 'satisfactory performance' with respect to all the specified lenders during the monitoring period.

Provided that the account cannot be upgraded before 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 under the terms of RP.

(2) In addition to the requirement in sub-paragraph (1), for accounts where the aggregate exposure of specified lenders is ₹100 crore and above at the time of implementation of resolution plan, 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 (BBB- or better), at the time of upgrade, by credit rating agencies accredited by the Reserve Bank for the purpose of bank loan ratings.

Provided that while accounts with aggregate exposure of ₹500 crore and above shall require two ratings, those below ₹500 crore shall require one rating.

Provided further that if the ratings are obtained from more than the required number of credit rating agencies, all such ratings shall be investment grade for the account to qualify for an upgrade.

Explanation: These ratings referred to in the second proviso shall be the normal ratings provided by the credit rating agencies and not Independent Credit Evaluation specified in Paragraph 10(3).

(3) If a borrower fails to demonstrate satisfactory performance with respect to all the specified lenders during the monitoring period, asset classification upgrade shall be subject to implementation of a fresh restructuring / change in ownership under these Directions or under the Insolvency and Bankruptcy Code, 2016.

16. Default by a borrower after monitoring period

Any default by a borrower in any of the credit facilities with any of the specified

lenders subsequent to upgrade in asset classification before the end of the specified period, will require a fresh resolution plan to be implemented within the specified timelines as any default would entail.

17. Provisioning post Restructuring

- (1) An account that has been restructured shall attract provisioning as per the asset classification category as laid out in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (2) A NBFC shall make additional specific provision of 15 per cent for an account referred to in Paragraph 15 (3) and Paragraph 16 at the end of the Review Period.
- (3) Specific provisions held on restructured assets by a NBFC as per subparagraph (1) above, may be reversed when the accounts are upgraded to standard category.
- (4) Additional specific provisions as required under subparagraph (2), along with other additional provisions, may be reversed as per the norms laid down in Paragraph 11(4) by a NBFC.
- (5) During the insolvency resolution process period, provisioning for the interim finance shall be governed by Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (6) Subsequently, upon approval of the resolution plan by the Adjudicating Authority, treatment of such interim finance shall be as per the norms applicable to additional finance, as per Paragraphs 14(1) and 14(2).
- (7) In respect of accounts of borrowers where a final resolution plan, as approved by the Committee of Creditors, has been submitted by the Resolution Professional for approval of the Adjudicating Authority (in terms of section 30(6) of the Insolvency and Bankruptcy Code, 2016), a NBFC may keep the provisions held as on the date of such submission of RP frozen for a period of six months from the date of submission of the plan or up to 90 days from the date of approval of the resolution plan by the Adjudicating Authority in terms of section 31 (1) of the

Insolvency and Bankruptcy Code, 2016, whichever is earlier.

Provided that in cases where the provisioning held is lower than the expected required provisioning, a NBFC shall make additional provisioning to the extent of the shortfall.

(8) The facility of freezing the quantum of the provision as per sub-paragraph (7) shall be available only in cases where the provisioning held by a NBFC as on the date of submission of the plan for approval of the Adjudicating Authority is more than the expected provisioning required to be held in the normal course upon implementation of the approved resolution plan, taking into account the contours of the resolution plan approved by Committee of Creditors / Adjudicating Authority, as the case may be, and extant prudential norms.

(9) Notwithstanding sub-paragraph (8), a NBFC shall not reverse the excess provisions held as on the date of submission of the resolution plan for approval of the Adjudicating Authority at this stage.

(10) Subsequent to the lapse of the period specified in sub-paragraph (7), provisioning shall be as per the requirements in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

(11) The facility of freezing of provisions as allowed in sub-paragraph (7) shall lapse immediately if the Adjudicating Authority rejects the resolution plan thus submitted, and asset classification in respect of such borrower shall continue be governed by the extant asset classification norms.

18. Income Recognition

(1) 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.

(2) In the case of additional finance in accounts where the pre-restructuring facilities were classified as non-performing assets, the interest income shall be recognised only on cash basis by a NBFC except when the restructuring is accompanied by a change in ownership.

19. Change in Ownership

- (1) In case of change in ownership of the borrowing entities, credit facilities of the concerned borrowing entities may be continued / upgraded as 'standard' by a NBFC after the change in ownership is implemented, either under the Insolvency and Bankruptcy Code, 2016 or under these Directions.
- (2) If the change in ownership is implemented under these Directions, then the classification as 'standard' shall be subject to the following conditions:
 - (i) The NBFC 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 NBFC shall clearly establish that the 'new promoter' is not a person / entity / subsidiary / associate etc. (domestic as well as overseas), from the existing promoter/promoter group as defined in Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
 - (iii) The new promoter shall have acquired at least 26 per cent of the paid-up equity capital as well as voting rights of the borrower entity and shall be the single largest shareholder of the borrower entity.
 - (iv) 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.
 - (v) The conditions for implementation of resolution plan as per Paragraph 10(10) are complied with.
- (3) Upon change in ownership, all the outstanding loans / credit facilities of the borrowing entity need to demonstrate satisfactory performance with respect to all the specified lenders during the monitoring period.
- (4) If the account fails to perform satisfactorily at any point of time during the monitoring period, it shall trigger a fresh Review Period.
- (5) The quantum of provisions held (excluding additional provisions) by the NBFC against the said account as on the date of change in ownership of the borrowing

entities may be reversed only after the end of monitoring period subject to satisfactory performance during the same.

(6) In case the promoters' shares have been pledged with a NBFC as collateral during the lock-in period mandated under SEBI (Disclosure and Investor Protection) Guidelines, and the pledge is invoked during the lock-in period by the NBFC consequent to default by the company, such shares may be transferred to the NBFC but shall continue to be under lock-in in the hands of the NBFC for the remaining lock-in period.

Chapter VI - Special Cases of Restructuring

20. Sale and Leaseback Transactions

A sale and leaseback transaction of the assets of a borrower or other transactions of similar nature shall be treated as an event of restructuring for the purpose of asset classification and provisioning in the books of a bank 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; and
- (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.

21. Borrowers who have committed Frauds / Malfeasance / Wilful Default

- (1) Borrowers who have committed frauds/ malfeasance/ wilful default as well as any entity with which a wilful defaulter is associated shall remain ineligible for restructuring.
- (2) However, in cases where the existing promoters are replaced by new promoters satisfying the conditions specified at sub-paras (i) to (iv) of Paragraph 19(2), and the borrower company is totally delinked from such erstwhile promoters / management, a NBFC 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.
- (3) A wilful defaulter or any entity with which a wilful defaulter is associated shall be eligible for restructuring subsequent to removal of the name of wilful defaulter from the List of Wilful Defaulters, subject to penal measures applicable to borrowers classified as wilful defaulter in terms of the Reserve Bank of India (Non-Banking Financial Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025.

22. Compromise Settlements and Technical Write-offs

- (1) The objective of compromise settlements shall be to maximise the possible recovery from a distressed borrower at minimum expense, in the best interest of the NBFC.
- (2) Compromise settlement is not available to borrowers as a matter of right; rather it is a discretion to be exercised by a NBFC based on its commercial judgement.
- (3) The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between a NBFC and a borrower relating to future contingent realizations or recovery by the NBFC, subject to such claims not being recognised in any manner on the balance sheet of the NBFC at the time of the settlement or subsequently till actual realization of such receivables.

Provided that any such claims recognised on the balance sheet of the NBFC shall render the arrangement to be treated as restructuring.

- (4) Notwithstanding sub-paragraph (3), compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring.
- (5) Any arrangement involving part settlement with the borrower shall also fall under the definition of restructuring, and shall be governed by the provisions applicable thereto.
- (6) Technical write-off is an accounting procedure undertaken by a NBFC to cleanse the balance sheets of bad debts which are either considered unrecoverable or whose recovery is likely to consume disproportionate resources of the lenders. However, such technical write-offs do not entail any waiver of claims against the borrower and thus the NBFC's right to recovery shall not be undermined in any manner. The legal obligation of the borrowers as well as the costs of such defaults for them remain unchanged vis-à-vis the position prior to technical write-offs.

(7) In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure.

Provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

(8) There shall be a reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority.

Provided that compromise settlements and technical write-offs approved by the MD & CEO / Board Level Committee shall be reported to the Board.

(9) The Board shall mandate a suitable reporting format so as to ensure adequate coverage of the following aspects at the minimum:

- (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y);
- (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts;
- (iii) amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts;
- (iv) extent of recovery in technically written-off accounts.

(10) In respect of borrowers subject to compromise settlements, there shall be a cooling period as determined by the respective Board approved policies before the NBFC can assume fresh exposures to such borrowers.

Provided that the cooling period in respect of exposures shall be subject to a floor of 12 months with a NBFC being free to stipulate higher cooling periods in terms of their Board approved policies.

(11) The cooling period to be adopted in respect of exposures subjected to technical write-offs shall be as per the Board approved policies of a NBFC.

(12) A NBFC may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such borrowers.

(13) The penal measures applicable to borrowers classified as fraud or wilful defaulter in terms of the Reserve Bank of India (Fraud Risk Management in NBFCs) Directions, 2024 and the Reserve Bank of India (Non-Banking Financial Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025, respectively, shall continue to be applicable in cases where a NBFC enters into compromise settlement with such borrowers, and the cooling periods specified in sub-paragraph (10) and (11), in respect of such borrowers, shall be without prejudice to such penal measures.

FAQ 1: *From a public policy perspective, what is the rationale for permitting a NBFC to enter into compromise settlement with borrowers classified as fraud or wilful defaulter?*

The primary regulatory objective is to enable multiple avenues to a NBFC to recover the money in default without much delay. Apart from the time value loss, inordinate delays result in asset value deterioration which hampers ultimate recoveries. Compromise settlement is recognized as a valid resolution mechanism under these Directions. The imperatives for a NBFC are no different when it comes to recovery from borrowers classified as fraud or wilful defaulter. Continuing such exposures on the balance sheets of a NBFC without resolution due to legal proceedings would lock the NBFC's funds in an unproductive asset, which would not be a desirable position. As long as larger policy concerns are suitably addressed and the costs of malafide actions are made to be borne by the perpetrators, early recoveries by a NBFC should be a preferred option, subject to safeguards. Further, continuation of criminal proceedings underway or to be initiated against the borrowers classified as fraud or wilful defaulter, would ensure that perpetrators of any malafide action do not go scot-free.

FAQ 2: *A NBFC is not permitted to restructure borrower accounts classified as fraud or wilful defaulter, except in case of change in ownership. Why a different treatment is prescribed for compromise settlements for such borrowers?*

Restructuring in general entails a NBFC having a continuing exposure to the borrower entity even after restructuring and hence, in case of borrowers classified as fraud or wilful defaulter, permitting the NBFC to continue its credit relationship with the borrower entity would be fraught with moral hazard. On the other hand, a compromise settlement entails a complete detachment of the NBFC with the borrower. Therefore, permitting a NBFC to settle with the borrowers as per their commercial judgement would enhance recovery prospects.

(14) The compromise settlements with the borrowers under these Directions shall be without prejudice to the provisions of any other statute in force.

(15) Wherever a NBFC had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

23. Resolution of Accounts Impacted by Natural Calamities

(1) The instructions contained in the Reserve Bank of India (Relief Measures by Banks in Areas Affected by Natural Calamities) Directions, 2018 shall also be applicable *mutatis mutandis* to a NBFC.

24. Projects Under Implementation

(1) The instructions contained in this Paragraph shall not apply to projects where financial closure has been achieved as on October 1, 2025, for which the prudential guidelines on project finance prevailing before October 1, 2025, which otherwise shall be treated as repealed, shall apply.

(2) Notwithstanding the instructions in sub-paragraph (1), any resolution of a fresh credit event and/or change in material terms and conditions in the loan contract in such projects, on or after October 1, 2025, shall be as per the guidelines contained in this Paragraph.

(3) A NBFC shall monitor the performance of the project and any buildup of stress on an ongoing basis and shall be expected to initiate a resolution plan well in advance.

(4) Occurrence of a credit event with any lender during the construction phase, shall trigger a collective resolution in terms of Chapter III of these Directions.

Explanation: The reference to ‘default’ in Chapter III of these Directions shall be read as ‘credit event’ for the purpose of project finance accounts, unless specified otherwise.

(5) Any such credit event with a NBFC shall be reported to the Central Repository of Information on Large Credit (CRLC) by the NBFC in the prescribed weekly as well as the CRLC-Main report in compliance with Paragraphs 5(3) to 5(4).

(6) A NBFC, which is part of a consortium / multiple lending arrangement shall also report occurrence of such credit event to all other members of the consortium / multiple lending arrangement.

(7) The instructions on CRLC reporting as per sub-paragraph (5) shall be issued in due course.

(8) A NBFC shall undertake a *prima facie* review of the borrower account during the Review Period.

(9) The conduct of a NBFC during the Review Period, including signing of Inter Creditor Agreement (ICA), and the decision to implement a resolution plan, wherever required, shall be guided by Chapter III of these Directions, unless specified otherwise.

(10) If a resolution plan involving extension of original / extended DCCO, as the case maybe, is implemented in a project finance account, which is classified as Standard and satisfies all relevant prudential conditions specified for sanction, disbursement and monitoring of project finance in the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025, the asset classification of such account shall continue to be classified as ‘Standard’, provided the envisaged resolution plan *ab initio* conforms to the following conditions:

(i) Permitted DCCO Deferment – Original / extended DCCO, as the case may be, is extended, along with the consequential shift in repayment schedule

for equal or shorter duration (including the start date and end date of revised repayment schedule), within the following time limits:

	Infrastructure Projects	Non-Infrastructure Projects (including CRE and CRE-RH)
Permitted deferment of DCCO from the original DCCO	Upto 3 years	Upto 2 years

Explanation: For CRE and CRE-RH projects, all provisions of the Real Estate (Regulation and Development) Act, 2016 (as updated from time to time) are to be complied with.

- (ii) Cost Overrun – A NBFC may finance, as part of a resolution plan, cost overrun associated with permitted DCCO deferment in compliance with Sl. No. (i) above, and classify the account as ‘Standard’, as under:
 - (a) Cost overrun up to a maximum of ten per cent of the original project cost, in addition to Interest During Construction.
 - (b) Cost overrun is financed through a Standby Credit Facility specifically sanctioned by the NBFC at the time of financial closure and which has been renewed continuously without any gap till the draw down under the facility.
 - (c) For infrastructure projects, in cases where Standby Credit Facility was not sanctioned at the time of financial closure, or was sanctioned but not renewed subsequently, such additional funding shall be priced at a premium to what would have been applicable on a pre-sanctioned Standby Credit Facility. A NBFC shall ensure that the loan-contracts *ab-initio* specify the additional risk premium to be charged on such Standby Credit Facility, which may be revised upwards based on actual risk assessment at the time of sanction of such facilities.

(d) The financial parameters like D/E ratio, external credit rating (if any) etc. remain unchanged or are enhanced in favour of the NBFC post such cost overrun funding.

Explanation: For projects where aggregate exposure of all lenders is less than ₹100 crore, internal credit rating may be considered, if the project was originally not credit rated externally.

(iii) Change in Scope and Size – A project finance account where DCCO extension is necessitated by an increase in the project outlay on account of increase in scope and size of the project, may be classified as ‘Standard’, subject to complying with the following conditions:

(a) The rise in project cost excluding any cost-overrun in respect of the original project is 25 per cent or more of the original outlay as the case may be.

Illustration 1:

Original cost of the Project – ₹1,000 crore

Revised cost of the Project – ₹1,200 crore

Increase in cost – ₹200 crore i.e., 20%

Attribution of increase in cost

a. *Change in Scope 18%*

b. *Cost Overrun 2%*

The increase in cost attributable to change in scope is ₹180 crore (18%) only. Since rise in cost on account of change in scope is 18%, which is less than 25%, no asset classification benefit shall be available.

Illustration 2

Original cost of the Project – ₹1,000 crore

Revised cost of the Project – ₹1,400 crore

Increase in cost – ₹400 crore i.e., 40%

Attribution of increase in cost

- a. *Change in Scope 30%*
- b. *Cost Overrun 10%*

The increase in cost attributable to change in scope is ₹300 crore (30%). Since rise in cost on account of change in scope is 30%, which is more than 25%, asset classification benefit shall be available.

- (b) The NBFC re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.
- (c) On re-rating (if already rated), the new external credit rating is not below the previous external credit rating by more than one notch.

Provided that if the project debt was unrated at the time of increase in scope or size, then it should be externally rated investment grade upon such increase in scope or size in case of projects where aggregate exposure of all lenders is equal to or greater than ₹100 crores.

- (11) The standard asset classification benefit on account of ‘change in scope’ shall be allowed only once during the lifetime of the project.
- (12) In all the cases specified in sub-paragraph (10), the following conditions shall be required to be met in respect of all the lenders before the expiry of 180 days from the end of the Review Period, for successful implementation of a resolution plan:
 - (i) all required documentation, including execution of necessary agreements between a lender and the borrower / creation of security charge / perfection of securities, are completed in consonance with the resolution plan being implemented;
 - (ii) the new capital structure and/ or changes in the financing agreement get duly reflected in the books of a lender and the borrower.
- (13) If a resolution plan involving change in DCCO is not successfully implemented in terms of sub-paragraph (10) and / or (12), then the account shall be downgraded to NPA immediately.

(14) A project finance account downgraded to NPA for non-compliance with subparagraph (10), can be upgraded only after the account performs satisfactorily post actual DCCO.

Explanation: Satisfactory performance as defined in Paragraph 3(1)(xiv) shall apply in this case.

(15) A project finance account downgraded to NPA for non-compliance with subparagraph (12), may be upgraded on successful implementation of resolution plan, provided no further request for deferment of DCCO is received.

(16) Income recognition in respect of a project finance account where a resolution plans Involving Extension of Original / Extended DCCO shall be as follows:

(i) A NBFC may recognise income on accrual basis in respect of project finance exposures which are classified as 'Standard'.

(ii) For NPAs, income recognition shall be as per instructions contained in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

(17) For accounts which have availed DCCO deferment as per sub-paragraphs (10) to (13) and are classified as 'standard', a NBFC shall maintain additional specific provisions of 0.375% for infrastructure project loans and 0.5625% for non-infrastructure project loans (including CRE and CRE-RH), for each quarter of deferment, over and above the applicable standard asset provision specified in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

Illustration:

Infrastructure Projects	Non Infra Projects (including CRE and CRE-RH)
Illustration 1 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2026</i>	Illustration 1 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2026</i>

<i>Quantum of Specific Provisions to be maintained – ₹3.750 crore</i>	<i>Quantum of Specific Provisions to be maintained – ₹5.625 crore</i>
Illustration 2 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2027</i> <i>Quantum of Specific Provisions to be maintained – ₹18.750 crore</i>	Illustration 2 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2027</i> <i>Quantum of Specific Provisions to be maintained – ₹28.125 crore</i>
Illustration 3 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2029</i> <i>Asset Classification - NPA</i> <i>Quantum of Specific Provisions to be maintained– ₹ 150 crore</i>	Illustration 3 <i>Funded Outstanding – ₹ 1000 crore</i> <i>Original DCCO – January 01, 2026</i> <i>Extended DCCO – April 01, 2028</i> <i>Asset Classification - NPA</i> <i>Quantum of Specific Provisions to be maintained – ₹ 150 crore</i>

(18) The additional specific provisions required as per sub-paragraph (17) shall be reversed upon commencement of commercial operation.

(19) The provisions stipulated in sub-paragraph (17) shall not be applicable for existing projects which are specified in sub-paragraph (1) and such project loans shall continue to be guided by the prudential guidelines for the purpose of provisioning, prevailing before October 1, 2025 shall apply, which otherwise shall be treated as repealed.

(20) Notwithstanding the instructions in sub-paragraph (19), in case of any resolution of a fresh credit event and / or change in material terms and conditions in the loan contract in such projects, the provisions stipulated in sub-paragraph (17) shall apply to these projects as if these were sanctioned on or after October 1, 2025.

(21) Provisioning for project loans classified as ‘Standard’ (construction or operational phase) or NPA shall be as per extant instructions contained in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

Chapter VII - Government Debt Relief Schemes (DRS)

25. Prudential treatment in respect of Government Debt Relief Schemes (DRS):

- (1) A NBFC may decide on participating in a particular DRS notified by a Government, based on its Board approved policy, subject to the extant regulatory norms.
- (2) Any provision of the scheme that may warrant modification in long term interest of the borrowers or for prudential reasons may be duly brought to the notice of the concerned authority/ies through the State Level Bankers' Committee / District level Consultative Committee, during the consultation phase while designing the DRS.
- (3) A NBFC shall clearly determine the eventual outstanding that may crystallise in their books in respect of the borrowers proposed to be covered under the DRS, including the accumulated interest in non-performing accounts, by the time the dues are settled under the DRS, to enable the Government to suitably arrange for the extent of fiscal participation.
- (4) A NBFC shall ensure that the borrowers to be covered under DRS are selected strictly as per terms of such schemes so as to avoid subsequent non-admission by the authorities on technical grounds.
- (5) The terms and conditions of the scheme as well as the prudential aspects, including cooling period for extending fresh credit, impact on credit score etc., shall be clearly communicated to the borrowers at the time of obtaining explicit consent from the borrower for availing benefits under a proposed DRS.
- (6) Any waiver of accrued but unrealised interest and/ or sacrifice of principal undertaken by a NBFC in the borrower accounts of beneficiaries of the DRS, either as part of the implementation of the scheme or subsequent to its implementation, shall be treated as a compromise settlement and shall attract the prudential treatment contained in Paragraph 22.
- (7) If the funds received by a NBFC as part of the DRS covers the entire outstanding dues of the borrower, including principal and interest accrued till

the date of receipt of funds by the NBFC, the same shall lead to extinguishment of borrower's debt obligations.

(8) In cases where the funds received by a NBFC as part of the scheme are not adequate to cover the entire outstanding dues of the borrower, leading to residual exposure (principal and / or accrued interest), the asset classification of the residual exposure shall be evaluated as per the terms and conditions of the original loan contract.

Provided that any changes / modifications to the terms and conditions of the original loan contract in such cases shall be evaluated against the test of restructuring as defined in these Directions and shall attract the prudential treatment therein.

(9) Any fresh credit exposure to such borrowers shall be as per the commercial discretion of the NBFC under relevant internal policy, subject to extant applicable regulations.

(10) A NBFC's reporting in respect of the borrowers under the scheme to the credit information companies shall be guided by the extant guidelines in this regard.

(11) There shall not be creation of any receivable against the Government on account of the DRS and the exposure shall continue to be on the borrower till receipt of funds by the NBFC.

(12) Till receipt of funds, a NBFC shall continue to apply the prudential norms including prudential norms on income recognition, asset classification and provisioning, and wherever the accounts are non-performing, the NBFC may pursue recovery measures as per their Board approved policy against such borrowers.

(13) The instructions contained in Sl. Nos. (i) to (xii) shall apply in respect of DRS' notified on or after December 31, 2024 and shall be without prejudice to the instructions on resolution of stressed assets contained in these Directions.

(14) In the context of these instructions, a model operating procedure (MOP) has also been shared with the State Governments (Annex) for their consideration while designing and implementing such DRS through a consultative approach,

to avoid any non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

(15) In respect of relief measures announced prior to December 31, 2024, any dues pending receipt from Government, for more than 90 days shall attract specific provision of 100%.

A NBFC shall take necessary action and actively follow up with the respective Governments for settlement of dues referred to in Sl. No. (xv).

Chapter VIII - Prudential Treatment of Instruments Acquired as part of Restructuring

26. Asset classification of instruments acquired as part of restructuring

- (1) This Paragraph shall be applicable to cases where an act of restructuring creates new securities issued by the borrower which would be held by a NBFC in lieu of a portion of the pre-restructured exposure.
- (2) The Funded Interest Term Loan (FITL) / debt / equity instruments created by conversion of principal / unpaid interest, as the case may be, shall be placed in the same asset classification category by a NBFC in which the restructured advance has been classified.
- (3) Further movement in the asset classification of FITL / debt or equity instruments would also be determined based on the subsequent asset classification of the restructured advance.

27. Provisioning in respect of instruments acquired as part of restructuring

The provisioning applicable to instruments acquired as part of restructuring shall be the higher of:

- (1) The provisioning applicable to the asset classification category in which such instruments are held by a NBFC; or
- (2) The provisioning applicable based on the fair valuation of such instruments as provided in Paragraph 28.

28. Valuation of instruments acquired as part of restructuring

- (1) The overarching principle should be that valuation of instruments arising out of resolution of stressed assets shall be based on conservative assessment of cash flows and appropriate discount rates to reflect the stressed cash flows of the borrowers.
- (2) Statutory Auditors should specifically examine as to whether the valuations of such instruments reflect the risk of loss associated with such instruments.
- (3) Debt / quasi-debt / equity instruments shall be subject to all the instructions contained in the Reserve Bank of India (Non-Banking Financial Companies –

Classification, Valuation and Operation of Investment Portfolio) Directions, 2025 to the extent they are not inconsistent with these Directions:

(4) Debentures / bonds shall be valued as per the instructions contained in the Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

(5) Conversion of debt into Zero Coupon Bonds (ZCBs) / low coupon bonds (LCBs) as part of a resolution plan and the valuation of such instruments shall be as prescribed in the Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025, subject to the following:

- (i) Where the borrower fails to build up the sinking fund as required under the above Directions, ZCBs / LCBs of such borrower shall be collectively valued at ₹1;
- (ii) Instruments without a pre-specified terminal value would be collectively valued at ₹ 1.

(6) Equity instruments, where classified as standard, shall be valued at market value, if quoted, or else, should be valued at the lowest value arrived using the following valuation methodologies:

- (i) Book value (without considering 'revaluation reserves', if any) which is to be ascertained from the company's latest audited balance sheet. The date as on which the latest balance sheet is drawn up should not precede the date of valuation by more than 18 months. In case the latest audited balance sheet is not available, the shares are to be collectively valued at ₹1 per company.
- (ii) Discounted cash flow method where the discount factor is the actual interest rate charged to the borrower on the residual debt post restructuring plus a risk premium to be determined as per the board approved policy considering the factors affecting the value of the equity. The risk premium will be subject to a floor of three per cent and the overall discount factor will be subject to a floor of 14 per cent. Further, cash flows (cash flow available from the current as well as immediately prospective (not more than six months) level

of operations) occurring within 85 per cent of the useful economic life of the project only shall be reckoned.

(7) Equity instruments, where classified as NPA, shall be valued at market value, if quoted, or else, shall be collectively valued at ₹1.

(8) Preference Shares shall be valued as per the instructions contained in the Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025, subject to the following modifications:

(i) The discount rate shall be subject to a floor of weighted average actual interest rate charged to the borrower on the residual debt after restructuring plus a mark-up of 1.5 percent.

(ii) Where preference dividends / coupons are in arrears, no credit should be taken for accrued dividends / coupons and the value determined as above should be discounted further by at least 15 per cent if arrears are for one year, 25 per cent if arrears are for two years, so on and so forth (i.e., with annual increments of ten per cent).

(9) In case a NBFC has acquired unquoted instruments on conversion of debt as a part of a resolution plan, and if the resolution plan is not deemed as implemented, such unquoted instruments shall collectively be valued at ₹1 at that point, and till the resolution plan is treated as implemented.

29. Income Recognition from instruments acquired as part of restructuring

(1) The unrealised income represented by FITL / Debt or equity instrument should have a corresponding credit in an account styled as ‘Sundry Liabilities Account (Interest Capitalization)’.

(2) The unrealised income represented by FITL / Debt or equity instrument can only be recognised in the profit and loss account by a NBFC as under:

(i) FITL / debt instruments: only on sale or redemption, as the case may be;

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

(iii) 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 Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

Chapter IX - Regulatory Exemptions

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

(1) SEBI has provided exemptions, under certain conditions, from the requirements of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (ICDR) Regulations, 2018 for restructurings carried out as per the regulations issued by the Reserve Bank.

(2) With reference to the requirements contained in sub-regulations 158 (6) (a) of ICDR Regulations, 2018, 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 latest audited balance sheet (without considering 'revaluation reserves', if any) adjusted for cash flows and financials post the earlier restructuring, if any. The date as on which the latest balance sheet is drawn up should not precede the date of restructuring by more than 18 months. In case the latest audited balance sheet is not available the shares are to be collectively valued at ₹1 per company.

(3) In the case of conversion of debt into equity, the 'reference date' shall be the date on which the NBFC approves the restructuring scheme. In the case of conversion of convertible securities into equity, the 'reference date' shall be the date on which the NBFC approves the conversion of the convertible securities into equities.

**Part B: Resolution of Stressed Assets by a non-deposit taking NBFC
with asset size of less than ₹500 crore**

Chapter X - Preliminary

31. Directions from Part A applicable to a non-deposit taking NBFC with asset size of less than ₹500 crore

- (1) The instructions contained in Paragraphs 4(4), 4(5), 5(1), 5(2), 5(7), 6, 7, 21, 22, 23, 24, and 25 shall apply mutatis mutandis to a non-deposit taking NBFC with asset size of less than ₹500 crore.
- (2) In addition to the instructions contained in sub-paragraph (1), the instructions contained in Paragraphs 5(3), 5(5) and 5(6) shall apply *mutatis mutandis* to a NBFC-Factor.

32. Definitions

- (1) In Part B of these Directions, the following definitions shall apply, unless the context otherwise requires:
 - (i) '*advances*' shall mean all kinds of credit facilities including, term loans, bills discounted / purchased, factored receivables, etc. and investments other than that in the nature of equity;
 - (ii) '*fully secured*' in the context of NBFC's dues shall mean when the amounts due to an NBFC (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues;

Explanation: While assessing the realisable value of security, primary as well as collateral securities shall be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter/others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees shall be treated on par with tangible security

(iii) '*restructured account*' is one where a NBFC, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the NBFC would not otherwise consider.

Explanation: Restructuring shall normally involve modification of terms of the advances/securities, which shall generally include, among others, alteration of repayment period/ repayable amount/ the amount of instalments/rate of interest (due to reasons other than competitive reasons).

(iv) '*repeatedly restructured account*' shall mean an account that has been restructured by a NBFC for a second (or more) time(s).

Provided that if the second restructuring takes place after the period upto which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

(v) '*specified period*' shall mean a period 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 under the terms of restructuring package.

(vi) '*satisfactory performance*' in respect of a non-agricultural term loan during the specified period means no payment shall remain overdue for a period of more than the number of days after which it would be classified as NPA. In addition, there shall not be any overdues at the end of the specified period.

(2) All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

Chapter XI - General Principles and Prudential Norms for Restructured Advances

33. General instructions for restructuring of advances

- (1) A NBFC may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.
- (2) Restructuring of advances shall take place in the following stages:
 - (i) before commencement of commercial production/operation;
 - (ii) after commencement of commercial production/operation but before the asset has been classified as 'sub-standard';
 - (iii) after commencement of commercial production/operation and the asset has been classified as 'sub-standard' or 'doubtful'.
- (3) A NBFC cannot reschedule / restructure / renegotiate borrowing accounts with retrospective effect.
- (4) While a restructuring proposal is under consideration, the usual asset classification norms shall continue to apply. The process of re-classification of an asset shall not stop merely because restructuring proposal is under consideration.
- (5) The asset classification status as on the date of approval of the restructured package by the competent authority shall be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation.
- (6) In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it shall be a matter of supervisory concern.
- (7) Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by a NBFC in deserving cases subject to customer agreeing to the terms and conditions.
- (8) No account shall be taken up for restructuring by a NBFCs unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package.

(9) Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by a NBFC shall be treated as an attempt at evergreening a weak credit facility and shall invite supervisory concerns / action. A NBFC shall accelerate the recovery measures in respect of such accounts.

(10) The viability shall be determined by a NBFC based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case.

Illustratively, the parameters can include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance.

(11) The broad benchmarks for the viability parameters are as below:

- (i) Return on capital employed shall be at least equivalent to 5 year Government security yield plus 2 percent.
- (ii) The debt service coverage ratio shall be greater than 1.25 within the 5 years period in which the unit shall become viable and on year to year basis the ratio shall be above 1. The normal debt service coverage ratio for 10 years repayment period shall be around 1.33.
- (iii) The benchmark gap between internal rate of return and cost of capital shall be at least 1 percent.
- (iv) Operating and cash break even points shall be worked out and they shall be comparable with the industry norms.
- (v) Trends of the company based on historical data and future projections shall be comparable with the industry. Thus, behaviour of past and future EBIDTA shall be studied and compared with industry average.
- (vi) Loan life ratio (LLR), as defined below shall be 1.4, which would give a cushion of 40 percent to the amount of loan to be serviced.

$$LLR = \frac{\text{Present Value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

- (12) As different sectors of economy have different performance indicators, it shall be desirable that a NBFC adopt these broad benchmarks with suitable modifications.
- (13) A NBFC shall decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby it shall have the right to convert a portion of the restructured amount into equity, keeping in view the relevant SEBI regulations.
- (14) Conversion of debt into preference shares shall be done only as a last resort and such conversion of debt into equity / preference shares shall, in any case, be restricted to a cap (say 10 percent of the restructured debt). Further, any conversion of debt into equity shall be done only in the case of listed companies.
- (15) A NBFC may consider incorporating in the approved restructuring packages creditor's rights to accelerate repayment and the borrower's right to prepay.
- (16) All restructuring packages must incorporate 'Right to recompense' clause and it shall be based on certain performance criteria of the borrower. In any case, minimum 75 percent of the recompense amount shall be recovered by the lenders and in cases where some facility under restructuring has been extended below bare lending rate, 100 percent of the recompense amount shall be recovered.
- (17) Promoters' personal guarantee shall be obtained in all cases of restructuring and corporate guarantee cannot be accepted as a substitute for personal guarantee. However, corporate guarantee can be accepted in those cases where the promoters of a company are not individuals but other corporate bodies or where the individual promoters cannot be clearly identified.
- (18) All restructuring packages shall be required to be implemented in a time bound manner. A restructuring package shall be implemented within 120 days from the date of receipt of application by the NBFC.
- (19) Promoters must bring additional funds in all cases of restructuring. Additional funds brought by promoters shall be a minimum of 20 percent of NBFCs' sacrifice or 2 percent of the restructured debt, whichever is higher.
- (20) The promoters' contribution shall invariably be brought upfront while extending the restructuring benefits to the borrowers.

- (21) Promoter's contribution need not necessarily be brought in cash and can be brought in the form of conversion of unsecured loan from the promoters into equity;
- (22) A NBFC shall determine a reasonable time period during which the account is likely to become viable, based on the cash flow and the Techno Economic Viability (TEV) study;
- (23) A NBFC shall be satisfied that the post restructuring repayment period is reasonable, and commensurate with the estimated cash flows and required DSCR in the account as per their own Board approved policy.
- (24) A NBFC shall clearly document its own due diligence done in assessing the TEV and the viability of the assumptions underlying the restructured repayment terms.
- (25) While extending repayment period in respect of housing loans to keep the EMI unchanged, a NBFC shall satisfy itself about the revenue generation / repaying capacity of the borrower during the entire repayment period including the extended repayment period.
- (26) A NBFC shall not extend the repayment period of such borrowers where they have concerns regarding the repaying capacity over the extended period, even if the borrowers want to extend the tenor to keep the EMI unchanged.
- (27) A NBFC shall provide the option of higher EMI to such borrowers who want to repay the housing loan as per the original repayment period.
- (28) The basic objective of restructuring is to preserve economic value of units, not evergreening of problem accounts. This can be achieved by NBFCs and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages

34. Asset classification norms

- (1) The accounts classified as 'standard assets' shall be immediately reclassified as 'sub-standard assets' upon restructuring.
- (2) The non-performing assets, upon restructuring, shall continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

(3) Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the NBFC shall be upgraded only when all the outstanding loan/ facilities in the account perform satisfactorily during the 'specified period', i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

(4) In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account shall be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

(5) Any additional finance shall be treated as 'standard asset' during the specified period under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'substandard' and 'doubtful', interest income on the additional finance shall be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

(6) If a restructured asset, which is a standard asset on restructuring is subjected to restructuring on a subsequent occasion, it shall be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion shall be allowed to be upgraded to standard category after the specified period in terms of the current restructuring package, subject to satisfactory performance.

35. Income Recognition Norms

Subject to provisions of paragraphs 34(5), 39 and 42, interest income in respect of restructured accounts classified as 'standard assets' shall be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' shall be recognized on cash basis.

36. Provision on restructured advances

- (1) NBFCs shall hold provision against the restructured advances as per the extant provisioning norms contained in the Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (2) Restructured accounts classified as non-performing advances, when upgraded to standard category shall attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.

37. Provision for diminution in the fair value of restructured advances

- (1) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, shall result in diminution in the fair value of the advance.
- (2) A NBFC shall measure such diminution in the fair value of the advance and make provisions for it by debit to Profit and Loss Account. Such provision shall be held in addition to the provisions as per existing provisioning norms as indicated in Paragraph 36, and in an account distinct from that for normal provisions.
- (3) For this purpose, the erosion in the fair value of the advance shall be computed as the difference between the fair value of the loan before and after restructuring.
- (4) Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate i.e. the interest rate applicable to the borrower as per the loan agreement had the loan been serviced without any default, as applicable to the concerned borrower, as on the date of restructuring.
- (5) Fair value of the loan after restructuring shall be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the NBFC's bare lending rate as applicable to the borrower as on the date of restructuring. The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and shall have to be followed consistently by NBFCs in future

(6) The provisions required as above arise due to the action of the NBFCs resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions shall not substitute for each other.

(7) The amount of principal converted into debt / equity instruments on restructuring shall be held under 'current investments' and valued as per usual valuation norms. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt/equity has to be carried out separately.

(8) The total sacrifice involved for the NBFC would be NPV of the above portion plus valuation loss on account of conversion into debt/equity instruments.

(9) NBFCs shall correctly capture the diminution in fair value of restructured accounts as it shall have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters. Further, there must not be any effort on the part of NBFCs to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering.

(10) NBFCs shall put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

(11) In the event any security is taken in lieu of the diminution in the fair value of the advance, it shall be valued at ₹1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit and Loss account is not negated.

(12) The diminution in the fair value shall be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, to capture the changes in the fair value on account of changes in the bare lending rate as applicable to the borrower. Consequently, a NBFC shall provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(13) If due to lack of expertise / appropriate infrastructure, a NBFC finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, a NBFC shall have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five percent of the total exposure, in respect of all restructured accounts where the total dues to NBFC(s) are less than ₹1 crore.

(14) The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100 percent of the outstanding debt amount.

Chapter XII - Prudential Norms for Conversion of Principal into Debt / Equity

38. Asset classification norms

- (1) A part of the outstanding principal amount can be converted into debt or equity instruments as part of restructuring. The debt/equity instruments so created shall be classified in the same asset classification category in which the restructured advance has been classified.
- (2) Further movement in the asset classification of these instruments shall also be determined based on the subsequent asset classification of the restructured advance.

39. Income recognition norms

- (1) In the case of restructured accounts classified as 'standard', the income, if any, generated by these instruments shall be recognised on accrual basis.
- (2) In the case of restructured accounts classified as non-performing assets, the income, if any, generated by these instruments shall be recognised only on cash basis.

40. Valuation and provisioning norms

- (1) These instruments shall be held under 'current investments' and valued as per usual valuation norms.
- (2) Equity classified as standard asset shall be valued either at market value, if quoted, or at break-up value, if not quoted (without considering the revaluation reserve, if any) which is to be ascertained from the company's latest balance sheet. In case the latest balance sheet is not available, the shares are to be valued at ₹1.
- (3) Equity instrument classified as NPA shall be valued at market value, if quoted, and in case where equity is not quoted, it shall be valued at ₹1
- (4) Depreciation on these instruments shall not be offset against the appreciation in any other securities held under the 'current investment' category.

Chapter XIII - Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments

41. Asset classification norms

- (1) The FITL/debt or equity instrument created by conversion of unpaid interest shall be classified in the same asset classification category in which the restructured advance has been classified.
- (2) Further movement in the asset classification of FITL / debt or equity instruments shall be determined based on the subsequent asset classification of the restructured advance.

42. Income recognition norms

- (1) The income, if any, generated by these instruments shall be recognised on accrual basis, if these instruments are classified as 'standard', and on cash basis in the cases where these have been classified as a non-performing asset.
- (2) The unrealised income represented by FITL / Debt or equity instrument shall have a corresponding credit in an account styled as 'Sundry Liabilities Account (Interest Capitalisation)'.
- (3) In the case of conversion of unrealised interest income into equity, which is quoted, interest income can be recognized after the account is upgraded to standard category at market value of equity, on the date of such upgradation, not exceeding the amount of interest converted into equity.
- (4) Only on repayment in case of FITL or sale / redemption proceeds of the debt / equity instruments, the amount received shall be recognised in the P&L Account, while simultaneously reducing the balance in the 'Sundry Liabilities Account (Interest Capitalisation)'.

43. Valuation & Provisioning norms

- (1) Valuation and provisioning norms shall be as per Paragraph 40.
- (2) The depreciation, if any, on valuation shall be charged to the Sundry Liabilities (Interest Capitalisation) Account.

Chapter XIV - Repeal and Other Provisions

44. Repeal and saving

(1) With the issue of these Directions, the existing directions, instructions, and guidelines relating to Resolution of Stressed Assets as applicable to Non-Banking Financial Companies stands repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.

(2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

45. Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

46. Interpretations

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

Annex

Model Operating Procedure (Government Debt Relief Schemes)

Coverage and Meaning

1. For the purpose of the Model Operating Procedure (MOP), Debt Relief Schemes (DRS) refer to Schemes notified by the State Governments that entail funding by the fiscal authorities to cover debt obligations of a targeted segment of borrowers that the regulated entities are required to sacrifice / waive.
2. Announcement / notification of any such DRS should include the specific stress or distress situation necessitating announcement of such support. Given the broader implications of such DRS for the credit culture, while broad based relief measures can be addressed through pure fiscal support in the form of Direct Benefit Transfer (DBT), DRS should be considered only as a measure of last resort when other measures to alleviate financial stress have failed.

Pre-Notification Consultation

3. Before announcing any DRS, Governments may engage with the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC) to evolve a coordinated action plan for conceptualisation, design, and implementation of the DRS. The schemes should, cover critical aspects of the scheme like identification of borrowers, impact assessment, implementation timelines, resolution of issues concerning settlement of dues by Government to the lending institutions, etc.
4. The design features should ensure that the DRS do not impact the financial stability aspects of the region / State or create moral hazards in the borrower segments. Conformance to relevant regulatory guidelines on loan settlement, reporting to credit information companies etc. should also be taken into account.

Funding of Scheme

5. Detailed budgetary provisions / funding may be provided upfront towards any proposed DRS to fully cover the required settlement amounts. Where regulated entities have dues from the Government, pertaining to earlier DRS schemes, new schemes should be announced only on a fully pre-funded basis.

Design of Scheme

6. The DRS should be targeted only at the impacted borrowers and should not contain any restrictive covenant against timely repayments. Further, it should specify the criteria for determining eligible borrowers on an objective basis, detailed timeline of critical / material events, including cut-off dates for filing/ submission, acknowledgement, approval and settlement of claims along with compensation clauses for delays in settling the funds, on part of the Government.
7. The DRS should cover the entire outstanding dues of the borrowers being covered, including principal and accumulated interest till the date of receipt of funds by the regulated entities from the Government.
8. The DRS should not require the creation of a receivable in the books of the regulated entity against the Government. The exposure of regulated entities to the borrower shall continue and shall be reduced to the extent of funds received from the Government.
9. The entire implementation of the Scheme and settlement of claims by the Governments to the regulated entities, should generally be completed within 45 to 60 days.
10. The DRS should not contain any provision contrary to any regulatory instruction issued by RBI / NABARD.
11. The design of the DRS should not contain any provision that casts any obligations on the regulated entities, directly or indirectly, to:
 - a. waive/ sacrifice a part or whole of its dues from the borrower;
 - b. extend fresh credit to borrowers whose debt has been waived;
 - c. make any commitments in anticipation of future budgetary support;
 - d. stop pursuing legal avenues available to them, for recovery of dues from the borrower, pending receipt of funds from the Government.

However, if the regulated entities agree to any of the above at the time of design of DRS or subsequently, as per their Board-approved policies, it shall be subject to the applicable prudential guidelines.