

Seminar on Statutory Audit of Bank Branches

IRAC Norms 2.0 & Recent Circulars for
Bank Audit

WIRC of ICAI

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Thought behind:



Challenges for Bank Audit -FY 2021-22:

- ❑ **IRAC Norms 2.0**-requires daily NPA classification through system with minimum or no manual intervention, out of order in CC a/c etc.
- ❑ **COVID-2.0- Restructuring Scheme-** compliance of various restructuring guidelines issued by RBI including interpretation issues
- ❑ **Monitoring pool of restructured account-** various restructuring schemes with different criteria and upgradation policy
- ❑ **Presentation of Financial Statements-** requires various new disclosures, new changes in disclosures in schedules etc.
- ❑ **Revised LFAR-** requires reporting on various new clauses- judgement of the auditor on few of clauses- increase the responsibility
- ❑ **Increase regulatory supervision-** new areas of diversions in absence of any clear guidelines/circulars

*From Reserve Bank of
India Desk*

Relevant Circulars applicable for FY 2021-22:

❑ Master Circular/Master Directions:

- Master Circular on Prudential norms on IRACP dated October 1, 2021 along with classification issued on November 12, 2021 read with February 15, 2022 – **New Changes**
- Master Directions on Frauds – Classification and Reporting by commercial banks and select FI- July 2017- **RFA & EWS mechanism**
- Master Direction-Priority Sector Lending-Targets and Classification (amended from time to time)- **Certificate from SBA's**
- Master Direction - Know Your Customer (KYC) Direction, 2016- **New LFAR clauses**
- Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector- **various relaxation**

Relevant Circulars applicable for FY 2021-22:

❑ Other Circular/Notifications:

- Master Direction on Financial Statements - Presentation and Disclosures- 31st August 2021 (amended -15th November 2021)
- New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade dated **July 7,2021**
- Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) dated May 5,2021-**implementation date December 31, 2021**
- Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses dated May 5,2021-**implementation date December 31, 2021**
- Guidelines for Implementation of the circular on Opening of Current Accounts by Banks- **LFAR Reporting**

Relevant Circulars applicable for FY 2021-22:

❑ Other Circular/Notifications:

- Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021
- Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021
- Long Form Audit Report (LFAR) – Review- September 5, 2020- **New Format of LFAR**
- Automation of NPA- Classification & Provision- September 14, 2020
 - To be implemented by 30th June,2021;
 - Manual intervention- on classification & provisioning to be removed;
 - NPA classification to be made as day-end process- DAILY NPA;
 - System should be audited by independent expert

RBI Dashboard:

CURRENT RATES

Policy Rates	▼
Reserve Ratios	▼
Exchange Rates	▼
Lending / Deposit Rates	▼
Market Trends	▼

What's New

[Sections Updated Today](#)

[COVID-19 Measures](#)

[Citizen's Corner](#)

[Payment and Settlement Systems Regulations, 2008 - Amendment](#)

[RBI Bulletin – March 2022](#)

[Master Direction – Reserve Bank of India \(Regulatory Framework for Microfinance Loans\) Directions, 2022](#)

[Home](#)

COVID-19 related Measures

Governor's Statement	
Speeches	
Notifications	
Press Releases	
FAQs	
Report	

ICAI Materials:

Guidance Note on Audit of Banks (2022 Edition)

Attention

Members' attention is invited to relevant directions/circulars issued by the Reserve Bank of India up to January 31, 2022 available at ICAI website for ease of use and reference. Members are advised to keep track of legislative/law/developments, for example, occasion of the Reserve Bank of India, issued subsequent to the assessment date and having a bearing on the statutory audit of banks/bank branches for the year ended March 31, 2022.

Members are also advised to read the Guidance Note in conjunction with other two publications (Technical Guide on Audit of Internal Financial Controls in Case of Public Sector Banks and Technical Guide on Revised Formats of Long Form Audit Report) of AAGS.



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Technical Guide on Revised Formats of Long Form Audit Report



The Institute of Chartered Accountants of India
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Technical Guide on Audit of Internal Financial Controls in Case of Public Sector Banks



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Changes in presentation of FS of Banks/BC:

Item	Earlier	Now	Impact
MTM provision for depreciation on Investments (including reversal of excess provision)	Under Provisions & Contingencies	Under Other Income	+/- in Operating profit
Recoveries from W/off accounts **	Under Other Income	Under Provision & Contingencies	+/- in operating profit
Term reverse repo (> 14 days)	Under Bank Balance	Under Advances	NPA Ratio
Short Term loans (original maturity of 1 YR)	Under Term loans \$	Under CC & Loan repayable on demand	Presentation change

*** this change has been removed w.e.f. 15th November 2021*

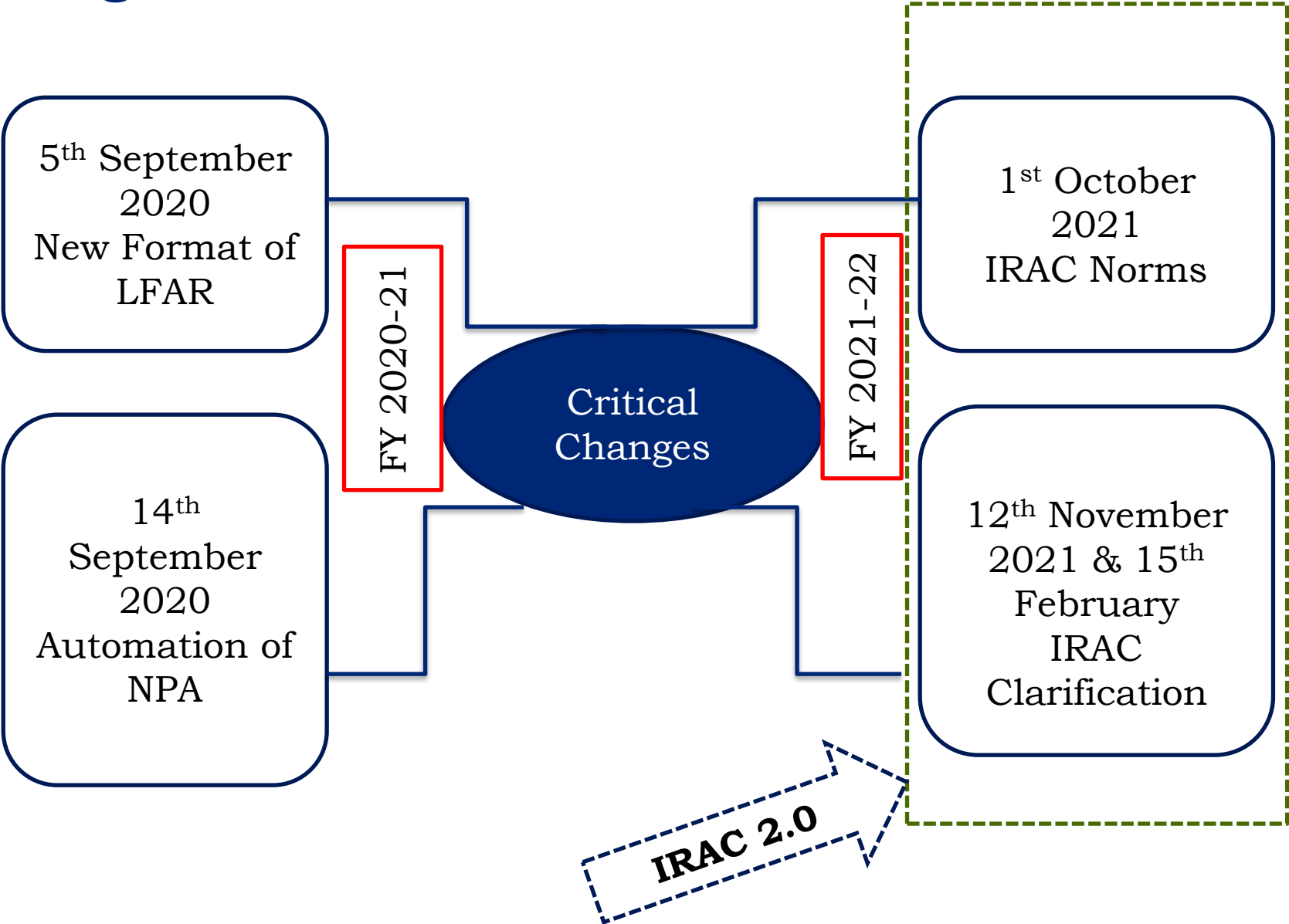
\$ different banks were following different practice

Changes in presentation of FS of Banks/BC:

PARTICULARS	FOR THE QUARTER ENDED 30.09.2021	FOR THE QUARTER ENDED 30.06.2021
	(Unaudited)	(Unaudited)
1. Interest earned (a)+(b)+(c)+(d)	16,336.01	16,003.46
(a) Interest/discount on advances/bills	11,986.74	11,881.46
(b) Income on Investments	3,521.64	3,428.20
(c) Interest on balances with Reserve Bank of India and other inter-bank funds	405.35	259.90
(d) Others	422.28	433.90
2. Other Income [Refer note 2 & 3]	3,798.38	3,358.46
3. TOTAL INCOME (1+2)	20,134.39	19,361.92
4. Interest Expended	8,435.71	8,243.19
5. Operating expenses (i)+(ii)	5,770.51	4,932.40
(i) Employees cost	1,935.54	1,851.87
(ii) Other operating expenses	3,834.97	3,080.53
6. TOTAL EXPENDITURE (4+5) (Excluding Provisions and Contingencies)	14,206.22	13,175.59
7. OPERATING PROFIT (3-6) [Profit before Provisions & Contingencies]	5,928.17	6,186.33
8. Provisions (other than tax) and Contingencies (Net) [Refer note 3]	1,735.09	3,302.30
9. Exceptional Items	-	-
10. Profit/(Loss) from Ordinary Activities before Tax (7-8-9)	4,193.08	2,884.03
11. Tax expense	1,059.76	723.88
12. Net Profit/(Loss) from Ordinary Activities after Tax (10-11)	3,133.32	2,160.15

IRAC Norms 2.0

Changes to remember:



Changes in IRAC norms 2.0 for Banks/BC:

Earlier requirements:

Timeline for implementation of viable RP	Additional 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%)

New requirements:

Timeline for implementation of viable RP	Additional provisions to be made as a % of total outstanding (funded+non-funded), 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%)

IRAC Norms – Clarifications/changes for Banks:

Major points of clarifications in 12th November 2021 circular:

- Specification of due date/repayment date in loan agreement
- **Classification of SMA & NPA –part of day-end process** (Same Day vs. Next Day)
- **Clarification regarding definition of ‘out of order’**
- NPA classification in case of interest payments
- ~~Upgradation to standard status – not relevant for banks~~
- **Income recognition policy in case of loans with moratorium on interest**
- Consumer education

November 12- Compliance Time-Table :

Para	Requirement of circular	Time-Lines
2	Specification of due date/repayment date in loan agreement	31 st December 2021- New loans
4	Classification of SMA & NPA –part of day-end process	12 th November 2021
6	Clarification regarding definition of ‘out of order’	12 th November 2021
8	NPA classification in case of interest payments	After 31 st March 2022
11	Income recognition policy in case of loans with moratorium on interest	12 th November 2021
13	Consumer education	By 31 st March 2022

Relevant Circulars for FY 2021-22:

Classification of SMA & NPA –part of day-end process:

4. In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

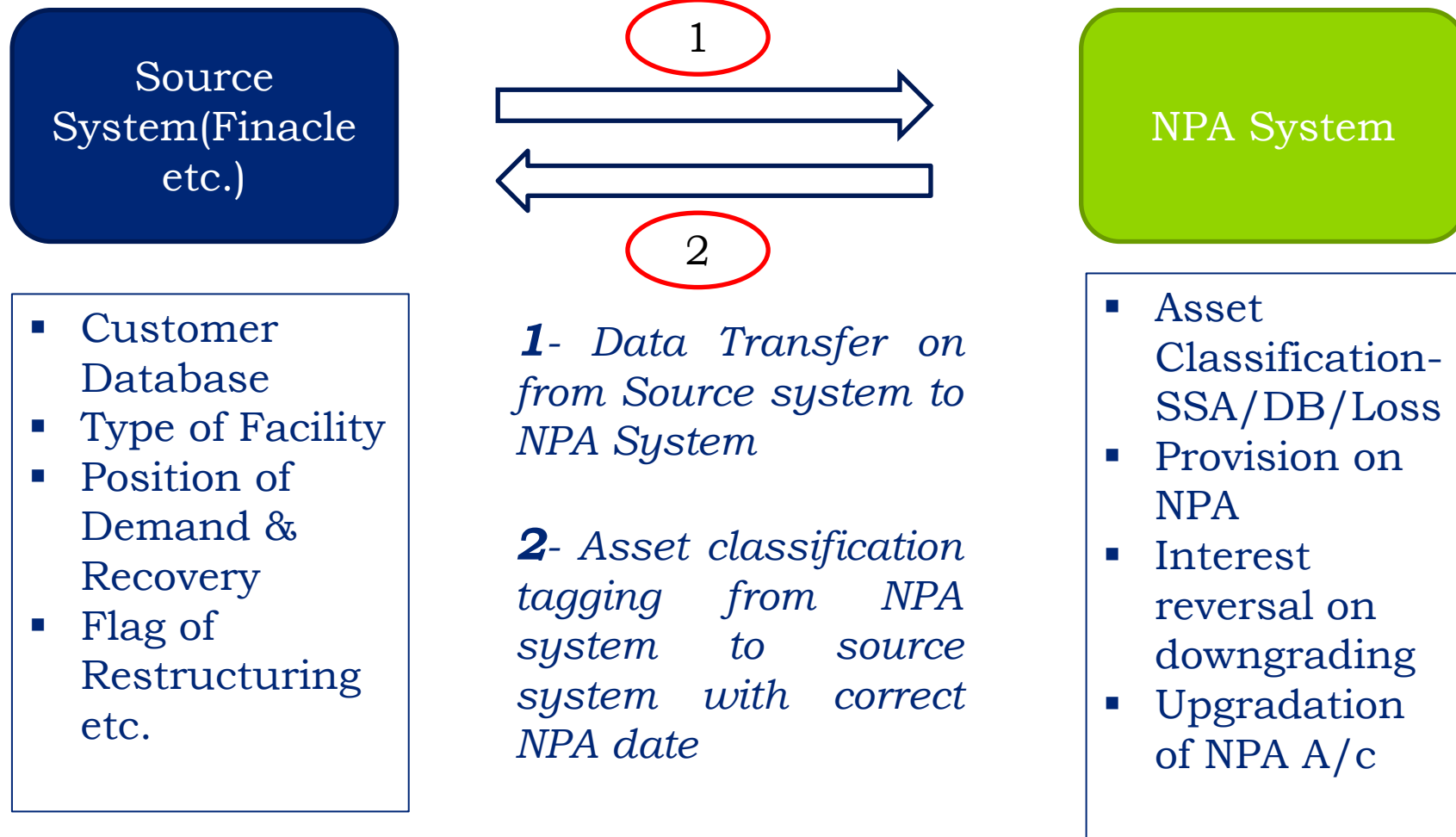
NPA Automation Circular 2020:

Coverage:

- 2.1 All borrowal accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system (System) for asset classification, upgradation, and provisioning processes. Banks' investments shall also be covered under the System.
- 2.2 Asset classification rules shall be configured in the System, in compliance with the regulatory stipulations.
- 2.3 Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.
- 2.4 In addition, income recognition/derecognition in case of impaired assets (NPAs/NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.
- 2.5 The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention.

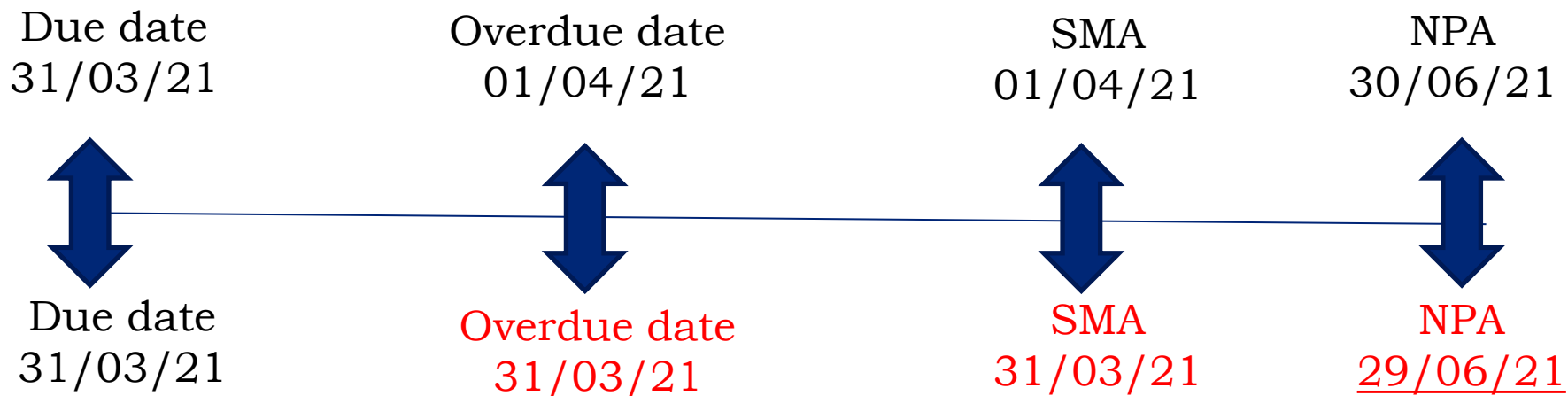
IRAC Norms – Clarifications/changes for Banks:

Usual day-end process in case independent system used for NPA:



IRAC Norms – Clarifications/changes for Banks:

Classification of SMA & NPA –part of day-end process:



- ❑ Different banks were following different practice of identification of account as NPA- monthly/quarterly/daily
- ❑ September 2020 circular and November 2021 circulars now requires SCB to identify the NPA on daily basis through system- **June 2021**
- ❑ No exceptions are given for Saturday/Sunday/Holidays- NPA process need to run to identify any account as NPA- **LFAR point**
- ❑ Major impact- total overdue recovery for NPA vs. Partial recovery in Standard accounts

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of 'out of order':

Changes in the wording of definition:

An account should be treated as '**out of order**'

if the outstanding balance in the CC/OD accounts remains continuously in excess of the sanctioned limit/drawing power for 90 days or 1

~~In cases where~~ the outstanding balance in the CC/OD accounts ~~in the principal operating account~~ is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days, ~~as on the date of Balance Sheet~~ or 2

the outstanding balance in CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the same previous 90 days -period, ~~these accounts should be treated as 'out of order'~~. 3

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of 'out of order':

Existing practice for classification of account as NPA- under 3rd condition- quarterly basis:

Testing 3rd condition for quarter ended 31st December 2021:

Months	Interest Debits	Credits	Closing Balance
July	15	15	-
August	20	0	20
September	21	0	41
October		10	31
November		10	21
December		10-A 25-B	11/-4

Situation- A

Total Debits-56

Total Credits-45

Conclusion- **NPA**

Situation- B

Total Debits-56

Total Credits-60

Conclusion- **STD**

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of ‘out of order’:

*Clarification –view-1- Daily NPA classification-Previous 90 days period’ :
Testing 3rd condition for quarter ended 31st December 2021:*

Dates	Interest Debits	Credits	Previous 90 days
31-07-2021	13		02-05-2021
02-08-2021		13	04-05-2021
31-08-2021	11		02-06-2021
02-09-2021		11	04-06-2021
30-09-2021	12		02-07-2021
02-10-2021		12	04-07-2021
31-10-2021	13		02-08-2021
01-11-2021		0	03-08-2021

On 31-10-2021

PR 90 days Debits-36
PR 90 days Credits-36
Conclusion- **STD**

On 01-11-2021

PR 90 days Debits-36
PR 90 days Credits-23
Conclusion- **NPA**

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of ‘out of order’:- View-1

- Circular requires that credits in the account should be able to cover the interest debited during the previous 90 days period;
- Post September 2020 circulars all the banks are required to run the NPA on “Daily basis”- therefore each day 3rd condition of the circular will be tested by the bank to classify an account as NPA.
- **In view-1-**
 - 31st October 2021- as part of day end process for 31st October- the system will consider all the credits & debits since 2nd August 2021 i.e. previous 90 days- in example sufficient recovery & **hence it will STD account.**
 - 1st November 2021- here the previous 90 days will start from 3rd August and hence recovery made on 2nd August 2021 will not be covered & therefore it may be NPA account.
 - NPA because of one-month dues is not logical & unintentional.

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of ‘out of order’:

*Clarification –view-2- Daily NPA classification-Previous 90 days period’ :
Testing 3rd condition for quarter ended 31st December 2021:*

Dates	Interest Debits	Credits	DPD
31-07-2021	15		1
01-08-2021		-	2
02-08-2021		15	0
31-08-2021	11		1
01-09-2021		-	2
02-09-2021		11	0
30-09-2021	12		1
01-10-2021		-	2
02-10-2021		12	0
31-10-2021	13		1
01-11-2021		0	2

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding definition of ‘out of order’:- View-2

- Circular requires that credits in the account should be able to cover the interest debited during the previous 90 days period- which can be interpreted as interest should not remain overdue for 90 days;
- In this view- interest charged in the CC account will be treated as demand created in the account and if there are no credits within 90 days the account will be treated as out of order.
- The view removes the difference between term loans and CC facility w.r.t. interest recovery- however it still differentiate between the two by way of credit in the account vs. one way recovery in term loans.
- On transition to this rule, the banks need to identify the interest overdues in the account based on **90 days subsequent credits** and if not covered the same will be treated as NPA on transition.
- Different views/approach adopted by different bank in following 3rd condition of out of order.

IRAC Norms – Clarifications/changes for Banks:

Relevance of the Principle of 'First In First Out' (FIFO) in appropriation of payments into the borrowal account:

The Principle of FIFO i.e., 'First In, First Out' accounting method is relevant to arrive at the No. of days of overdue for determining the SMA / NPA status. The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first. The FIFO method thus requires that what is due first must be paid by the borrower first. For example;

if in any loan account as on 01.02.2021 there are no overdues and an amount of Rs. X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 01.02.2021 in the loan account will be used to pay off the dues outstanding on 01.02.2021.

Assuming that nothing is paid /or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.03.2021 will be Rs .X-Y.

Additionally, an amount of Rs.Z becomes due as on 01.03.2021. Now any payment /partial payment into the account on or after 01.03.2021 will be first utilized to pay off the partial due of 01.02.2021 (Rs X – Rs.Y) . If there is more recovery than the Rs X – Rs.Y, then, after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards due of 01.03.2021.

IRAC Norms – Clarifications/changes for Banks:

Due date of payment	Payment Date	Payment covers	Age of oldest dues in days	SMA / NPA Categorisation	SMA since Date /SMA class date	NPA categorization	NPA Date
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA-0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA-0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA-0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid , Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA-0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA-1	01.02.2022 / 03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid , Due for 01.03.2022 not fully paid at EOD 1.03.2022	1	SMA-0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022 ,01.03.2022 and amount due on 01.4.2022 at EOD 01.04.2022	60	SMA 1	01.02.2022 / 03.03.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.04.22 at EOD 02.04.2022	61	SMA 2	01.02.2022 /02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.22 at EOD 01.05.2022	90	SMA 2	01.02.2022 /02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022

CS-1-Quality of Credit in CC accounts :

- ❑ ABC Pvt. Ltd. has availed CC facility from the bank. The bank has closed current account with borrower as per new RBI guidelines. The company has also taken Rupee Term Loan and Capex LC was sanctioned as sub-limit to this facility. The company had taken LC against the capex expenditure and on due date of LC the bank had disbursed RTL to close these LC's.
- ❑ The **disbursement against the capex LC were routed through the CC/OD account** and the payment were made from this account itself. The account is classified as Standard based on out of order criteria [credits are sufficient].
- ❑ On careful verification of the account statement, the auditor has observed that **the business credits in the account were not sufficient to cover the interest debited during the period of previous 90 days.** However, the system had classified the account as STD considering the disbursement credits in the CC/OD account.
- ❑ As an auditor what is your view on such practice and compliance with IRAC norms.

CS-1-Quality of Credit in CC accounts :

➤ Opening of Current Accounts by Banks - Need for Discipline-August 2020

3. Banks should not route drawal from term loans through current accounts. Since term loans are meant for specific purposes, the funds should be remitted directly to the supplier of goods and services. Expenses incurred by the borrower for day to day operations should be routed through CC/OD account, if the borrower has a CC/OD account, else through a current account.

➤ Frequently Asked Questions- December 14,2020

15. As per para 3 of the circular, term loans should be disbursed directly to the suppliers of goods and services. Whether term loans towards refinancing of existing term debt of borrowers, for general corporate purpose / long term working capital, reimbursement of expenses, etc. can be disbursed to the CC/OD or current accounts of the borrowers.

In cases where term loans are meant for purposes other than for supply of goods and services and where the payment destination is unidentifiable, banks may route such term loans through CC/OD or current accounts of the borrower opened as per the provisions of the circular. Banks shall ensure that where the payment destination is identifiable (i.e. refinance of existing debt, etc.), payment is made directly, without routing it through CC/OD accounts.

IRAC Norms – Clarifications/changes for Banks:

Clarification regarding interest during moratorium period:

12. The extant instructions (compiled at paragraph 3.2 of the [Master Circular on IRACP norms dated October 1, 2021](#)) require that once an account is classified as NPA, the entire interest accrued and credited to income account in the past periods, must be reversed to the extent it remains unrealised. It is clarified that if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

- Mainly applicable for Educational loans- where accrued interest during the repayment holiday period is added to the principal and repayment in Equated Monthly Instalments (EMI) fixed.
- Different views among the auditors/banks on treatment of the above interest once the account is classified as “NPA”.

IRAC Norms – Clarifications/changes for Banks:

Major points of clarifications – 15th February 2022 circular:

- Out of order- applicable to all loan products being offered as an overdraft facility
- Previous 90 days period- inclusive of the day for which the day-end process is being run- **IMP clarification**
- Upgradation of the facility-only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities- **IMP clarification**

IRAC Norms – Clarifications/changes for Banks:

Major points of clarifications – 15th February 2022 circular:

➤ Upgradation of loan account:

1st October 2021 IRAC norms:

4.2.5 Upgradation of loan accounts classified as NPAs

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as nonperforming and may be classified as 'standard' accounts. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of DCCO, etc., the instructions as specified for such cases shall be applicable.

15th February 2022- Clarification:

- (iii) In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

Few Questions on IRAC 2.0:

1. Whether there are any banks which makes provision on NFB exposure as on today in respect of its NPA customers on prudent basis?
2. How the banks need to incorporate due date, NPA classification etc. in the loan agreements? Whether any confirmation is required from the borrower to this extent that the banks has explained him about these terms etc.? What if the bank/branch has not implemented such plan?
3. What is the impact of the change by shifting the date of overdue by one day prior? Whether this will change the NPA numbers significantly for banks?
4. Whether the treatment of considering previous quarter interest and seeing the recovery in the current quarter was the correct way to look at it? Why the RBI never pointed or issued any clarification in the past on this issue?

Few Questions on IRAC 2.0:

5. Whether considering the CC/OD similarly as term loans is the correct way to see as both these products are very different both in terms of end customer and purpose of the facility? Why does the RBI not come clearly and clarify the treatment of such accounts?
6. Whether this change in criteria for CC/OD account will significantly increase the NPA figures as on 31st March 2022 considering that now the bank needs to track recovery within 90 days for interest debits in the CC accounts? As an auditor what should be our procedures to verify whether the correct classification has been done by the system?
7. Whether the logic of interest during moratorium period can be extended for COVID moratorium as well? Different banks are following different approaches here as well? As an auditor how should we verify the same and report in case we observe any discrepancies in terms of reversal of interest?

Points for Auditors –Banks-on IRAC 2.0 :

- Timely compliance of November 12 circular to avoid any observations from RBI- impact in LFAR reporting
- Reporting on different practice followed by the banks- CC/OD classification- LFAR reporting – compliance of IRAC norms
- Daily classification of accounts as NPA- mainly in Direct assignment cases where the details are shared in one month lag- appropriate reporting in LFAR
- Manual Intervention on asset classification-need to highlight the instances if any either in changing the date of NPA/class of assets
- Changes in provision on NFB exposure- in cases of delayed resolution for cases under 7th June 2019 circular

Relevant LFAR Clause- IRAC 2.0:

(f)	<i>Asset Classification, Provisioning of Advances and Resolution of Stressed Assets</i>	
(i)	<p>a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?</p> <p>b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India</p>	:
(iii)	<p>a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India</p> <p>b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.</p>	:

Identification of Account as “NPA”

Recent RBI Divergence/observations:

- Non-implementation of RP-7th June 2019:
 - Defaults not rectified within the review period of 30 days or viable RP not implemented within 180 days
 - Additional provision made only on FB exposure portion and not on total o/s amount (FB+NFB)
- DP computed based on the expired stock statements- to be classified as NPA
- Wrongful upgradation of NPA accounts before implementation of restructuring plan
- Wrongful reversal of provision on change in ownership before expiry of monitoring period
- Realisable value of security less than 10% of o/s- not classified as Loss assets –only in NPA cases

Probable Expectation of RBI from Bank Auditor :

- Identification of probable evergreening of accounts by the banks
- Reporting on non-compliance of IRAC norms- identification of account (e.g. restructured a/c) and provisioning (e.g. no security)
- Extra care or additional audit procedure on restructured accounts- MSME + Non-MSME
- Basis compliance of IRAC norms – upgradation of accounts from NPA to Standard
- Assess increase in credit risk- pervasive in nature- identify through QMR reports etc.

Types of Assets:

❑ Standard Assets:

- The account/borrower is regular in paying the interest and the principal as and when due/demanded by the Bank.
- Normal risk and the provisioning on these advances depends on the category of the loans

❑ Non-Performing Assets:

- Para 2.1.1. *“An asset, including a leased asset, becomes non performing when it **ceases to generate income** for the bank”*
- Only recovery need to be seen to classify an account as NPA
- No distinction between Secured and Unsecured assets for the purpose of the classification of account

Criteria for classification- NPA

Sr. No.	Type of Facility	Criteria –Para 2.1.2
(A)	Term Loans	<p>“interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan”</p>
(B)	Overdraft/Cash Credit	<p>“the account remains ‘out of order as indicated in the IRAC</p> <p>Out of Order- para 2.2</p> <ul style="list-style-type: none"> ▪ Outstanding Balance > SL or DP continuously for 90 days ▪ No credits in accounts continuously for 90 days as on B/s date ▪ Credits in the accounts are not sufficient to cover interest debited during the same period the previous 90 days period

Criteria for classification- NPA

Sr. No.	Type of Facility	Criteria –Para 2.1.2 & 4.2.21
(C)	Bills Purchased & Discounted	<p>“the bills remain overdue for a period of more than 90 days “</p> <p>Overdue – any credit facility is overdue if it is not paid on the due date fixed by the bank (para 2.3)</p>
(D)	Credit Cards	<p>“if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the payment due date mentioned in the statement”</p>
(E)	Derivative Transactions	<p>“overdue receivable representing positive M-t-M value of derivative contract remains unpaid for more than 90 days”</p>

Criteria for classification- NPA

Sr. No.	Type of Facility	Criteria –Para 2.1.2 & 4.2.21
(F)	Agricultural Advances	<ul style="list-style-type: none">▪ Short duration crop- if the instalment of principal or interest thereon remains overdue for two crop season;▪ Long duration crop- if the instalment of principal or interest thereon remains overdue for one crop season;▪ Crop season is decided by State Level Banker's committee

Classification of NPA: Asset Classification

- **Sub-Standard Assets: (SSA)**

- ✓ Account has remained **NPA** for a period less than or equal to 12 months

- **Doubtful Assets:**

- ✓ Account has remained **SSA** category for a period of 12 months- **DB-1**
- ✓ Account has remained in **DB-1** for 1-3 years –**DB-2**
- ✓ Account has remained in **DB-2** for more than 3 years-**DB-3**

- **Loss Assets:**

- ✓ Identified by the bank or internal or external auditor or the RBI inspection

SA-SSA-DB1-DB2-DB-3



CS-2-Evergreening:

ABC Pvt. Ltd. is a company registered under CA, 2013. The company is 100% subsidiary of XYZ Ltd. ABC Pvt. Ltd. has taken Rs. 20 cr. Loan from KNK Bank and is serving interest on regular basis. These funds have been utilised to construct a factory which has started its commercial production, however the market for the product has declined considerably. The principal amount for November 2021 and December 2021 is due. During the current year, KNK bank has sanctioned a loan facility to XYZ Ltd. for cash flow mismatch .

Post granting of such facility XYZ Ltd. has made inter-corporate deposit to ABC Pvt. Ltd @ 12%. The overdue in the account has been fully paid by the ABC Pvt. Ltd.

Both the account has been classified as Standard as on 31st March 2022. Comment on appropriateness of the classification of advances.

CS-3-COVID-19 Evergreening:

XYZ Bank Ltd. has an exposure in form of CC facility to ABC Exporters Pvt. Ltd. The primary business of the company is to carry out **trading activities of medical equipments in India**. The drawing power of such facility is primarily against debtors and stock

The business of the company has been **on decline over a period of 3-4 years** which is reflecting in its turnover. This has further **reduced due to COVID-19 impact** on the movement of goods. However, **came back to normal in July 2021**.

The sanction limit of the facility is Rs. 30 crores and the current o/s balance is Rs. 27 crores. During the month of September 2021 the borrower has made **application to restructure the account** and provide moratorium for period of one year. The bank has **accepted and implemented the same**.

Does the bank is justified in doing same as per COVID-19 circular?

CS-4-ECLGS Evergreening:

The bank has sanctioned ECLGS facility to ABC co. under ECLGS 1.0 extension scheme. The sanction was as per the limit prescribed under the scheme and after complying with the eligibility criteria. Another group entity of the borrower XYZ Co. had also applied for the ECLGS facility but the same was rejected by the bank since the customer was ineligible as per the scheme.

On verification, the auditor observed that after the disbursement of ECLGS facility to the borrower the amount disbursed in the account has been transferred to CC a/c of XYZ co. and the bank has utilised the same to recover its pending overdues.

Post cleaning of dues, the CC facility of the borrower was renewed with enhancement. The enhanced amount was transferred from CC to ABC co. CC account. The ECLGS facility was closed through such disbursement.

As an auditor what is your view on such practice and appropriate reporting in Advance section of LFAR?

CS-5-Evergreening:

M/s K.C. & Co. has two facilities with XYZ Bank Ltd. CC/OD facility of INR 5 cr. and General Business Purpose Term Loan of INR 10 cr. (disbursed to the extent of INR 8 cr.).

As on February 2022, the CC/OD facility is out of order and will be classified this account as NPA as on March 31, 2022. During the month of March-2022, M/s K.C. & Co. requested for additional disbursement of the loan to the extent of INR 2cr.

On 28th March 2022 the firm repaid the overdue amount in the CC/OD facility and the account is regular as on 31st March 2022. During statutory audit, the auditor raised an objection stating that the account has been regularised by sanctioning an additional facility to the borrower and this account should be classified as NPA as on 31st March 2022.

CS-6-Form over Substance:

M/s XYZ & Co. (Mr. X & Mr. Y only partners of the firm are brothers) has following facility with ABC Bank Ltd. Term Loans- INR 5 Cr, CC/OD facility- INR 3 cr. Both the partners are also having housing loan with the bank. The cumulative o/s of such loans are INR 2 cr. The CC/OD facility of the firm has been classified as out of order due to continuously overdrawn for more than 90 days. There is no other business activity carried out by the partners of the firm.

The statutory auditor is of the view that the housing loan of partners of the firms should be classified as NPA and the bank should make provision on such loans as well. Whether the auditor is justified in classifying these advances as NPA?

Provisioning Norms:

Sr. No.	Asset class (NPA)	Provisioning %
(A)	<p>Normal Category: Sub-Standard Assets (Fully Secured) 15% Sub-Standard Assets (Unsecured) 25%</p> <p>Unsecured exposure: <i>“Realisable value of security is not more than 10% of the outstanding exposure”</i></p> <p>Infrastructure Category: Sub-Standard Assets (Fully Secured) 15% Sub-Standard Assets (Unsecured) 20%</p>	
(B)	<p>Doubtful Assets: DB-1 (Upto 1 Year) 25% DB-2 (1 to 3 Year) 40% DB-3 (More than 3 Year) 100%</p>	

Provisioning Norms:

Sr. No.	Asset class (NPA)	Provisioning %
(C)	Loss Assets	100%
(D)	Standard Assets: <ul style="list-style-type: none"> ▪ Direct Advances to Agriculture and SME Sector 0.25% ▪ Advances to Commercial Real Estate (CRE) 1.00% ▪ Advances to CRE- Residential Housing (CRE-RH) 0.75% ▪ Housing Loan at Teaser rates (+ 1 Year) 2.00% ▪ Restructure Advances (Other than Provision for Dim. In Value) 5.00% ▪ All other loans not included in above 0.40% 	

Accelerated provisioning:

SMA status of accounts need to be reported to CRISIL-fails to report such status the bank will be subjected to accelerated provisioning (SSA- to the extent of 40% and DB to the extent of 100% in DB-2 category)

Issues in Classification of advances as NPA:

□ Erosion in value of security/Frauds by borrower:

- In Certain circumstances the NPA are classified directly to Doubtful/Loss assets
- Potential threat of recovery due to *erosion in value of security* or *non availability of security* and *existence of other factors (e.g. Frauds)*
- Following classification policy should be adopted:

Case	Situation – <i>Realisable value of Security</i>	Classification
(A)	Less than 50% (last assessed)	DB
(B)	Less than 10% (of balance o/s)	Loss

- **New LFAR Clause- Substantial deterioration in Security Value**

Erosion in Value of Security Valuation:

Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?

We have verified the security valuation report in case of material NPA accounts and there is no substantial deterioration in the value of security except in case of [REDACTED] wherein the market value of the collateral has substantially reduced from Rs. 9.88 crores at the time of sanction (report date-27th March 2018) to Rs. 3.75 crores (as per the latest valuation report dated 5th January 2021).

Further, the valuation report obtained by the branch dated 5th January 2021 has several disclaimers such as (a) *Legal Report is not available;* (b) *at the time of visit said property is not traceable because no demarcation to identify the said property,* which has raised concerns over the appropriateness and completeness of such valuation report.

RBI on Security Valuation:

□ Para 4.2.9 of IRAC Norms:

- *In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification.*

□ Para 4.2.11 of IRAC Norms:

- *Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.*

RBI on Security Valuation:

□ Para 4.2.14 of IRAC Norms:

- *The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.*

□ Para 5.3 of IRAC Norms:

- *100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.*

CS-7-Realisable value:

Mr. XYZ has taken housing loan from the bank for an aggregate amount of INR 5 cr. He has not paid the installment and was classified as NPA since 1 year. The **loan account is in DB-1** category with an outstanding amount of INR 4.3 cr. The bank currently has done the valuation of the property and the details of the same are as follows:

Date of Valuation	Market Value	Realisable Value	Distress Value
21-02-2020	INR 4.5 cr.	INR 4.2 cr.	INR 4 cr.

In January 2022, the bank has carried out the auction of the property at Base price of Rs.4.2 crore. However, **no bid was received** towards the auction.

The **bank has made provision @25%** on the total outstanding balance **considering the value of INR 4.5 cr.** as on 31st March 2022.

Comment on the adequacy of the provision on the above case.

CS-8-Realisable value:

ABC Pvt. Ltd. has been classified as Non-Performing Asset in the earlier year. During the current year, the security valuation considered for making provision has been arrived at valuation report which is 2-year-old.

However, the auditor observed that latest audited financial statement of the borrower **includes impairment loss against such assets**. These impairment losses have been arrived at on the basis of the independent valuation obtained by the company.

The **provision for the NPA has been considering the old report** since the same not more than 3 years old.

Further, the bank has also considered **claim of ECGC** as security on the application made to the department. The **approval of such claim is still awaited** from the department.

Comment on the adequacy of the provision in the above case.

CS-9-Existence of security:

AZB Bank has sanctioned a facility in FY 2018-19 of Rs. 5 crore to Mr. B for the purpose of buying a flat in an **under-construction property** in Noida (20th Floor). The value of the property at the time of sanctioning of Loan is Rs. 8 cr.

The bank has disbursed Rs.3 crore up to 31st July 2020 based upon the completion of the construction of the building on overall basis. However, the **civil structure of the building has been completed up to 18th floor** and the **construction work has been stopped by the local authorities**. The builder is also having a financial difficulty for commencing the construction and completing the same.

The account has become **NPA as on 31st March 2022** and the has been classified as SSA. The bank has made **15% provision** on the same.

Whether in your view such classification and provisioning are as per IRAC norms.

CS-10- IBC Valuation:

XYZ Pvt. Ltd. is classified as NPA and is currently under DB-2 category. The lenders have filed case under IBC and the resolution plan-liquidation has been accepted by the NCLT and the court has passed the order on 3rd March 2022. Based on the same, the bank is expected to receive only 10% against its exposure.

However, on verification of NPA the auditor has observed that the bank has continued to consider value as per latest available valuation report for making provision as per IRAC norms. On discussion, the branch manager is of the view that these reports are system generated and value has been arrived based on CBS system.

Whether in your view such provisioning are as per IRAC norms.

RBI on Security Valuation:

S N	Types of Advances	Types of Security available	Impact
1	Standard Advances	<ul style="list-style-type: none"> ▪ Immovable and Movable Assets (P & M, Inventories etc.); ▪ Shares and Securities; ▪ Fixed Deposits and other liquid security (LIC, KVP, NSC etc.) ▪ Guarantee by Govt./Promoter/Corporate 	<ul style="list-style-type: none"> ▪ Schedule-9- Secured and Unsecured Loans; ▪ Para 4.2.9 of IRAC Norms; ▪ Para 4.2.11 of IRAC Norms; ▪ Para 4.2.14 of IRAC Norms
2	Non-performing Assets (NPA)	<ul style="list-style-type: none"> ▪ Immovable and Movable Assets (P & M, Inventories etc.); ▪ Shares and Securities; ▪ Fixed Deposits and other liquid security (LIC, KVP, NSC etc.) ▪ Guarantee by Govt./Promoter/Corporate 	<ul style="list-style-type: none"> ▪ Para 4.2.9 of IRAC Norms ▪ Para 5.3 of IRAC Norms;

Income Recognition & Reversal on NPA:

- ❑ Interest income on NPA **not** recognised on **accrual basis**- against the principal of certainty of collection as AS-9- Revenue Recognition
- ❑ Interest income on such accounts should be recognised on “Cash basis” or “Actual receipt” basis
- ❑ Exceptions:- Interest on advances against TD/KVP/NSC etc. subject to availability of Margin
- ❑ Advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income in past period should be reversed if the same is **NOT REALISED.**
- ❑ Fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if **UNCOLLECTED.**

CS-11-Income Reversal:

During the year, PQR Pvt. Ltd. has been classified as NPA since the credits in the account were not able to cover the interest debited in the accounts.

On verification of the account statement the auditor observed that the bank has charged Rs.20,00,000 as Bank Guarantee commission in the account, however the same has not been recovered by the bank but recovered through unutilised limit in the account.

The account is classified as Sub-Standard Account as on 31st March 2022.

The auditor insisted on reversal of such fees income, however the bank is of the view that the said commission have been realised through unutilised limit in the CC account and hence should not be reversed.

Comment on the compliance of IRAC norms w.r.t. accuracy of such commission income.

Upgradation of NPA Account:

- ❑ If arrears of **interest and principal** are paid by the borrower in case of loan accounts classified as NPA, the account should no longer be treated as non-performing and may be classified as “Standard” accounts.
- ❑ Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the bank should 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.
- ❑ Comparison of NPA accounts/ critical accounts over a period- may highlight some serious concern over Upgradation of NPA account during a particular period

Recoveries in NPA Account:

□ *Recoveries before Balance Sheet date:*

- **Interest realised on NPA's** may be taken to income account provided credits in the accounts towards interest are **not out of fresh/additional credit facilities** sanctioned to borrower by the bank.
- No formal guidelines/agreement between bank and borrower w.r.t. apportionment of recoveries made- bank should adopt an accounting principle and exercise the right of appropriation of recoveries in uniform and consistent manner.

□ *Recoveries after Balance Sheet date:*

- No clear guidelines by the regulator- no objections as well in any Bank
- AS-4 Events occurring after the Balance Sheet date- Non adjusting event
- Temporary vs. Permanent deficiencies/weakness
- Best Judgement after review of facts and circumstances of each case

Practical Issues/Challenges:

- ❑ Divergence in NPA observed by RBI during the Inspections
- ❑ NPA classification in Nationalised Bank and Private Sector Bank
- ❑ Verification of parameters set in the system for classification of account as NPA (e.g. Repayment Schedule)
- ❑ Non reversal of **total** interest in account classified as NPA (CY + PY unrealised)
- ❑ Recognition of interest income in NPA A/c's
- ❑ Non availability of value of securities in case of NPA below Rs.5 Cr.
- ❑ Non submission of Stock Statement by small borrowers.

Practical Issues/Challenges:

- ❑ Carry forward of date of NPA (from earlier year to current year)
- ❑ Classification of accounts qua borrower would apply for agricultural and non agricultural loans?
- ❑ Classification of accounts transferred from other branches
- ❑ NPA regularised after balance sheet date but before signing the accounts
- ❑ Income Leakage- Rate of Interest fed in system is incorrect, DP is wrongly calculated, penal interest not recovered on late submission of Stock statements and Financials etc

Audit Approach:

- ❑ **Automated classification** of NPA- verify system, parameters, controls on modification of parameters, control on categorisation of NPA
- ❑ **CC/OD/WC facility**- verify the computation of drawing power, fresh sanction to escape the NPA classification, stock statement submission with the latest Balance Sheet.
- ❑ **Reversal of unrealised interest** on first time classification and subsequent transfer to memorandum account
- ❑ **Borrower wise classification**, Upgradation, and subsequent down gradation of NPA accounts are as per IRAC Norms
- ❑ **Valuation of Security** of main NPA cases- above a certain threshold determined by the Bank.
- ❑ No debits allowed in the NPA Accounts (e.g. Legal Charges debit separately)

Minimum Audit Procedures on NPA:

- ❑ Comparison of NPA of current year vs. Previous year [Name of Customer, Date of NPA, O/s Balance etc.]
- ❑ Verification of the any changes in the above and reasons for the same along with relevant supporting documents
- ❑ Increase in the O/s Balances- due to recovery charges etc. should be debited to P & L A/c- CRIP Cost in case of IBC cases
- ❑ Verification of the recovery in the NPA accounts- apportionment as per the recovery policy of the bank- adjustment of recoveries done through suspense a/c rather than direct NEFT/RTGS
- ❑ Verification of the security valuation for the cases shifted to Doubtful category in the current year from the date of NPA
- ❑ Verification of Fraud accounts – comparison of the same with the last year and new accounts identified in the CY

COVID-2.0 Restructuring Norms

MSME Restructuring Schemes:

□ New Definition of MSME: (w.e.f. 1st July 2020)

2.1 Classification of enterprises

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

- i. a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- ii. a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- iii. a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

	Investments	Turnover
Micro	< Rs. 1 crore	< Rs. 5 crore
Small	< Rs. 10 crore	< Rs. 50 crore
Medium	< Rs. 50 crore	< Rs. 250 crore

MSME –Restructuring Guidelines:

Date	Exposure/ STD Classification test date	Implementation date	BBA Take away
1 st January 2019	1 st January 2019	31 st March 2020	Master Circular includes Disclosures and criteria for upgrades
11 th February 2020	1 st January 2020	31 st December 2020	Extension in above circular
6 th August 2020	1 st March 2020	31 st March 2021	Extension in circular + NPA upgrades on implementation
5 th May 2021	31 st March 2021	Invocation-30 th September 2021 Implementation-90 days	Extension in circular + NPA upgrades on implementation + One Time measure for CC

MSME –Restructuring Guidelines :

Criteria	COVID 2.0	COVID 1.0	General Circular
Exposure Criteria	< Rs.50 crore** +COVID impact	< Rs.25 crore	>Rs.25 crore +COVID impact
Standard as on	31 st March 2021	1 st March 2020	No overdue>30 days on 01.03.20
Implementation Date	90 days from Invocation \$\$	31st March 2021	30th June 2021
Provision requirement	10 percent of the residual debt	Additional 5% provision over NPA provision if any	Higher of 10% or IRAC provision before implementation
Earlier restructured accounts	One Time measure for CC accounts	No	No
Reversal of provision	After end of Specified period	After end of Specified period	50%+50% on repayment of principal

¹⁴ ** Rs. 25 crore from 5th May till 3rd June

\$\$ last Invocation Date -30/09/2021

CS-12-MSME Restructuring-Adequacy of provision:

ABC& co. was standard as on 31st March 2021 but was overdue. Based on COVID 2.0- MSME circular the borrower approached the bank to restructured the account by giving 1 year moratorium on payment of principal amount on its term loan.

The branch accepted the proposal and requested the borrower to provide additional collateral for the same. The invocation date was decided as 31st May 2021. Due to non-payment on principal amount the borrower account was classified as NPA on 30th June 2021. Provision was made at 15%. The borrower provided the collateral, and the restructuring plan was implemented on 31st July 2021 and the account was upgraded.

The bank on 1st August 2021 reversed the provision of 15% and made provision at 10% as prescribed in the circular

In your view whether the above treatment is correct. What if this account was restructured under COVID 1.0 MSME Guidelines.

CS-12-MSME Restructuring-Adequacy of provision:

➤ COVID 2.0 requirement:

3. In respect of restructuring plans implemented as per Clause 2 above, asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

(ix) Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower.

(xi) All other instructions specified in the [circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020](#) shall remain applicable.

➤ COVID 1.0 requirement:

- v. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.
- vi. As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them.

CS-13-MSME Restructuring :

CBZ Pvt. Ltd. is MSME entity has taken CC facility from AZB Bank Limited **aggregating to Rs. 35 cr.** The account was restructured under COVID 1.0 by re-assessment of working capital cycle-reduction of margin.

The company is regular in repayment of dues and has not been classified to NPA. Considering the impact of 2nd wave of COVID-19 and relaxation given by RBI via COVID 2.0 MSME restructuring circular, the company has approached the bank to once again to review the limit.

The bank has reviewed the same and has revised the margin on stock and book debts and accordingly the limit has been updated in system on 30th September 2021. The account is utilised to the extent of updated drawing power.

In your view whether the above treatment is correct. If the answer is negative what will be your action as statutory auditor?

CS-13-MSME Restructuring :

4. In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by lending institutions by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

4. Consequently, clause 2(v) would stand modified as under:

“(v) The borrower’s account was not restructured in terms of the [circulars DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020](#); [DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020](#); or [DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019](#) (collectively referred to as MSME restructuring circulars) or the circular [DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020](#) on “Resolution Framework for COVID-19-related Stress.”

CS-13-MSME Restructuring :

Conclusion:

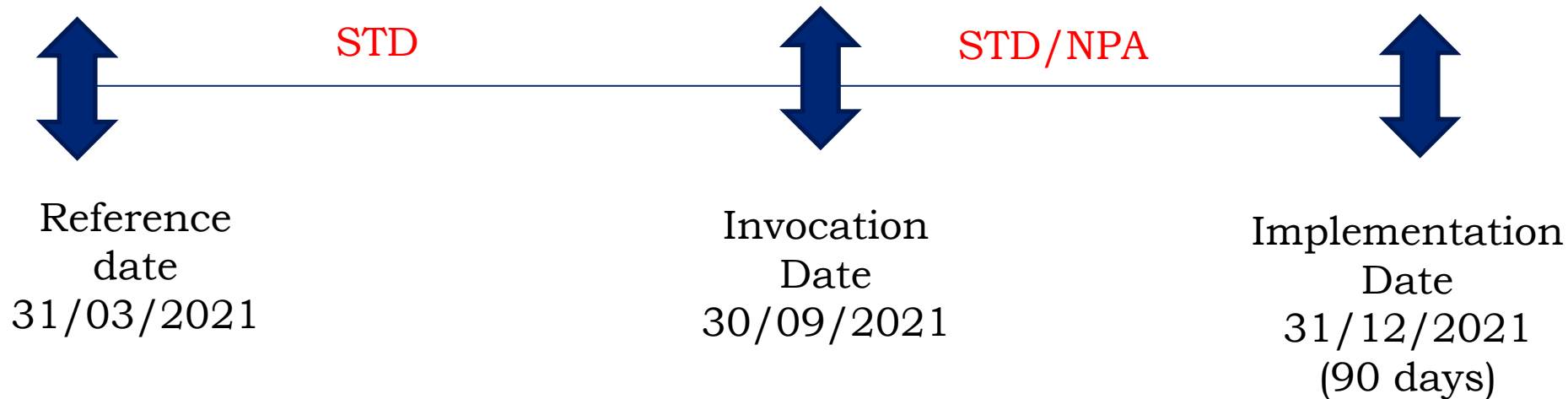
- One time measure is allowed only if the account was restructured under earlier MSME circular(which was always less than Rs.25 crore exposure)
- The borrower was restructured under general COVID 1.0 circular since the exposure was more than Rs. 25 crores.
- Now the borrower can not avail the benefit of one time measure since the same is allowed only if the borrower was restructured under COVID 1.0 MSME circulars.
- The additional DP is not in accordance with 5th May 2021 circular and the account should be classified as NPA based on original DP.

COVID 2.0-Other than MSME:

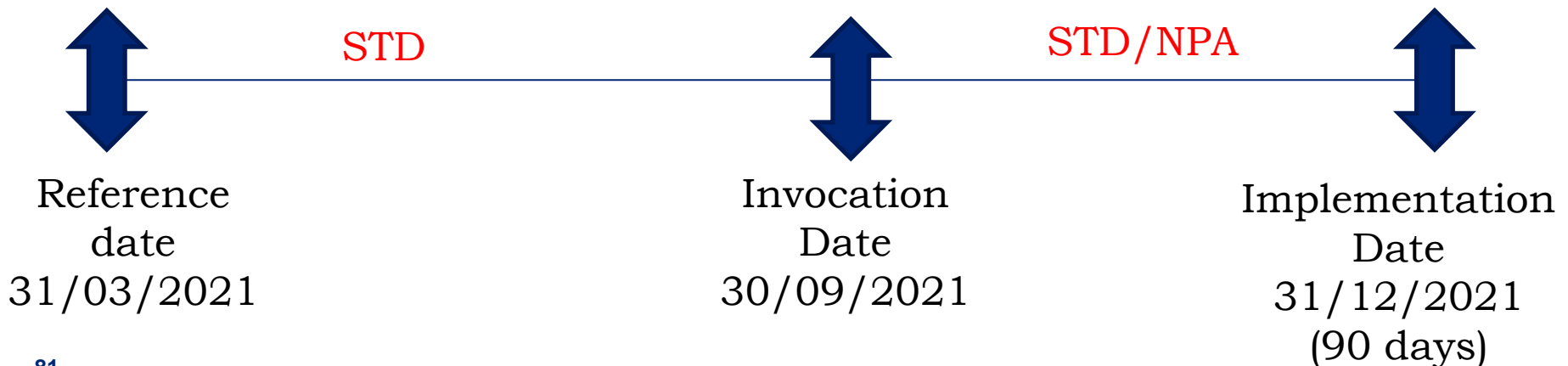
Criteria	COVID 2.0	COVID 1.0
Type of Exposure	Personal Loans, Individual Business loans, Small Business loans except few as per para 2 +COVID	All except few as per para 2 +COVID
Exposure Criteria	< Rs.50 crore**	No limit on exposure
Standard as on	31 st March 2021+ STD-Investment exposure	1 st March 2020 + not in default for > 30 days
Implementation Date	90 days from Invocation \$\$	31st March 2021
Provision requirement	STD-10%/IRAC Provision	STD-10%/IRAC Provision
Earlier restructured accounts	One Time measure for - CC accounts - Term loan accounts	No

Timelines under COVID2.0 (May 5, 2021 + June 4, 2021):

☐ MSME loans :



☐ Personal Loan & Other Loans :



Few Terms in Restructuring norms:

➤ What is covered under Personal Loans?

2	Personal loans	Personal loans refers to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).
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➤ When will you say MSME restructuring implemented ?

iv. The restructuring of the borrower account is implemented on or before March 31, 2020. A restructuring would be treated as implemented if the following conditions are met:

- a. all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
- b. the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

➤ When will you say restructuring implemented in other cases ?

10. The resolution plan 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 lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented;
- b. the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
- c. borrower is not in default with the lending institution as per the revised terms.

CS-14-Restructuring :

ABC Pvt. Ltd account was restructured under COVID 1.0. Term loan account was restructured by sanctioning moratorium on payment of principal amount for period of 1 year. The restructuring plan was implemented on 1st March 2021 and the moratorium was effective from the same date.

The company had also filed application of demerger w.e.f. 1st April 2021 which was accepted by the NCLT and one of the business segments has been transferred to resulting company XYZ Pvt. Ltd. The above restructuring debt as part of the asset and liability of the undertaking has been transferred to XYZ Pvt. Ltd.

Now XYZ Pvt. Ltd. has approached the banks to avail the one-time measure to grant moratorium on principal amount for period of two year as permitted in the COVID 2.0 circular. Considering the proposal from new company, the bank has accepted the proposal and has restructured the account and accordingly shifted the date of repayment of installment after two years. The account is classified as Standard as on 31st March 2022. In your view whether the above treatment is correct.

One Time Measure –Loans:

Convergence of the norms for loans resolved previously

22. In cases of loans of borrowers specified in Clause 5 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, lending institutions are permitted to use this window to modify such plans **only** to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 12 above, and the consequent changes necessary in the terms of the loan for implementing such extension. *The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.*

CS-15-Restructuring :

PQR Pvt. Ltd. **working capital facility** was re-assessed under COVID 2.0 and the bank had reduced the margin on stock and book debts from 35% to 25% on 30th June 2021.

Considering the same, the drawing power of the company was re-assessed and increased in the system.

On inquiry to reassess the limit to restore to previous level, the branch management is of the view that the limits in the CC accounts are reviewed at the time of renewal at the end of one year from the data of last renewal. Since the time period of one year is not over these limits will continue to remain the same.

In your view whether the above treatment is correct. Will your view differ if PQR Pvt. Ltd is MSME client and the above re-assessment has been done as MSME 2.0 restructuring?

One Time Measure –Working Capital:

B. Working capital support for small businesses where resolution plans were implemented previously

24. In respect of borrowers specified at sub-clauses (b) and (c) of Clause 5 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by lending institutions by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

New clauses on Restructuring:

Clause	Role of BBA
<p>(i) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?</p> <p>(ii) Whether the RBI Guidelines for restructuring on all such cases have been followed?</p> <p>(iii) Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?</p>	<p>Role of BBA:</p> <ul style="list-style-type: none">• Considering the COVID-19 situation and various RBI schemes this clause may be relevant in many of the branches.• BBA should refer RBI circular on Resolution Framework for COVID-19-related Stress, Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances etc.• Policy of the bank need to reviewed before commenting under this clause

Other Relevant circulars Bank Audit-2021-22:

Sr.No.	Circular	Area of Audit
1.	Master Circular - Guarantees and Co-acceptances	Non-Fund Based
2.	Opening of Current Accounts by Banks - Need for Discipline	Deposit
3.	Safe Deposit Locker/Safe Custody Article Facility provided by the banks- Revised Instructions	Locker Rent
4.	Review of Instructions on Interest on overdue domestic deposits	Deposits
5.	Enhancement in family pension of employees of banks - Treatment of additional liability	Employee Expenses
6.	Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff - Clarification	ESOP Cost

Important areas of Bank Audit-2021-22:

- ❑ Status of NPA Automation September 2020 circular- **CSA/BBA**
- ❑ Implementation of New RBI circular – 12th November 2021 and 15th February 2022 – status- **CSA/BBA**
- ❑ ESOP accounting - **CSA**
- ❑ Transfer of Loan exposure- change in policy 24th September 2021- **CSA**
- ❑ COVID 2.0 – new regulatory package & provision- **CSA/BBA**
- ❑ IRAC norms- 1st October 2021 change on cases under Resolution Plan (NFB)- **CSA/BBA**
- ❑ Transition to LIBOR - **CSA**
- ❑ Locker Rent- new change – **CSA/BBA**
- ❑ ECLGS Scheme – Compliance of terms- **CSA/BBA**

Thank You

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