



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



RBI/2021-2022/125

DOR.STR.REC.68/21.04.048/2021-22

November 12, 2021

All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
All Primary (Urban) Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks
All-India Financial Institutions (Exim Bank, NABARD, NHB and SIDBI)
All Non-Banking Financial Companies (including Housing Finance Companies)

Madam/Dear Sir,

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications

Please refer to the [Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances \(IRACP norms\) dated October 1, 2021](#). With a view to ensuring uniformity in the implementation of IRACP norms across all lending institutions, certain aspects of the extant regulatory guidelines are being clarified and/or harmonized, which will be applicable *mutatis mutandis* to all lending institutions. Wherever references to circulars/instructions applicable to banks have been made, other lending institutions may refer to instructions as applicable to them. All the instructions in this circular, except those at paragraphs 2, 8-9 and 13, shall be effective immediately from the date of this circular.

A. Specification of due date/repayment date

2. The extant instructions on IRACP norms specify that an amount is to be treated as overdue if it is not paid on the due date fixed by the bank. It has been observed that due

dates for repayments are sometimes not specifically mentioned in the loan agreements, and instead a description of due dates is mentioned, leaving scope for different interpretations. Henceforth, the exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. These instructions shall be complied with at the earliest, but not later than December 31, 2021, in respect of fresh loans. In case of existing loans, however, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/review.

B. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)¹

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

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

¹ In case of NBFCs, the references to 90 days for SMA-2/NPA classification may be read as per the applicable norms and also subject to the provisions of the [circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#) on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs'.

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.

Example: If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

5. It is further clarified that the instructions on SMA classification of borrower accounts are applicable to all loans², including retail loans, irrespective of size of exposure of the lending institution.

C. Clarification regarding definition of ‘out of order’

6. Cash credit/Overdraft (CC/OD) account is classified as NPA if it is ‘out of order’. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, the extant instructions, *inter alia*, stipulate that the account should be treated as ‘out of order’ if there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period. In order to avoid any ambiguity regarding determination of ‘out

² Agricultural advances governed by crop season-based asset classification norms shall be exempt from this instruction.

of order' status of CC/OD accounts on a continuous basis, it is clarified that an account shall be treated as 'out of order' if:

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

7. Accordingly, treatment of CC/OD accounts as 'out of order' on or after the date of this circular shall be based on the above instructions.

D. NPA classification in case of interest payments

8. In terms of paragraph 2.1.3 of the [Master Circular on IRACP norms dated October 1, 2021](#), in case of interest payments, an account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. In order to fully align with the 90 days delinquency norm as well as the requirement to apply interest at monthly rests, the above instructions are modified as under:

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

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

E. Upgradation of accounts classified as NPAs

10. It has been observed that some lending institutions upgrade accounts classified as NPAs to 'standard' asset category upon payment of only interest overdues, partial

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

F. Income recognition policy for loans with moratorium on payment of interest

11. In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in paragraph 1 of the Annex-1 to the above-mentioned '[Prudential Framework for Resolution of Stressed Assets](#)' dated June 7, 2019. However, income recognition norms for loans towards projects under implementation involving deferment of DCCO³ and gold loans for non-agricultural purposes⁴ shall continue to be governed as per the existing instructions.

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.

³ The income recognition norms for projects under implementation involving deferment of DCCO shall be subject to the instructions at paragraph 4.2.15 of the [Master Circular on IRACP norms dated October 1, 2021](#), as updated from time to time.

⁴ The income recognition norms for Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses shall be subject to the instructions issued vide [circular DBOD.No.BP.BC.27/21.04.048/2014-15 dated July 22, 2014](#) on the subject, as updated from time to time.

G. Consumer Education

13. With a view to increasing awareness among the borrowers, lending institutions shall place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. Lending institutions may also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans. These instructions shall be complied with at the earliest, but not later than March 31, 2022.

Yours faithfully,

(Manoranjan Mishra)
Chief General Manager