

RBI - Master Circular - Prudential Norms on Income Recognition,  
Asset Classification and provisioning pertaining to Advance

(Ref Circular No- RBI/2022-23/15 DOR.STR.REC.4/21.04.048/2022-23 April  
1, 2022)

Part A

## **1. GENERAL**

1.1 In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.

Details of which are as under:

1.2 The policy of income recognition is objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks will be done on the basis of objective criteria which would ensure a uniform and consistent application of the norms. Also, the provisioning is made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

1.3 Banks to ensure that while granting loans and advances, realistic repayment schedules may be fixed on the basis of cash flows with borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances.

## **2. DEFINITIONS**

### **2.1 Non-performing Assets**

2.1.1 An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

2.1.2 A non-performing asset (NPA) is a loan or an advance where;

- i. interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an Overdraft/Cash Credit (OD/CC),
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
- vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

**2.1.3** In addition, an account may also be classified as NPA in terms of certain specific provisions of this Master Circular, including inter alia Paragraphs 4.2.4, 4.2.9 and Part B2.

## 2.2 'Out of Order' status

2.2.1 A CC/OD 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.

2.2.2 The definition of “out of order” as at paragraph 2.2.1 above shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purpose and/or which entail interest repayments as the only credits.

### 2.3 ‘Overdue’ status

2.3.1 Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank. The borrower accounts shall be flagged as overdue by the banks as part of their day-end processes for the due date,

## PART B1 - Framework for Resolution of Stressed Assets

### 8. Early identification and reporting of stress

8.1 Lenders 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 Subcategories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue .
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

**categories will be as follows: 8.2 In the case of revolving credit facilities like cash credit/overdraft, the SMA Subcategories will be as follows:-**

SMA Subcategories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

8.3 The above-mentioned instructions on classification of borrower accounts into SMA categories are applicable for all loans (including retail loans), other than agricultural advances governed by crop season-based asset classification norms, irrespective of size of exposure of the bank.

8.4 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.