

Asset Classification & Provisioning Norms for the FIs – Modifications

Ref. DBS.FID No.C-9/ 01.02.00 / 2003- 04

November 15, 2003

The CEOs of all-India Term Lending and Refinancing Institutions

Dear Sir,

Asset Classification & Provisioning Norms for the FIs – Modifications

Please refer to our circular DBS.FID.No.C-23/01.02.00/2000-01 dated April 24, 2001 in term of which the FIs are required, with effect from the year ended March 31, 2002, to classify an asset as an NPA if the interest and / or instalment of principal remain overdue for more than 180 days.

2. In this context, attention is invited to paragraph 74 of the Governor's Statement on Mid-Term Review of Monetary and Credit Policy for the year 2003-04 (reproduced in the Annex) announced on November 3, 2003. The full text of the Policy Statement is accessible at the RBI website (URL: www.rbi.org.in). As announced therein, it has now been decided that, with effect from the year ending March 31, 2006, an asset should be classified as NPA if the interest and / or instalment of principal remain overdue for more than 90 days. As regards the additional provision arising as on March 31, 2006 on account of the modification in the norms, the FIs would have the option to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, subject to at least one fourth of the additional required provision being made in each year. All other instructions regarding asset classification and provisioning would remain unchanged.

3. Please acknowledge receipt.

Yours faithfully,

(S. S. Gangopadhyay)
Chief General Manager

Annex

Extract from the Statement by Dr. Y. Venugopal Reddy, Governor, Reserve Bank of India on Mid-term Review of Monetary and Credit Policy For the year 2003-04

“ (b) Prudential Norms for FIs

74. As indicated in the annual policy Statement of April 2001, with effect from the year ended March 2002, assets of financial institutions (FIs) are treated as non-performing, if the interest and/or principal instalment remain overdue for a period of more than 180 days. However, in the case of banks, 90 days norm for recognition of loan impairment would be adopted from the year ending March 2004. In order to bring in convergence between the asset classification norms of FIs and banks, in line with international norms, it is proposed:

- To adopt the 90 days norm for recognition of loan impairment for FIs with effect from the year ending March 31, 2006. However, in order to mitigate the burden of additional provisioning arising out of adoption of the revised norm, FIs are permitted to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, with a minimum of one-fourth of the additional provisioning being made each year. ”