

**RBI instructions on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances dated 12th November 2021.**

With reference to the RBI circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04 .048/2021-22 on ‘Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances – Clarifications’ dated 12th November 2021, the following clarifications may kindly be noted.

**1. Clarification on ‘Overdue’**

An amount is to be treated as ‘Overdue’ if it is not paid on the due date fixed by the Company.

**2. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)**

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated 7<sup>th</sup> June, 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). It is clarified that the intervals are intended to be continuous and accordingly, the basis for classification of SMA categories shall be as follows:

<b>Loans other than revolving facilities</b>	
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

Accordingly, the date of SMA/NPA shall reflect the asset classification status of the loan account, at the day-end of that calendar date. An illustration of such classification is as follows:

- **SMA 0** - If due date of a loan account is 31<sup>st</sup> March, 2021, and full dues are not received on this date, the account shall be SMA 0 on day end of 31<sup>st</sup> March, 2021.
- **SMA 1** - If the account continues to remain overdue, then this account shall get tagged as SMA-1 upon completion of 30 days of being continuously overdue i.e. 30<sup>th</sup> April, 2021.
- **SMA 2** - If the account continues to remain overdue, it shall get tagged as SMA-2 on 30<sup>th</sup> May, 2021
- **NPA** – If the account continues to remain overdue further, it shall get classified as NPA on 29<sup>th</sup> June, 2021

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.

**3. NPA classification in case of interest payments**

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

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

**4. Upgradation of accounts classified as NPAs**

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 upgrade 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.