

STANDARD CHARTERED CAPITAL LIMITED (SC Capital)

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

This is in reference to the [Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances \(IRACP norms\) dated October 1, 2021](#) and the clarifications issue vide Circular [DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021](#) and subsequently.

In order to increase awareness among the borrowers, the above has been explained with examples, the concepts of Due, Overdue, SMA and NPA classification and upgradation. The examples are illustrative and relate to common scenarios and are not exhaustive in nature.

A. Specification of due date/repayment date

Dues - means, the principal / interest/ any charges levied on the loan account which are payable within the period stipulated as per the terms of sanction of the credit facility.

OverDue - Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by SC Capital.

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

SMA - Bank will recognize the incipient stress in loan accounts, immediately on Default, by classifying them as Special Mention Accounts (SMA).

The basis of classification of SMA Category is simply illustrated below:

| 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 |

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 no NBFCs'](#).

Non-Performing Asset (NPA) is a loan or an advance where:

- interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan

Example: If due date of a loan account is June 30, 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 June 30, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on July 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 July 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA2 upon running day-end process on Aug 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on September 29, 2021.

NOTE: SMA classification of borrower accounts are applicable to all loans irrespective of size of exposure of the lending institution.

C. Clarification regarding definition of 'out of order'

An account shall be treated as 'out of order' if:

- a) the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- b) 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.

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

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.

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

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.

With a view to increasing awareness among the borrowers, the above has been explained with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process.