



STATUTORY BANK AUDIT
CONCESSIONS IN NPA NORMS FOR F.Y. 2021-22
(DUE TO COVID'19 FACTOR)

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This year being a year suffered from pandemic, Government of India and Reserve Bank of India have issued various guidelines for giving relief to the borrowers and accordingly announced various relief packages from time to time. Besides, Hon'ble Supreme Court has also given its final verdict announced on 23rd March' 2021 against the petition filed by one of the borrower seeking 4 major reliefs where in only 1 relief has been granted to all the borrowers which will impact the working of all Bank Branches substantially.

Considering the importance of all packages & circulars, I have compiled the relevant circulars relevant for **Concessions in NPA norms for F/Y 2020-21** for F.Y. 2020-21 which may be helpful to you all while performing your duties as Statutory Branch Auditors. This gist of the circulars alongwith my views are as under:

AS PER CIRCULAR OF RBI DATED 23.05.2020

S.No.	Particulars	Detailed Instructions	Action to be taken	
1	Loans to MSMES	Existing loans to MSMES classified as standard may be restructured with out downgrading subject to	1. Aggregate exposure, including non-fund based facilities of all banks of the borrower does not exceed 25 crores as on 01.03.2020 2. Borrower's account was standard as on 01.03.2020 3. The restructuring of the borrower's account is implemented as on 01.03.2021 4. The asset classification benefits will be available only if restructuring is done as per rules	Asset classification of borrowers a/c may be retained as such, Whereas the accounts which may have slipped in NPA between 02.03.2020 to the date of implementation may be upgraded as standard.

AS PER CIRCULAR OF RBI DATED 06.08.2020

S.No.	Particulars	Detailed Instructions	Action to be taken	
1	a) Reference date 01.03.2020 for classification of assets	The accounts which were not in default for more than 30 days	The resolution under this frame work to be undertaken upto 31.12.2020 and implemented within 90 days	The effect of compounding interest may be adjusted in next EMIs
	b) Reference date for moratorium -the repayment schedule of all term loans will be shifted to 31.08.2020	Interest will continue to be applied during this moratorium period.	As per ruling of honorable Supreme Court such interest will be simple i.e. not compounded	
2	Except compromise settlements which shall continue to be governed by the provisions of the Prudential Frame work or the relevant instructions, if any, applicable to specific category where the Prudential Frame work is not applicable	The resolution may include sanctioning of additional credit facilities even if there is no renegotiation of existing debt	The lending institution may allow extension of the residual tenor of the laon with or without payment moratorium, by a period not more than two years. The moratorium period will come into effect with immediate effect.	<p>1. The additional finance will continue to be treated as standard till implementation of the plan regardless of the performance of the borrower to such facilities.</p> <p>2. If resolution plan is not implemented within stipulated time the asset classification fo additional facilities will be as per actual performance.</p> <p>3. If resolution is implemented the asset classification of borrowers's accounts as standard may be maintained . If borrowers accounts have slipped into NPA during implementation IT may be upgraded as standard as on the date of implementation of the plan.</p>
3	Post implementation	For persoanl loans, after implementation of plan, the subsequent classification will be governed as per old guidelines.	If the borrower is in default at the end of review period (30 days) shall be downgraded to NPA from the date of implementation of the plan or the date from which the borrower had been classified as NPA before implementation of the plan, which ever is earlier.	

GIST OF HON'BLE SUPREME COURT'S FINAL VERDICT DATED 23.03.2021

HIGHLIGHTS OF THE VERDICT:

- 1 The Supreme Court refused to interfere with the government and the Reserve Bank of India's (RBI) loan moratorium policy and declined to extend the six months loan moratorium period.
- 2 The apex court said that the waiver of complete interest is not possible as it affects depositors.
- 3 Banks can finally start declaring their NPAs or bad loans.
- 4 Loans which have not been repaid for 90 days or more.
- 5 In an interim order on 3 September, 2020, the Supreme Court had directed banks not to classify those loans which hadn't been classified as bad loans as of 31 August, as bad loans.
- 6 This meant that since 1 September, banks have been unable to categorize their bad loans as bad loans.
- 7 In an order earlier today, the Supreme Court vacated this stay.
- 8 As it said in its order: "Interim relief granted earlier not to declare the accounts of respective borrowers as NPA stands vacated.
- 9 Further, the court ruled that the banks cannot charge interest on interest (compound interest) on the outstanding loans during the moratorium period of 1 March to 31 August, 2020.
- 10 The central government had made a policy decision not to charge interest on interest for retail loans and loans made to micro, small and medium industries (MSME), up to a loan size of ₹2 crore.
- 11 The Supreme Court said that there was no justification in limiting relief only to retail and MSME borrowers and up to a loan of ₹2 crore.
- 12 We are of the opinion that there shall not be any charge of interest on interest/penal interest for the period during the moratorium from any of the borrowers.

IMPACT OF THE VERDICT'S RULING:

- 1 The government will now have to compensate banks for not charging an interest on interest on all loans during the moratorium period.
- 2 As per rating agency ICRA, the interest on interest for a period of six months is expected to be ₹13,500-14,000 crore.
- 3 Of this, waiver of interest on interest on loans of up to ₹2 crore is expected to have cost the government ₹6,500 crore.
- 4 An extra ₹7,000-7,500 crore will have to be spent with the Supreme Court removing the ₹2 crore limit.
- 5 While the government will end up spending a lot of money in order to fund this Supreme Court decision, on the whole, it is an exercise in futility, given that it barely helps at an individual loan level.
- 6 Take the case of a loan of ₹2 crore being repaid at interest of 8%.
- 7 The interest on interest on this for a period of six months amounts to ₹13,452.
- 8 This amounts to ₹2,242 per month.
- 9 If an individual or an institution taking a loan of ₹2 crore does not have the ability to repay a little over ₹2,200 per month, he shouldn't have been given the loan in the first place.
- 10 Thankfully, the demand for waiver of interest during the moratorium period, which was something that some of the petitioners had demanded, wasn't considered
- 11 This waiver would have cost the government ₹6 trillion and would have led to the destabilization of the financial system in general and banks in particular.
- 12 Also, the decision has created a moral hazard where business associations now know that in the future.

- 13 They can petition the courts to intervene, to force the banks and the government to give them a better deal, which isn't possibly a good thing.
- 14 ICRA estimates that if the Supreme Court hadn't intervened in August, the bad loans of banks would have been higher by ₹1.3 trillion AND Would have amounted to ₹8.7 trillion or 8.3% of bank advances as of 31 December, 2020.
- 15 The RBI expects bad loans of banks to touch 13.5% by September 2021.
- 16 As of now, the good part is that banks can start recognizing their bad loans as bad loans.

CONCLUSION (MY OWN VIEW):

- 1 All the Bank Branches are required to compute the amount of interest to be waived as per the directions of hon'ble supreme Court and to credit the same in Borrower's Account.
- 2 The classification of value of assets shall take place as per the guidelines and the master circulars issued by Reserve Bank of India and accordingly if any asset has become an NPA, the same shall be considered as an NPA from the actual date of NPA while finalizing the Balance Sheet as on 31.03.2021.

KEY IMPORTANT POINTS:

- 1 IN CASE OF CASH CREDIT ACCOUNTS WHERE LIMITS HAVE EXPIRED BUT CONTINUED AS LIVE WITHOUT RENEWAL OF LIMITS BY HOLDING ON OF OPERATIONS BY THE SANCTIONING AUTHORITY. IT MAY BE ENSURED THAT PROPER APPRAISAL HAS BEEN MADE FOR THOSE ACCOUNTS FOR WHICH HOLDING ON OF OPERATIONS HAS BEEN APPLIED.
- 2 WHENEVER THERE IS ANY CHANGE IN ASSET CLASSIFICATION OR CHANGE IN VALUE OF SECURITIES AS PER IRAC NORMS INSTEAD OF MAKING COMMENTS ONLY IN LFAR OR IN BRANCH AUDIT REPORT, MOCS ARE TO BE ISSUED BY BSA.
- 3 DATE OF NPA, VALUE OF SECURITIES ETC. SHOULD NOT DIFFER AS COMPARED TO PREVIOUS FINANCIAL YEAR END, UNLESS THERE IS VALID DOCUMENTED REASON.
- 4 IN CASE OF NPA CATEGORY D-1, D-2 ACCOUNTS, SECURITY VALUE SHOULD BE REALIZABLE VALUE AS PER LATEST VALUATION REPORT (NOT MORE THAN 3 YEARS OLD).
- 5 PLEASE IDENTIFY THE ACCOUNTS WHERE THERE ARE INSUFFICIENT EMIS I.E. WHERE THE PRINCIPAL AND INTEREST AS DUE NOT RECOVERED BY THE BANK. THESE EMIS SHOULD HAVE EITHER BEEN RECTIFIED BY RESETTING THE EMIS OR INCREASING THE LOAN PERIOD AS PER RBI GUIDELINES. ELSE SUCH ADVANCES SHOULD BE **CLASSIFIED AS NPA AS AT MARCH 31, 2021.**

COVID FACTOR :

A.	RESCHEDULING OF PAYMENTS -TL AND WE FACILITIES (ALL LOANS BUT NOT LCBD STAANDARD AS ON 01.03.2020)	IF A TL ACCOUNT IS STANDARD AS ON 29.02.2020 AND MORATORIUM IS AVAILED AS PER RBI CIRCULAR DATED 27.03.2020	RBI CIRCULAR DT 27.03.2020 SAYS - THAT THE A/CS CLASSIFIED AS STANDARD, EVEN IF OVERDUE THE MORATORIUM PERIOD WHEREEVER GRANTED SHALL BE EXCLUDED FROM THE NUMBER OF DAYS PAST DUE FOR THE PURPOSE OF ASSET CLASSIFICATION . THE ASSET CLASSIFICATION FOR SUCH A/CS WILL BE REVISED AS PER REVISED REPAYMENT SCHEDULE.	
	SUCH ACCOUNTS ARE PERMITTED TO DEFER RECOVERY OF INTEREST APPLIED ON CC A/CS DURING THE PERIOD 01.03.2020 TO 31.08.2020 AS NOT DUE UPTO 31.08.2020 AND SUCH A/C IS NOT TREADED AS RESTRUCTURED ACCOUNT	-	THE BENEFITS OF THIS CIRCULAR WILL NOT BE GIVEN FOR A/CS WHEREIN REPAYMENT MORATORIUM IS NOT AVAILED	
	THIS RELIEF GRANTED TO THE BORROWERS WILL NOT BE CONSIDERED AS CONCESSION OR CHANGE IN T&C . THUS NO DOWN GRADING IS REQUIRED	CONDITIONS FOR CC A/CS IS THAT THE ACCOUNT IS STANDARD AS ON 29.02.2020	-	-
	ANYTHING BEYOND THIS RELIEF WILL RESULT IN RESTRUCTURING AND THUS WOULD BE REQUIRED DOWNGRADING	THE RELIEF IS FOR DETERMINATION 'OUT OF ORDER' STATUS DURING 01.03.2020 & 31.08.2020	-	-
B.	PL ENSURE THAT APPLICABILITY OF THE RESOLUTION PLAN SHOULD BE GRANTED TO PANDEMIC AFFECTED BORROWERS' ON THEIR ELIGIBLE EXPOSURE	-	-	-

C.	PLEASE ALSO BE ADVISED THAT STAND STILL CLAUSE ON DECLARING NPA HAS BEEN WITHDRAWN AND ACCORDINGLY NEW NPAS SHOULD BE DONE AS PER EXTANT IRAC NORMS ONLY.	IN MY PERSONAL OPINION THE STATUS AS ON 31.08.2020 WILL CONTINUE TO REMAIN THE BASIS FOR FUTURE ASSET CLASSIFICATION	-	-
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OTHER IMPORTANT POINTS:

- 1 LEGAL EXPENSES ON SUIT FILED ACCOUNTS NEED TO BE CHARGED TO PROFIT & LOSS ACCOUNT & NOT DEBITED TO BORROWERS ACCOUNT.
- 2 HOWEVER, LEGAL EXPENSES ON NPA ACCOUNTS, WHERE SUIT IS NOT FILED, WILL CONTINUE TO BE CHARGED TO BORROWERS' ACCOUNT.
- 3 PLEASE ENSURE THAT BRANCH HAS OBTAINED CERTIFICATE FROM ALL BORROWERS HAVING TOTAL CREDIT EXPOSURE OF Rs 1 CRORE AND ABOVE.
- 4 THIS CERTIFICATE TO BE CERTIFIED BY BORROWER'S STATUTORY AUDITOR ON THE PRESCRIBED FORMAT.
- 5 NIL CERTIFICATE ALSO TO BE TAKEN FROM THE BORROWER EVEN IF THERE IS NO EXPOSURE.

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