

Disclose exposure to IL&FS, group firms, RBI tells banks

Regulator wants lenders to give details such as total exposure, provisions to be made

Gopika Gopakumar
gopika.g@livemint.com
MUMBAI

The Reserve Bank of India (RBI) on Wednesday asked banks to disclose their exposure to Infrastructure Leasing and Financial Services Ltd (IL&FS), and its group entities, in their notes to financial statements.

In a notification, RBI said banks must disclose details, including total amount of exposure that are non-performing assets (NPA) as per Income Recognition and Asset Classification (IRAC) norms, but not classified as NPA. They must also reveal the provisions required to be made and the provisions actually made by the banks.

Under RBI's IRAC norms, any account that has missed payment beyond 90 days should be declared as NPA. Separately, these norms also specify the amount of provisioning required once a loan is tagged as an NPA. Sub-standard assets (defaulted loans) attract a provisioning rate of 25% in the first year, 40% between the first and the third year, and 100% after three years.

The central bank said the decision comes in the wake of the National Company Law Appellate Tribunal's (NCLAT) order stating that debt of all IL&FS group firms should not be declared as NPA without the prior permission of the tribunal. The central bank had challenged the NCLAT order in the Supreme Court as it felt the order amounts to judicial overreach.

FLAGGING BAD LOANS

ANY account that has missed payment beyond 90 days should be declared as NPA, as per RBI

RBI'S IRAC norms also specify amount of provisioning required once a loan is tagged as an NPA



Banks had been seeking a relaxation in the classification of IL&FS NPAs as repayments from IL&FS's subsidiaries were not coming forth.

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“Effectively by issuing this circular, RBI is able to address the concern arising out of NCLAT order on

IL&FS. Even if banks don't declare it as NPA, they will be forced to make higher amount of provision for their exposure to IL&FS as per actual clarification under IRAC norms,” said Asutosh Mishra, head of research, institutional equity, Ashika Stock Broking Ltd.

Banks had been seeking relaxation in the classification of IL&FS NPAs, as repayments from IL&FS subsidiaries were not coming forth. The request was, however, turned down by the RBI.