Stratage Updates

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Revision to the framework for Non-Performing Investments

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On September 12, 2023, the Reserve Bank of India ("**RBI**") notified the Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 ("**Master Direction**"), pursuant to which the RBI has *inter alia* revised the framework regarding non-performing investments ("**NPI**").

The RBI mandates all commercial banks to classify their investments in debt or equity instruments of companies as NPI in cases where fixed return (including fixed dividend) on such instruments is not paid when due, and remains unpaid for more than 90 days.

Key revisions to the framework on NPI are as under:

1. Investments by banks in ***debt securities*** like bonds and debentures are to be classified as NPI in cases where the interest / installments (including maturity proceeds) are ***due and remain unpaid for more than 90 days***.

2. Investment in central government and state government securities are exempt from classification as NPI.

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3. The previous Master Direction did not provide for the mechanism by which a company could remove the NPI classification. This was discussed in our article titled "*The Puzzle of Non-Performing Investments*" (available here). The RBI has now addressed this issue, and an NPI can be upgraded to standard when it meets the following criteria:

Instrument	Criteria
Non-cumulative preference shares	On payment of dividend for the current period
Cumulative preference shares	Upon payment of dividend in arrears and for the current period
Equity shares	Upon receipt of the audited balance sheet of the company
*For upgrading the NPI to standard, the criteria specified in the extant Prudential Norms on Income Recognition, Asset Classification and Provisioning must be met.	

The revised framework on NPI shall be applicable from April 1, 2024 to all Commercial Banks excluding Regional Rural Banks.

The aforementioned Master Direction is available here.