



1. Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

In order to provide relief to borrowers in the MSME sector affected by the onset of Covid-19 pandemic, RBI vide its [circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020](#) had permitted restructuring of advances to the MSME borrowers without downgrade in asset classification.

The last date for implementation of the resolution plan under above circular of 6th August 2020 was 31st March 2021.

In view of the resurgence of the Covid-19 pandemic in India in the recent weeks, RBI has extended the above facility for restructuring existing loans of MSMEs without a downgrade in the asset classification subject to following conditions:

- i. The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
- ii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.
- iii. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021.
- iv. The borrower should be classified as Standard Asset (i.e. Std, SMA-0, SMA-1 or SMA-2) as on 31.3.2021. Moreover, the borrower should not have been restructured under any of the older / earlier restructuring / rehabilitation schemes / plans.
- v. The resolution process under this window shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower. In respect of applications received by the lending institutions from their customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this circular and the Board approved policy put in place as above shall be completed, and the decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications. The restructuring of the borrower account is to be invoked by September 30, 2021.
- vi. The restructuring of the borrower account is implemented within 90 days from the date of invocation. The decision to invoke the resolution process under this window shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- vii. If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.
- viii. Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower
- ix. All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable

1.1.1. Asset Classification

In respect of restructuring plans implemented, asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

1.1.2. Review working capital accounts:

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring.

The decision with regard to above shall be taken by lending institutions by September 30, 2021.

The reassessed sanctioned limit / drawing power shall be subject to review by the lending institution at least on a "half yearly" basis and the renewal / reassessment at least on an annual basis.

All the above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from Covid-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from Covid-19.

2. Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

In order to provide relief to borrowers affected by the onset of Covid-19 pandemic, RBI vide its [circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020](#) on "Resolution Framework for COVID-19-related Stress" ("**Resolution Framework – 1.0**") allowed implementation of a resolution plan without downgrade in asset classification. The last date for invocation of a resolution plan under this window was 31st December 2020.

In view of the resurgence of Covid-19 pandemic recent weeks, RBI has come out with Resolution Framework 2.0 which is broadly in line with the contours of the Resolution Framework - 1.0.

Part A of the Resolution Framework 2.0 pertains to:

- Advances to individuals
- Advances to small businesses*

Under the Resolution Framework 2.0, small business is defined as a borrower entity where lending institutions have aggregate exposure less than Rs. 25 Crores as on 31.3.2021 and NOT classified under MSME sector.

Part B of the Resolution Framework 2.0 pertains to working capital support for:

- (i) individuals who have availed of loans for business purposes,
- (ii) small businesses*, where resolution plans were implemented previously.

*Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

2.1.1. Exclusions:

Borrowers who were excluded from coverage of Resolution Framework 1.0 continue to be excluded from Resolution Framework 2.0 also. Borrowers who have already availed of resolution plan under Resolution Framework 1.0 are not eligible for further resolution under Resolution Framework 2.0 except for certain relaxation in working capital facilities covered under Part B of the framework 2.0. Any resolution plan implemented in breach of the stipulations of this circular shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”), or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

Moreover, exposure to the borrower should have been classified as Standard Asset (i.e. Standard Asset, SMA-0, SMA-1 or SMA-2) by the lending institution as on March 31, 2021.

2.1.2. Invocation:

The last date for invocation of resolution permitted under this window is September 30, 2021. The resolution process under this window shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.

In respect of applications received by the lending institutions from their customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this circular and the Board approved policy put in place as above shall be completed, and the decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.

The decision to invoke the resolution process under this window shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower

2.1.3. Permitted features of resolution plans and implementation:

The resolution plans implemented under this window may *inter alia* include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose.

The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years. The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower.

2.1.4. Financial Parameters:

The instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on “Resolution Framework for COVID-19-related Stress Financial Parameters” shall not be applicable to resolution plans implemented under this window.

However, we will continue to apply the parameters defined and approved in our earlier restructure policy for Covid and document the same in the loan proposal.

2.1.5. Implementation of resolution plan:

The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met.

2.1.6. Modification of Resolution Plan and working capital support where resolution plans were implemented previously:

In cases of loans of borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, lending institutions are permitted to use this window under Resolution Framework 2.0 to modify such plans **only** to the extent of increasing the period of moratorium / extension of Residual tenor such that moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be maximum of two years.

In respect of borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to this shall be taken by lending institutions by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

2.1.7. Asset classification:

If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

2.1.8. Additional funding:

In respect of borrowers where the resolution process has been invoked, lending institutions are permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.

2.1.9. Economic fall down due to Covid-19:

The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

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