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Banking Finance

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In this issue

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"As part of our partnership with Airtel Payments Bank and strong synergies of customer-centricity, we are offering innovative motor insurance products to its customers through a seamless journey from the purchase to the claim process."

Sanjeev Srinivasan
Managing Director & CEO
Bharti AXA General Insurance

"Ideally by December, if not by March 31, 2021, every account should have a PAN where needed and applicable and Aadhaar in every case."

Nirmala Sitharaman
Union Finance Minister

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Correspondence Address
25/1, Baranashi Ghosh Street,
Kolkata- 700007, India
Phone : 033-2269-6035/4007-8428
E-mail : insurance.kolkata@gmail.com
Website : www.sashipublications.com
Portal: www.bankingfinance.in

Registered Office
31/1, Sadananda Road, P.S. Kalighat,
Kolkata -700 026, India

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From The Desk Of Editor-in-Chief

The Covid-19 pandemic has made macroeconomic management significantly more difficult. India is now facing a problem of plenty of Foreign exchange management. Rupee has been getting stronger vis-a vis dollar. The situation has improved due to less import in comparisons to export as well as cheaper import of crude oil from overseas.

Stock Market in India is reaching new heights inspite of the Covid situation and volatile economy. The BSE sensex is hovering around 44000 and NSE around 13000. It is quite amusing that in such a tepid situation where there is huge distress in economy, rising unemployment, bad shape of manufacturing, services sector the sensex is having no impact. Regulators must closely watch the market movements for any adverse scenario.

GST collection is improving since October, 2020 which is now around 1 lac crore. The collection will improve further as the economy comes back on track and the covid situation improves.

It has been suggested that Covid will lead to huge NPA's in banks due to loan defaults. But till now the situation does not seem to be very bad and in quite control. Banks should also understand the difficulty of borrowers and give them sufficient time to recoup from the situation.

Cooperative Banks in the country must be closely monitored by RBI. The Cooperative Banks off late has been in the news for wrong reasons for some time now. RBI must ensure independence in running of the banks and put more stringent checks and control on activities.

Contents

COVID - CORPORATE DEBTOR - CENTRAL BANK

Introduction

The Reserve Bank of India (the "RBI") being the Central Bank has been trying to shield the borrowers from the effect of Covid-19 since the beginning of the pandemic by announcing several measures to mitigate the immediate impact on various sectors. One of the first set of measures announced by the RBI were the introduction of moratorium period of 6 (six) months in repayment of the borrowings to alleviate the immediate financial stress on the borrowers.

About the author

Pratish Kumar
Equity Partner
Juris Corp

Saurabh Sharma
Principal Associate
Juris Corp

Karan Abichandani
Associate
Juris Corp

The aforesaid moratorium ended on 31st August 2020. To further ease the financial difficulties of the borrowers and keeping the Covid-19 affected borrowers outside the ambit of Non-Performing Assets ("NPA"), the RBI introduced a one-time window by issuing a circular on Resolution Framework for COVID-19 related stress dated 6th August 2020 (the "Covid Framework").

Covid Framework

Under the Covid Framework, the lending institutions have been allowed to restructure a loan in respect of corporate exposures and personal loans which are under stress due to COVID-19. Banks are allowed to keep the asset standard even if there is no change of ownership.

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[1] *Date on which both the borrower and lending institution have agreed to proceed with a resolution plan under the Covid Framework. If there are multiple lenders to the borrower, the resolution process shall be treated as invoked if lenders representing 75 percent by value of the total outstanding credit facilities (fund based as well non-fund based), and not less than 60 percent of lenders by number agree to invoke the same.*

Key points for corporates and their financiers

Sr. No.	Particulars	Responses
1)	Beneficiary	Borrower account which were classified as standard, but not in default for more than 30 days as on 1st March 2020 and continue to remain standard till the invocation date[1].
2)	Applicability	All the exposures of Commercial Banks, Specific Categories of Co-operative Banks, All-India Financial Institutions and Non-Banking Financial Companies (including Housing Finance Companies).
3)	Resolution Plan ("RP")	(a) Sanctioning of additional credit facilities; (b) Extension of the residual tenor of the loan even with moratorium up to two years; (c) Conversion of a portion of the debt into equity or other marketable, non-convertible debt securities; (d) Any other mode permissible in prudential framework; and (e) No compromise settlements.
4)	Timelines/Period	Timelines (a) Invocation Date: Latest by 31st December 2020; (b) Implementation Date (of RP): Within 180 days from the date of Invocation; and (c) Signing of ICA (in case of multiple lenders): Within 30 days of Invocation Date. Period (a) Monitoring period: From the implementation date till the borrower pays 10% of the residual debt, subject to a minimum of 1 year from the date of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium; and (b) Review Period: It is a period of 30 days which gets triggered on default of the borrower during the monitoring period.
5)	Asset Classification	(a) On successful implementation of the RP within the timelines, the borrowers' accounts shall remain standard or upgraded as standard (if slipped to NPA during implementation); and (b) Post implementation of RP, if the borrower is in default at the end of the Review Period, the asset classification of the borrower with all lending institutions shall be downgraded to NPA from the implementation date or the date from which the borrower had been classified as NPA before implementation of the RP, whichever is earlier.
6)	Provisioning	(a) **Timely execution of ICA:** Provisions as per the extant IRAC norms immediately before implementation, or 10% of the total debt post implementation of the RP (residual debt). (b) **Delay in execution of ICA:** The provisions required as per extant IRAC norms or provisions of 20% of the debt on their books as on the date after expiry of 30 days (carrying debt), whichever is higher.

Sr. No.	Particulars	Responses
7)	Breach of Timelines	On breach of timelines, resolution process ceases to apply immediately. Any resolution plan implemented in breach of the above stipulated timelines shall go back under the prudential framework, or the relevant instructions as applicable to specific category of lending institutions as if the resolution window was never invoked.

Supreme Court in Action

1) Several writ petitions were filled before the Supreme Court of India ("SC") since the beginning of the lockdown in March 2020, challenging various measures announced by the RBI to mitigate the immediate impact on various sectors in the wake of Covid-19.

2) An interim order was passed by the SC in September 2020, directing that all the accounts which were standard as on 31st August 2020 shall not be declared NPA till further orders, which is still continuing.

3) The Central Government in its response before SC stated that they are willing to waive off interest on interest (compound interest) applied during the period of 6 months moratorium, for inter alia all retail and MSME loans of up to INR 2 crores (Indian Rupees Two Crores only). Pursuant to the above, the Ministry of Finance has issued a scheme dated 23rd October 2020, whereby they have directed the financial institutions to credit the difference between the compound interest and simple interest for the six month moratorium period between 1st March 2020 and 31st August 2020 into the eligible loan accounts by 5th November 2020.

4) The RBI has also urged to SC:

   a) to vacate the stay imposed by its interim order against classification of accounts as NPAs; and

   b) not to extend the period of loan moratorium as extending the loan moratorium for further 6 (six) months will have an impact on the credit behaviour of the borrowers.

Conclusion

Indian central bank has made some welcome policy changes by giving timely moratorium and creating a restructuring window for pandemic hit borrower accounts. However, in this phase of restrictive mobility it is still unclear that whether the timelines provided to avail the benefit can be met. It will definitely be a task for the RBI to achieve the balance between the well being of the banks and debtor in difficult times. We are hopeful that RBI might consider some further relaxations in the parameters of Covid Framework to make it workable for all the market participants.

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Date for availing direct tax dispute resolution scheme till Dec 31

The government has extended the last date for availing the direct tax dispute resolution scheme till December 31, 2020, the finance ministry notified. Taxpayers willing to settle their tax disputes under the Direct Tax Vivad se Vishwas Act can file their declarations till December 31, and will be mandated to pay the settled tax amount by March 31, 2021, with a complete waiver of interest and penalty. After April 1, 2021, a 10% higher amount will have to be paid.

Further, where arrears relate to disputed interest or penalty only, then 25% of the amount is to be paid by March 31, 2021 and 30% after April 1, 2021. The extension has been provided "in order to provide further relief to the taxpayers desirous of settling disputes under the scheme," the Central Board of Direct Taxes (CBDT) said.

Finance secretary Ajay Bhushan Pandey has asked tax officials to expedite the Scheme which, he said, is highly beneficial to the taxpayers, after reviewing the progress made so far by the income tax department on the scheme in a high level meeting. "We need to advance the Vivad se Vishwas Scheme with greater persuasion and perseverance and must reach out to the taxpayers to facilitate all necessary handholding," he said.

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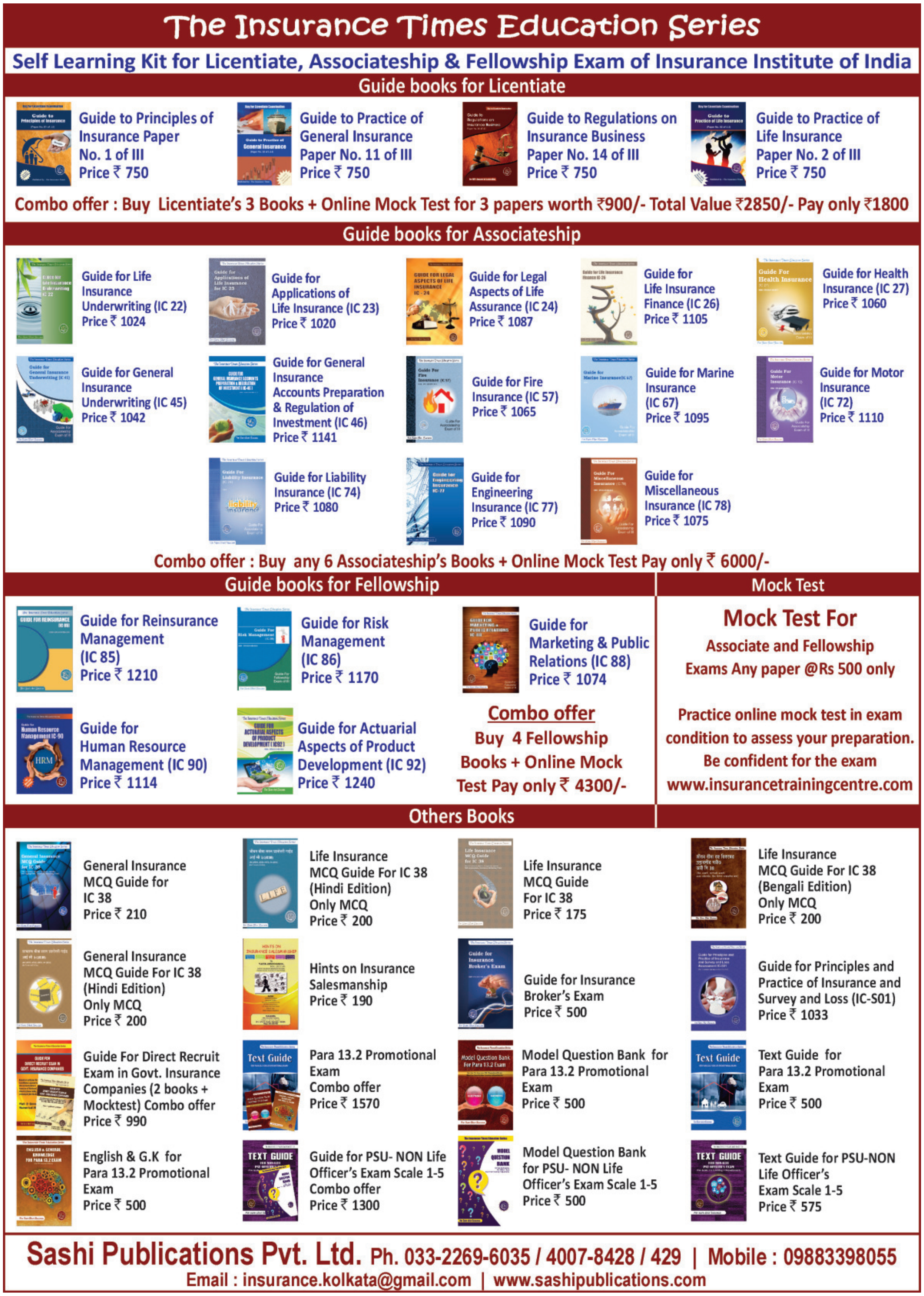

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