



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



www.rbi.org.in

RBI/2023-24/40

DOR.STR.REC.20/21.04.048/2023-24

June 08, 2023

Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)

Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks

All-India Financial Institutions

Non-Banking Financial Companies (including Housing Finance Companies)

Madam/Dear Sir,

Framework for Compromise Settlements and Technical Write-offs

The Reserve Bank of India has issued various instructions to regulated entities (REs) regarding compromise settlements in respect of stressed accounts from time to time, including the [Prudential Framework for Resolution of Stressed Assets dated June 7, 2019](#) (“**Prudential Framework**”), which recognises compromise settlements as a valid resolution plan. With a view to provide further impetus to resolution of stressed assets in the system as well as to rationalise and harmonise the instructions across all REs, as announced in the [Statement on Developmental and Regulatory Policies released on June 8, 2023](#), it has been decided to issue a comprehensive regulatory framework governing compromise settlements and technical write-offs covering all the REs, as detailed in the [Annex](#).

2. The provisions of this framework shall be applicable to all REs to which this circular is addressed and shall be without prejudice to the provisions of the Prudential Framework, or any other guidelines applicable to the REs on resolution of stressed assets.

3. These instructions on operationalising the framework have been issued in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934 and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987. They shall come into force with immediate effect and banks shall take necessary steps to ensure compliance with these instructions.

Yours faithfully,

(Manoranjan Mishra)
Chief General Manager

Framework for Compromise Settlements and Technical Write-offs

Board-approved policy

1. Regulated Entities (REs) shall put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs.

Compromise settlement for this purpose shall refer to any negotiated arrangement with the borrower to fully¹ settle the claims of the RE against the borrower in cash; it may entail some sacrifice of the amount due from the borrower on the part of the REs with corresponding waiver of claims of the RE against the borrower to that extent.

Technical write-off for this purpose shall refer to cases where the non-performing assets remain outstanding at borrowers' loan account level, but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

2. The Board approved policy shall comprehensively lay down the process to be followed for all compromise settlements and technical write-offs, with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value etc. The policies shall also put in place a graded framework for examination of staff accountability in such cases with reasonable thresholds and timelines as may be decided by the Board.
3. In respect of compromise settlements, the policy shall *inter alia* contain provisions relating to permissible sacrifice for various categories of exposures while arriving at the settlement amount, after prudently reckoning the current realisable value of security/collateral, where available. The methodology for arriving at the realisable value of the security shall also form part of the policy. The objective shall be to maximise the possible recovery from a distressed borrower at minimum expense, in the best interest of the RE.
4. The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between the RE and the borrower relating to future contingent realizations or recovery by the RE, subject to such claims not being

¹ Any arrangement involving part settlement with the borrower shall fall under the definition of restructuring, as defined in the **Prudential Framework** and shall be governed by the provisions applicable thereto.

recognised in any manner on the balance sheet of REs at the time of the settlement or subsequently till actual realization of such receivables. Any such claims recognised on the balance sheet of the RE shall render the arrangement to be treated as restructuring in terms of paragraph 8 of this circular.

Delegation of Power

5. The aforesaid policy shall also cover the delegation of powers for approval/sanction of compromise settlements and technical write-offs.
6. In respect of compromise settlements, it shall be ensured that:
 - (i) delegation of power for such approvals rests with an authority (individual or committee, as the case may be) which is at least one level higher in hierarchy than the authority vested with power to sanction the credit / investment exposure.

Provided that any official who was part of sanctioning the loan (as individual or part of a committee) shall not be part of the approving the proposal for compromise settlement of the same loan account, in any capacity.
 - (ii) proposals for compromise settlements in respect of debtors classified as fraud or wilful defaulter, as permitted in terms of clause 13 of this Annex, shall require approval of the Board in all cases.

Prudential treatment

7. Compromise settlements where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring as defined in terms of the [Prudential framework on Resolution of Stressed Assets dated June 7, 2019](#).
8. In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure,

Provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

Reporting Mechanism

9. There shall be a reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. Compromise settlements and technical write-offs approved by the MD & CEO / Board Level Committee would be reported to the Board.

Oversight by the Board

10. The Board shall mandate a suitable reporting format so as to ensure adequate coverage of the following aspects at the minimum: (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y); (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts; (iii) amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts; (iv) extent of recovery in technically written-off accounts.

Cooling Period

11. In respect of borrowers subject to compromise settlements, there shall be a cooling period as determined by the respective Board approved policies before the REs can assume fresh exposures to such borrowers.

Provided that:

- (i) The cooling period in respect of exposures other than farm credit exposures shall be subject to a floor of 12 months. REs are free to stipulate higher cooling periods in terms of their Board approved policies.
- (ii) The cooling period for farm credit exposures shall be determined by the REs as per their respective Board approved policies.

Farm credit for the above purpose shall refer to credit extended to agricultural activities as listed in Annex 2 to the [Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances](#) as amended from time to time.

12. The cooling period to be adopted in respect of exposures subjected to technical write-offs shall be as per the Board approved policies of the REs.

Treatment of accounts categorized as fraud and wilful defaulter

13. REs may undertake compromise settlements or technical write-offs in respect of accounts categorised as *wilful defaulters* or *fraud* without prejudice to the criminal proceeding underway against such debtors.

Other legal provisions

14. The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force.
15. Further, wherever REs had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

List of circulars that stand repealed with immediate effect

Sl. No	Circular Number	Date of Issue	Subject
1	DBOD.No.BP.BC.81/21.01.040/95 (excluding Paragraph 2)	28.07.1995	Compromise or Negotiated Settlements of Non-Performing Assets (NPAs)
2	<u>DBOD.BP.BC.55/21.04.117/2007-08</u>	30.11.2007	Guidelines on Settlement of Non-Performing Assets – Obtaining Consent Decree from Court
3	<u>DBOD.BP.BC.No.112/21.04.048/2009-10</u>	21.06.2010	Compromise/Negotiated/One Time settlement of Non-Performing Assets