RBI circular on utilisation of floating provisions

10 February 2014

First Notes on:

Financial Reporting

Corporate law updates

Regulatory and Other Information

Disclosures

Sector:

All

Banking and Insurance

Information, Communication, Entertainment

Consumer and Industrial Markets

Infrastructure and Government

Relevant to:

All

Audit committee

CFO

Others

Transition:

Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

The Reserve Bank of India (RBI) had issued a master circular dated 2 July 2012, which consolidated instructions/ guidelines issued to banks till 30 June 2012 on matters relating to prudential norms on income recognition, asset classification and provisioning pertaining to advances, including creation and utilisation of 'countercyclical provisioning buffer'/'floating provisions'.

The RBI vide its circular dated 7 February 2014, has decided that as a countercyclical measure, banks may utilise upto 33 per cent of countercyclical provisioning buffer/floating provisions held by them as on 31 March 2013, for making specific provisions for non-performing assets, as per the policy approved by their Board of Directors.

It is further clarified that the utilisation of countercyclical provisioning buffer/floating provisions under this measure may be over and above the utilisation of countercyclical provisioning buffer/floating provisions for the purpose of making accelerated/additional provisions as proposed in the Reserve Bank's Press Release dated 30 January 2014 on 'Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy'.

The current circular also emphasises that banks in accordance with the Discussion Paper on 'Introduction of Dynamic Loan Loss Provisioning Framework for banks in India' dated 30 March 2012, should develop necessary capabilities to have a dynamic loan loss provisioning framework in place which would enable banks to build up 'Dynamic Provisioning Account' during good times and utilise the same during downturn.

Our comments

The master circular dated 2 July 2012 issued by the RBI, mentioned the circumstances under which the floating provisions could be utilised for making specific provisions in impaired accounts. As a result, due to the significant deterioration in the credit quality of the assets experienced by most of the banks, the current circular permits banks to utilize the floating provisions which were created in the earlier years to meet the provisions for non-performing assets.

The RBI has tried to take a balanced view by requesting banks to develop necessary capabilities to compute their long term average annual expected loss for different asset classes, for switching over to the dynamic provisioning framework, as per the discussion paper issued in 2012.

The bottom line

- The RBI has provided banks with some relief from the higher level of provisions that is being witnessed in the banking system currently.
- The RBI has also highlighted the need to have a system in place to meet such exigencies in the future.

KPMG in India

Ahmedabad
Safal Profitaire
B4 3rd Floor, Corporate Road,
Opp. Auda Garden, Prahlad Nagar
Ahmedabad – 380 015
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bangalore
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bangalore 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Delhi
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad
8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi
4/F, Palal Towers
M. G. Road, Ravipuram,
Kochi 682 016
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata
Unit No. 603 – 604, 6th Floor, Tower 1,
Godrej Waterside, Sector – V,
Salt Lake, Kolkata – 700091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai
Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3058 5764/65
Fax: +91 20 3058 5775

Useful Links

Back issues are available to download from: www.kpmg.com/in

www.kpmg.com/in