



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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All Commercial Banks (including Regional Rural Banks and Local Area Banks)
All Primary (Urban) Co-operative Banks
All State Cooperative Banks & Central Cooperative Banks
All Non-Banking Financial Companies (including Housing Finance Companies)
All All-India Financial Institutions

Madam/Dear Sir,

Government Debt Relief Schemes (DRS)

The [Prudential Framework for Resolution of Stressed Assets dated June 7, 2019](#), read with the [Framework for Compromise Settlements and Technical Write-offs dated June 08, 2023](#), provides a principle-based resolution framework to the regulated entities (REs) for addressing any stress in borrower accounts. Further, specific frameworks have been provided for REs to restructure exposures affected by natural calamities viz. the [Master Direction - Reserve Bank of India \(Relief Measures by Banks in Areas affected by Natural Calamities\) Directions, 2018-SCBs dated October 17, 2018](#); [Master Direction – Reserve Bank of India \(Relief Measures by Banks in Areas affected by Natural Calamities\) Directions 2018 – RRBs dated October 17, 2018](#); [Guidelines for Relief Measures by NBFCs in areas affected by Natural Calamities dated July 28, 2016](#); and [Master Circular - Management of Advances – UCBs dated July 25, 2023](#).

2. Some of the REs may also be involved in implementation of various forms of Debt Relief Schemes (DRS) announced by State Governments that *inter alia* entail sacrifice/waiver of debt obligations of a targeted segment of borrowers, against fiscal support. If such schemes are announced frequently, incommensurately, or without due consideration to the principles of financial discipline, they would negatively affect credit discipline and in the long run, may be counter-productive to the credit flow to such borrowers. Apart from the broader implications for the credit discipline and moral hazard issues, DRS also raises certain prudential concerns, which include delay in receipt of dues; mismatch between the claims admitted / submitted by the REs and

accepted by the concerned Government as per the terms of the scheme; mandatory requirement of fresh credit by the REs, etc.

3. As such, the REs participating as lenders under such DRS shall comply with the guidelines contained in [Annex-1](#), that lay down certain broad principles in this regard. The guidelines shall apply in respect of DRS notified on or after the date of issue of this guideline and shall be without prejudice to the extant guidelines on resolution of stressed assets applicable to the respective REs.

4. In this context, a model operating procedure (MOP) has also been shared with the State Governments ([Annex-2](#)) for their consideration while designing and implementing such DRS through a consultative approach, to avoid any non-alignment of expectations of the stakeholders involved, including the Government, lenders, borrowers, etc.

5. In respect of relief measures announced prior to the introduction of these guidelines, any dues pending receipt from Government, for more than 90 days shall attract specific provision of 100%. REs shall take necessary action and actively follow up with the respective Governments for settlement of such dues at the earliest.

Yours faithfully,

(Vaibhav Chaturvedi)
Chief General Manager

Prudential treatment in respect of Government Debt Relief Schemes (DRS)

Participation in the DRS

1. REs may decide on participating in a particular DRS notified by a Government, based on its Board approved policy, subject to the extant regulatory norms. Any provision of the scheme that may warrant modification in long term interest of the borrowers or for prudential reasons may be duly brought to the notice of the concerned authority/ies through the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC), during the consultation phase while designing the DRS.

2. The REs shall clearly determine the eventual outstanding that may crystallise in their books in respect of the borrowers proposed to be covered under the DRS, including the accumulated interest in non-performing accounts, by the time the dues are settled under the DRS, to enable the Government to suitably arrange for the extent of fiscal participation.

Coverage / Selection of Borrowers under DRS

3. The REs shall ensure that the borrowers to be covered under DRS are selected strictly as per terms of such schemes so as to avoid subsequent non-admission by the authorities on technical grounds.

4. The terms and conditions of the scheme as well as the prudential aspects, including cooling period for extending fresh credit, impact on credit score etc., shall be clearly communicated to the borrowers at the time of obtaining explicit consent from the borrower for availing benefits under the proposed DRS.

Sacrifice by RE

5. Any waiver of accrued but unrealised interest and/ or sacrifice of principal undertaken by REs in the borrower accounts of beneficiaries of the DRS, either as part of the implementation of the DRS or subsequent to its implementation, shall be treated as a compromise settlement and shall attract the prudential treatment contained in [Framework for Compromise Settlements and Technical Write-offs dated June 08, 2023](#).

Loan Account Status

6. If the funds received by the RE as part of the DRS covers the entire outstanding dues of the borrower¹, the same shall lead to extinguishment of borrower's debt obligations.

7. In cases where the funds received by the RE as part of the scheme are not adequate to cover the entire outstanding dues of the borrower, leading to residual exposure², the asset classification of the residual exposure shall be evaluated as per the terms and conditions of the original loan contract. Any changes/modifications to the terms and conditions of the original loan contract in such cases shall be evaluated against the test of restructuring³ and shall attract the prudential treatment therein.

8. Any fresh credit exposure to such borrowers shall be as per the commercial discretion of the RE under relevant internal policy, subject to extant applicable regulations.

9. REs' reporting in respect of the borrowers under the scheme to the credit information companies (CIC) shall be guided by the extant guidelines in this regard.

Government Dues

10. There shall not be creation of any receivable against the Government on account of the DRS and the exposure shall continue to be on the borrower till receipt of funds by the RE. Till receipt of funds, REs shall continue to apply the prudential norms including prudential norms on income recognition, asset classification and provisioning. Further, wherever the accounts are non-performing, REs may pursue recovery measures as per their Board approved policy against such borrowers.

¹ Principal and interest accrued till the date of receipt of funds by the RE

² Principal and/or accrued interest

³ In terms of [Prudential Framework for Resolution of Stressed Assets dated June 07, 2019](#), or any other guidelines applicable to the concerned REs on resolution of stressed assets

Model Operating Procedure

Government Debt Relief Schemes (DRS)

Coverage and Meaning

1. For the purpose of the Model Operating Procedure (MOP), Debt Relief Schemes (DRS) refer to Schemes notified by the State Governments that entail funding by the fiscal authorities to cover debt obligations of a targeted segment of borrowers that the lending institutions are required to sacrifice/waive.
2. Announcement / notification of any such DRS should include the specific stress or distress situation necessitating announcement of such support. Given the broader implications of such DRS for the credit culture, while broad based relief measures can be addressed through pure fiscal support in the form of Direct Benefit Transfer (DBT), DRS should be considered only as a measure of last resort when other measures to alleviate financial stress have failed.

Pre-Notification Consultation

3. Before announcing any DRS, Governments may engage with the State Level Bankers' Committee (SLBC)/ District level Consultative Committee (DCC) to evolve a coordinated action plan for conceptualisation, design, and implementation of the DRS. The schemes should, cover critical aspects of the scheme like identification of borrowers, impact assessment, implementation timelines, resolution of issues concerning settlement of dues by Government to the lending institutions, etc.
4. The design features should ensure that the DRS do not impact the financial stability aspects of the region / State or create moral hazards in the borrower segments. Conformance to relevant regulatory guidelines on loan settlement, reporting to credit information companies etc. should also be taken into account.

Funding of Scheme

5. Detailed budgetary provisions / funding may be provided upfront towards any proposed DRS to fully cover the required settlement amounts. Where lenders have dues from the Government, pertaining to earlier DRS schemes, new schemes should be announced only on a fully pre-funded basis.

Design of Scheme

6. The DRS should be targeted only at the impacted borrowers and should not contain any restrictive covenant against timely repayments. Further, it should specify the criteria for determining eligible borrowers on an objective basis, detailed timeline of critical/ material events, including cut-off dates for filing/ submission, acknowledgement, approval and settlement of claims along with compensation clauses for delays in settling the funds, on part of the Government.

7. The DRS should cover the entire outstanding dues of the borrowers being covered, including principal and accumulated interest till the date of receipt of funds by the lending institutions from the Government.

8. The DRS should not require the creation of a receivable in the books of the lending institution against the Government. The exposure of lending institutions to the borrower shall continue and shall be reduced to the extent of funds received from the Government.

9. The entire implementation of the Scheme and settlement of claims by the Governments to the banks, should generally be completed within 45 to 60 days.

10. The DRS should not contain any provision contrary to any regulatory instruction issued by RBI / NABARD.

11. The design of the DRS should not contain any provision that casts any obligations on the lending institutions, directly or indirectly, to:

- a. waive/ sacrifice a part or whole of its dues from the borrower;
- b. extend fresh credit to borrowers whose debt has been waived;
- c. make any commitments in anticipation of future budgetary support;
- d. stop pursuing legal avenues available to them, for recovery of dues from the borrower, pending receipt of funds from the Government.

However, if the lending institutions agree to any of the above at the time of design of DRS or subsequently, as per their Board-approved policies, it shall be subject to the applicable prudential guidelines.