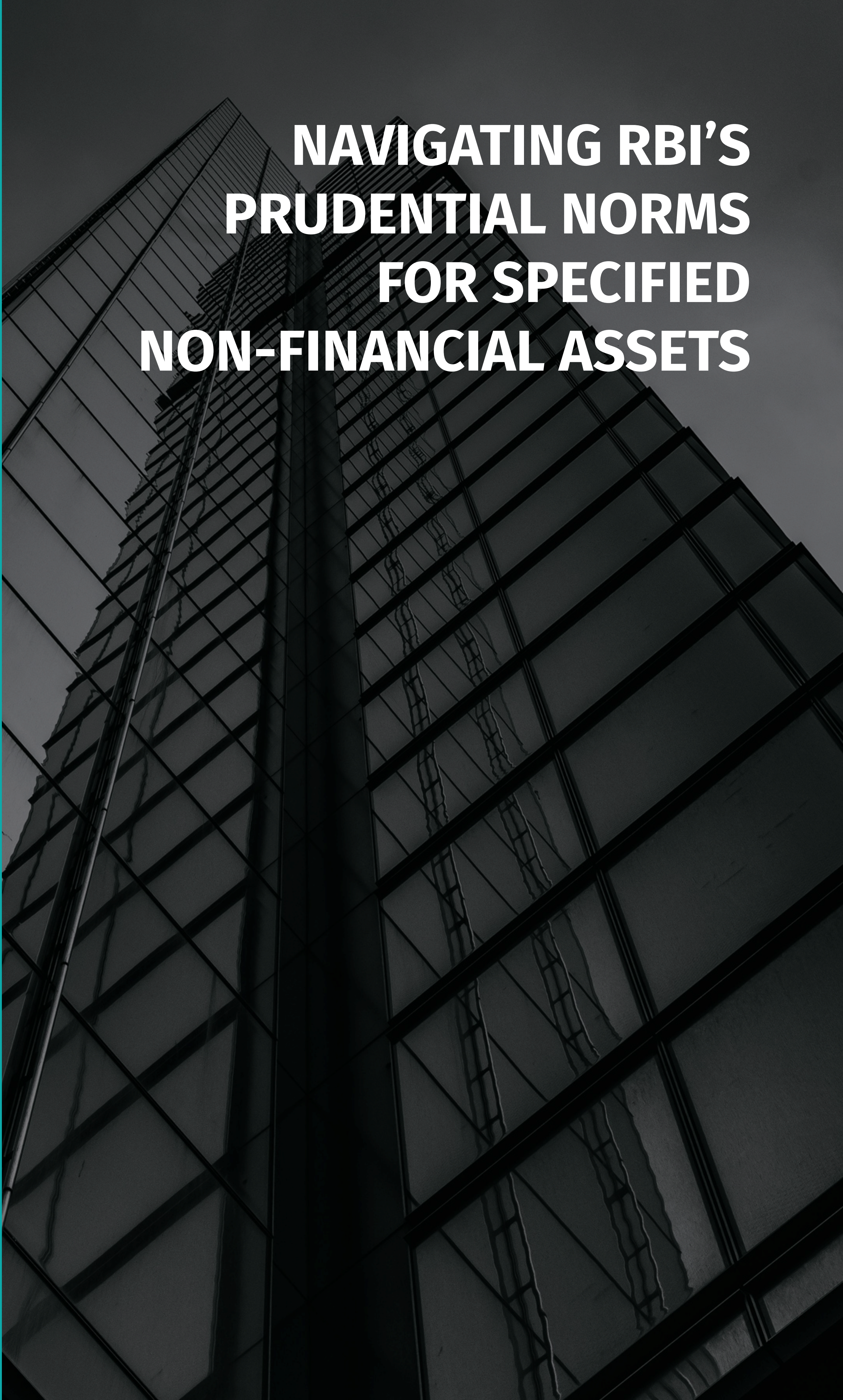
NAVIGATING RBI'S PRUDENTIAL NORMS FOR SPECIFIED NON-FINANCIAL ASSETS



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01 INTRODUCTION

Over the past decades, India's stressed asset resolution framework has progressively developed into a more structured and rule based regulatory regime under the stewardship of the Reserve Bank of India ("RBI"). While the Insolvency and Bankruptcy Code, 2016 ("the Code") has emerged as a transformative legislation in the resolution landscape, the RBI has, in parallel, continuously recalibrated its stressed asset framework to respond to changing economic conditions, emerging credit risks, and evolving market dynamics. Despite various revisions and refinements in the past years, the RBI framework has retained the same approach and policy intent i.e., timely identification of financial stress and expeditious resolution while seeking to foster transparency.

The RBI issued the Revised Framework for Resolution of Stressed Assets on 12th February 2018, discontinuing restructuring mechanisms such as Corporate Debt Restructuring ("CDR"), Strategic Debt Restructuring ("SDR"), the Scheme for Sustainable Structuring of Stressed Assets ("S4A"), and the Joint Lenders' Forum ("JLF") in response to concerns that multiple resolution windows were contributing to delays and regulatory arbitrage.

Following the Supreme Court's decision in Dharani Sugars and Chemicals Limited vs. Union of India & Others, that struck down the 12th February, 2018 circular on the ground of it being ultra vires of Section 35AA of the Banking Regulation Act, 1949, the RBI introduced the 'Prudential Framework for Resolution of Stressed Assets' on 7th June, 2019 prescribing a more structured resolution process through board approved policies, defined review timelines, inter-creditor arrangements, and independent credit evaluation for specified exposures.

In November 2025, the RBI rolled out the 'The Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025[1] marking an important milestone in the consolidation of India's stressed asset framework. Issued on 28 November 2025, the said directions repealed and replaced the existing body of RBI directions, circulars and guidelines governing resolution of stressed assets for commercial banks, including the framework that had evolved from the Prudential Framework for Resolution of Stressed Assets dated 7th June 2019. These directions also serve as the foundational framework upon which subsequent amendments, including the 2026 prudential norms relating to specified non-financial assets, have been built.

[1] Can be accessed from the link: Master Directions | Official Website of Reserve Bank of India

In this continuing process of regulatory refinement, the RBI has introduced a dedicated prudential framework ("SNFA Framework") for immovable properties and other specified non-financial assets acquired by Banks, NBFCs and Financial Institutions (collectively referred to as "Regulated Entities") by issuing following amendment directions:

Regulated entity	Resolution of Stressed Assets	Income Recognition (IRACP)
Commercial Banks	Third Amendment	Second Amendment
Small Finance Banks	Second Amendment	Second Amendment
NBFCs	Second Amendment	Third Amendment
All India Financial Institutions	Second Amendment	Second Amendment
Urban Co-operative Banks	Third Amendment	Second Amendment
Rural Co-operative Banks	Second Amendment	Third Amendment
Regional Rural Banks	Second Amendment	Second Amendment
Local Area Banks	Second Amendment	Second Amendment

02 KEY HIGHLIGHTS OF THE SNFA FRAMEWORK:

SNFA

a) Introduction of the new definition of specified non- financial asset ("SNFA")

SNFA means an immovable asset acquired by a Regulated Entity in full or partial satisfaction of its claims on a borrower. It further includes non-banking assets acquired by banks under the Banking Regulation Act, 1949.

b) Governance obligations at the policy level

Regulated Entities are now required to incorporate provisions in their internal policies dealing with acquisition and disposal of SNFAs. Further, the policy must explicitly address, among other matters, limits on SNFA holdings as a proportion of total assets, eligibility criteria, delegation matrix, recovery efforts to be explored before acquisition, and the maximum disposal period, which shall not exceed seven years.

c) Scope and transitional treatment

Prudential Norms shall apply to all SNFAs, including assets acquired through bilateral arrangements and through proceedings under the SARFAESI Act, 2002. Existing SNFAs outstanding in the books as on 30th September, 2026 shall be treated as legacy SNFAs and compliance with the new framework is required to be achieved by 30th September, 2027

d) Acquisition restricted to non-performing exposures with subject to clear title

An SNFA shall be acquired only where the Regulated Entity's exposure to the borrower is classified as non-performing and it shall be deemed to have been acquired only when title is transferred in the name of the Regulated Entity and it is in a clear position to deal with the asset independently.

e) Non-recourse Nature

Acquisition of SNFAs may occur against full or partial extinguishment of the exposure on a non-recourse basis. Importantly, where only part of the exposure is extinguished, the residual exposure should be treated as a restructured exposure and shall continue to attract the applicable prudential treatment.

f) Valuation Architecture

On acquisition, the SNFA must be recorded at the lower of:

- the net book value of the extinguished exposure / proportionate share of partial extinguished exposure; or
- the distress sale value determined by at least two independent external valuers

At subsequent reporting date, the SNFA shall be carried at a revised net book value i.e. value of extinguished exposure net of the notional provisioning that would have applied had the exposure remained on the Regulated Entity's books.

SNFA

g) Income Recognition

Upon acquisition of SNFA, any accrued but unrealised interest and / or charges from the extinguished exposure pertaining to periods prior to acquisition, shall not be recognised as income, and where such income has been recognised in respect of any SNFA outstanding in the books as on 30th September, 2026, it shall be reversed through Profit and Loss account, latest by 30th September, 2027, to the extent remaining unrealised as on that date.

Subsequently, any income received from an SNFA shall be recognised in the income statement as 'non-interest / other income' and any expense incurred towards upkeep of an SNFA shall be accounted for in the income statement in the respective financial year.

h) Disposal Discipline and Back Door Sale Safeguards

Regulated Entitites must make all efforts to dispose of such assets within 7 years through public auction strictly following the auction principles reflected in the SARFAESI framework. Most importantly, an SNFA cannot be sold back to the borrower or its related parties, and this restriction continues even if the asset later ceases to be classified as an SNFA.

i) Presentation and Disclosure Requirements

SNFAs shall not be included in total stock of residual exposure / Gross NPA / Net NPA / Stressed exposures / Provisioning Coverage Ratio and must be disclosed separately in the balance sheet as "Non-banking Assets Acquired in Satisfaction of Claims" in case of banks and as "Specified Non-Financial Assets" in case of NBFCs and Financial Institutions.

Further, Regulated Entities are required to report the details of the SNFAs as follows:

01 Regional Rural Banks & Rural Co-operative Banks in formats provided in Annex-2 to NABARD

02 Urban Co-operative Banks in in formats provided in Annex-3, in CIMS portal

03 All other banks, NBFCs and Financial Institutions in formats provided Annex-2, in CIMS portal.

04 Additionally, in case of NBFC-HFCs, the details may be furnished to National Housing Bank.

03 IMPLICATIONS FOR REGULATED ENTITIES

These amendments have implications that extend beyond accounting mechanics. It mandates banks, NBFCs and Financial Institutions to treat acquired immovable assets as a temporary recovery outcome rather than as an investment opportunity.

It will be critical for Regulated Entities to establish suitable control mechanisms to ensure that immovable properties of the borrower are not subject matter of legal dispute or under attachment by any Investigating / Regulatory Authority at any given time throughout the period of exposure in order to meet the criteria of transfer of clear title. Absolute ownership is fundamental essence for acquisition of SNFAs rather than symbolic possession.

Additionally, for public auction of SNFAs, Regulated Entities shall be required to adhere to the principles in Rule 8 and 9 of The Security Interest (Enforcement) Rules, 2002 limited to the extent applicable w.r.t. public auction of immovable property, irrespective of the quantum of the outstanding debt required to meet threshold limit triggering applicability of SARFAESI Act.

Regulated Entities have to adhere to the accounting treatment, presentation and disclosure prescribed by RBI and provide adequate disclosures/reasoning in the financial statements where there are conflicting recognition or disclosure norms under the applicable reporting framework.

Moreover, the use of the expression "related parties" with reference to the Code aligns the prudential framework with the broader policy underlying Section 29A of the Code, which seeks to prevent defaulting borrower and its connected persons from reacquiring distressed assets through indirect mechanisms. It is pertinent to note that certain relaxation provided to MSME borrowers under the Code shall not be available under SNFA Framework. Regulated Entities have to ensure comprehensive background assessment of bidders prior to the auction date to eliminate any potential ineligible bidder.

CONCLUSION

By imposing governance standards, valuation norms, time-bound disposal requirements and enhanced recognition principles and disclosure obligations, the RBI has created a prudential bridge between the credit recovery process and asset management discipline. Further, restricting the sale of SNFAs to related parties of borrower and by extending this restriction even after the asset ceases to be classified as an SNFA upon being put to use by Regulated Entity for its own benefit, the RBI has reinforced the principle that recovery transactions must result in a genuine transfer of ownership rather than a temporary restructuring of title.

Though, the SNFA framework has the requisite guidance from RBI on its implementation, its success depends upon how it deals practically where interest of all the lenders in a consortium has to be balanced and protects the interests of secured lenders where the immovable property is subject matter of dispute or under attachment by Regulatory Authorities and there are conflicting interests under other enactments.

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