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RBI Introduces a Prudential Framework for Specified Non-Financial Assets (SNFAs) to Strengthen Stressed Asset Resolution and Banking Governance

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Recent Developments:

- **The Reserve Bank of India (RBI)** has introduced a comprehensive prudential framework for **Specified Non-Financial Assets (SNFAs)** through the **Commercial Banks – Resolution of Stressed Assets Directions, 2025 (Third Amendment Directions, 2026)**.
- **The framework** prescribes uniform norms for the acquisition, valuation, accounting, management and disposal of immovable assets acquired by banks from defaulting borrowers.
- **The revised provisions** will come into force from **1 October 2026**, while legacy SNFAs held as on **30 September 2026** must comply by **30 September 2027**.

Specified Non-Financial Assets (SNFAs):

Meaning:

- **Specified Non-Financial Assets (SNFAs)** are **immovable properties** acquired by banks through full or partial settlement of **Non-Performing Assets (NPAs)**.
- **SNFAs** are acquired solely as a loan recovery mechanism and do not form part of a bank's normal banking business.
- **An asset** becomes an SNFA only after its **legal ownership** is transferred to the bank.

Examples:

- **Residential buildings**
- **Commercial properties**
- **Industrial land**
- **Warehouses**
- **Other immovable assets** transferred against outstanding loans

Need for the Prudential Framework:

Existing Challenges:

- **Banks** followed non-uniform practices in valuation and accounting of repossessed properties.
- **Immovable assets** often remained with banks for prolonged periods, reducing capital efficiency.
- **Disposal mechanisms** lacked transparency and consistency.
- **Different accounting practices** reduced comparability of financial statements across banks.
- **Absence of standard prudential norms** increased governance and valuation risks.

Objectives:

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- **Standardise** acquisition, valuation and disposal of immovable assets.
- **Improve transparency** in financial reporting.
- **Strengthen governance** in stressed asset resolution.
- **Ensure banks** remain focused on their core lending activities rather than real estate management.

Key Features of the SNFA Framework:

Eligibility for Acquisition:

- **The borrower's account** must already be classified as a **Non-Performing Asset (NPA)**.
- **The property** must be transferred through full or partial extinguishment of the outstanding loan.
- **Where only part of the loan** is settled through property transfer, the remaining exposure continues to be treated as a **restructured loan** and remains subject to applicable prudential norms.
- **SNFA classification** takes effect only after legal title is transferred to the bank.

Valuation Norms:

- **Every SNFA** shall be recorded at the lower of:
- **Net book value** of the extinguished loan.
- **Distress sale value**, independently determined by at least **two external valuers**.
- **The valuation methodology** promotes conservative accounting and prevents overstatement of bank assets.

Board-Approved SNFA Policy:

- **Every commercial bank** must adopt a Board-approved policy covering:
- **Eligibility criteria, approval powers, recovery measures before acquisition**.
- **Maximum exposure limits, disposal strategy and timelines**.
- **The policy** must ensure that acquisition of immovable property remains an exceptional recovery measure.

Time Limit for Disposal:

- **Banks** must make all reasonable efforts to dispose of SNFAs at the earliest.
- **Every SNFA** must ordinarily be disposed of within **seven years** from the date of acquisition.

Disposal Mechanism:

- **Disposal** should primarily take place through **public auction**.
- **Banks** must follow auction principles prescribed under the **SARFAESI Act, 2002**.
- **Public auctions** promote transparency, competitive bidding and fair price discovery.

Restriction on Sale:

- **Banks** cannot sell an SNFA to:
- **The original borrower**.
- **Related parties** as defined under the **Insolvency and Bankruptcy Code (IBC), 2016**.
- **The restriction** reduces moral hazard and prevents indirect recovery of repossessed assets by defaulters.

Accounting and Disclosure:

- **SNFAs** shall not be included in:
- **Gross NPAs**.
- **Net NPAs**.
- **Stressed assets**.
- **Provisioning Coverage Ratio (PCR)**.

- **Banks** must disclose SNFAs separately under **"Non-banking assets acquired in satisfaction of claims."**
- **Annual reporting** through the **Centralised Information Management System (CIMS)** must include acquisitions, disposals, age-wise classification and assets retained for own use.

Implementation Timeline:

Effective Date:

- **The framework** becomes effective from **1 October 2026**.

Transition for Legacy Assets:

- **SNFAs** already held as on **30 September 2026** must comply with the new framework by **30 September 2027**.

Significance of the Framework:

For the Banking Sector:

- **Creates** uniform prudential standards for immovable assets acquired from loan defaults.
- **Improves** transparency in valuation, disclosure and financial reporting.
- **Strengthens** governance and risk management.
- **Accelerates** recovery of stressed assets through time-bound disposal.
- **Prevents** misuse of repossessed assets by defaulting borrowers.
- **Allows** banks to concentrate on their core financial intermediation function.

For the Financial System:

- **Supports** efficient stressed asset resolution.
- **Enhances** investor confidence in bank balance sheets.
- **Promotes** greater consistency across regulated entities.
- **Complements** India's broader banking sector reforms.

Related Legislations and Regulatory Framework:

SARFAESI Act, 2002:

- **Empowers banks and financial institutions** to enforce secured interests without prior court intervention in specified cases.
- **Provides** the legal basis for transparent auction-based disposal of secured assets.

Insolvency and Bankruptcy Code (IBC), 2016:

- **Provides** a time-bound insolvency resolution framework for individuals and corporate entities.
- **Defines related parties**, preventing indirect reacquisition of repossessed assets by defaulting borrowers.

Banking Regulation Act, 1949:

- **Section 9** restricts banks from holding non-banking assets beyond the prescribed period, reinforcing that ownership of immovable assets is only incidental to banking operations.

UPSC Value Addition:

Important Terms:

- **NPA (Non-Performing Asset):** A loan where interest or principal remains overdue beyond the prescribed period under RBI norms.
- **Net Book Value:** Outstanding value of the extinguished loan after accounting adjustments.
- **Distress Sale Value:** Estimated price likely to be realised under a forced or time-constrained sale.
- **Provisioning Coverage Ratio (PCR):** Percentage of provisions maintained by banks against their gross NPAs.
- **CIMS (Centralised Information Management System):** RBI's digital platform for regulatory reporting by supervised entities.

Prelims Facts:

- **SNFAs** comprise only **immovable assets** acquired for loan recovery.
- **SNFAs** are **excluded** from Gross NPAs, Net NPAs and stressed assets.
- **Valuation** is based on the **lower of net book value or distress sale value**.
- **Maximum holding period** is **seven years**.
- **Sale back** to the original borrower or related parties is prohibited.
- **Public auction** remains the primary disposal mechanism under **SARFAESI Act principles**.
- **The framework** comes into force on **1 October 2026**