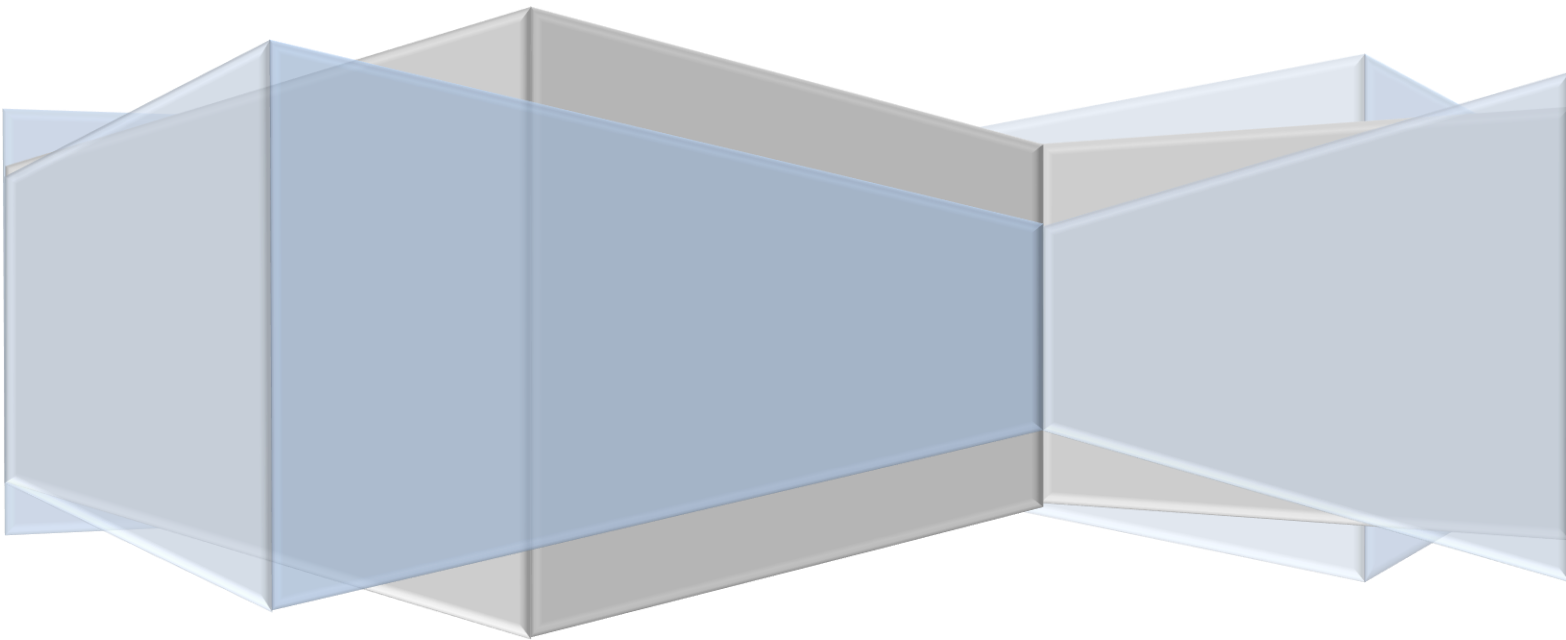




STATE BANK OF PAKISTAN

**BANKING POLICY & REGULATIONS
DEPARTMENT**

GUIDELINES - TRANSFER AND ASSIGNMENT OF NON-PERFORMING ASSETS TO THE CORPORATE RESTRUCTURING COMPANIES



THE TEAM

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I. INTRODUCTION

The Corporate Restructuring Companies Act, 2016, (herein after called **the Act**), provides overarching legal framework for the establishment and regulation of Corporate Restructuring Companies (CRCs) in Pakistan. The CRCs established under the Act and licensed by the Securities and Exchange Commission of Pakistan can, *inter alia*, acquire, buy, hold, manage, restructure and resolve Non-Performing Assets (NPAs) of Financial Institutions and restructure, reorganize, revive and liquidate the commercially or financially distressed companies and their businesses.

2. The Commission has now granted license to a company enabling it to operate as the first CRC in Pakistan. In order to regulate the transfer and assignment of NPAs from Banks/DFIs [herein after called **Financial Institutions (FIs)**] to the CRCs, it has been decided to provide minimum guidelines to the regulated entities.

3. The FIs, whilst engaging with the CRCs, are required to ensure that transfer and assignment of NPAs is conducted in a fair, transparent, prudent manner and on an arm's length basis in accordance with the Act, relevant laws, rules, regulatory instructions, as amended from time to time, and FIs' internal policies and procedure manual.

II. POLICY FRAMEWORK

The FIs should develop a Policy for transfer and assignment of NPAs to CRCs. Such Policy can either be an independent document or a part of the Credit Risk Management Policy or any other relevant policy of the FI. The Policy should, *inter alia*, prescribe guidance on the types of NPAs eligible for transfer and assignment to CRCs, process and technique for determining the value of NPAs, general terms and conditions for transfer and assignment of NPAs, classification, provisioning and accounting treatment of financial instruments¹ received from CRCs as consideration.

2. The technique, specified for the valuation of NPAs, should be transparent, consistent and provide reasonable estimate of realizable fair value of the NPAs.

III. EXPOSURE LIMITS

The single obligor and group exposure limits, prescribed under Regulation R-1 of Prudential Regulations for Corporate / Commercial Banking, shall not be applicable, on account of, transfer and assignment of NPAs to the CRCs until such time specified otherwise by State Bank of Pakistan.

2. The Para 2 of Regulation R-1 of Prudential Regulations for Corporate / Commercial Banking shall not be applicable to the exposure of the FIs on the CRCs, until such time specified otherwise by State Bank of Pakistan.

IV. TRANSFER AND ASSIGNMENT OF NON-PERFORMING ASSETS

The transfer and assignment of NPAs from FIs to the CRCs should be a true-sale, on non-recourse basis, with all the risks & rewards of the NPAs transferred and assigned to the CRCs and such NPAs shall stand derecognized from the books of the FIs.

[EXPLANATION]

¹ Financial instruments means, amongst others, Security Receipts, Deferred Payment Notes, Bonds, Commitment or other instruments with similar features received by the FIs against the transfer and assignment of NPAs to the CRCs.

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2. The FIs will record the financial instrument, received from the CRCs as consideration, on account of, transfer and assignment of NPAs, at the fair value.

3. The FIs will, however, in cases where the transfer and assignment of NPAs is at a value higher than Net Book Value (NBV), reverse the excess provision to P&L Statement of the year in which actual amount, in the form of upfront full / partial cash consideration, is received from the CRCs or to the extent the financial instrument received as consideration is fully / partially redeemed.

4. The losses, if any, arising from transfer and assignment of NPAs at lower than NBV should be recognized in Profit & Loss (P&L) Statement of such period. The FIs are, however, permitted, until such time specified otherwise by State Bank of Pakistan, to recognize such losses in following phased manner, in a period not exceeding the five years.

Particular	Year 1	Year 2	Year 3	Year 4	Year 5
Year-wise	10 percent	15 percent	20 percent	25 percent	30 percent
Cumulative	10 percent	25 percent	45 percent	70 percent	100 percent

Whereas, the amount of losses not charged into P&L will be placed into Other Comprehensive Income (OCI)², will not be available for dividends and proper disclosure thereof be provided in the Notes to the periodic financial statements. Moreover, the financial instruments, at each subsequent reporting date, will be re-measured / revalued, as per relevant International Financial Reporting Standards, and the gains / losses, if any, arising due to such re-measurement / revaluation will be taken to OCI and will also not be available for dividends until full / partial redemption. The FIs may, at their own discretion, recognize the losses / provision expense³ earlier.

5. In certain cases, wherein FIs transfer and assign the NPAs at initial value with an arrangement to share any amount exceeding the initial value on pre-agreed proportion, provided such an arrangement is consistent with the de-recognition of NPAs by the transferring and assigning FIs, in such cases the excess recoverable amount and profit/mark-up thereon, if any, will be recognized on actual recovery basis.

6. FIs may also transfer and assign to the CRCs such NPAs, which had already been written-off for book cleaning or on commercial consideration, but the FIs yet holds the right to recovery against the obligors. In such cases, the FI shall recognize appropriate contra liability⁴ equivalent to the value of financial instruments received as consideration thereof.

[EXPLANATION]

² The losses, arising due to transfer and assignment of NPAs to CRCs at lower than Net Book Value, and placed in Other Comprehensive income will not be taken into account for determining Capital Adequacy Ratio under the relevant instructions issued by State Bank of Pakistan.

[EXPLANATION]

³ The losses arising due to transfer and assignment of NPAs at lower than NBV and provisions / impairment, if any, due to subsequent re-measurement / revaluation of financial instruments received from CRC as consideration.

[EXPECTATION]

⁴ The internal Policy or procedure manual prepared thereunder may provide necessary guidance on the accounting treatment.

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7. The FIs, by virtue of such transfer and assignment of NPAs to the CRCs, wherein, FIs do not pass-on any write-off/waiver or financial relief to the obligor; such transfer and assignment should not require reporting of write-off/waiver or financial relief against the obligor in the eCIB or private Credit Bureau as complete interests concerning the NPA and obligor thereto are transferred to CRCs.

8. FIs may, also seek the services of the external resources, for estimating the value of the NPAs for transfer and assignment to CRCs. The FIs are, however, encouraged to take adequate steps to develop such skills in-house simultaneously.

V. FINANCIAL INSTRUMENTS - CONSIDERATION FOR TRANSFER AND ASSIGNMENT OF NON-PERFORMING ASSETS

The FIs may accept the consideration, for transfer and assignment of NPAs to CRCs, in the form of cash and/or financial instruments e.g. Security Receipt, Deferred Payment Notes, Bond etc. and such instruments will be classified as “Investment” in the books of the FIs.

2. The financial instruments will qualify as counterparty exposure⁵ of the FI on the CRC under Para 16 [**Exposure**] of Part-A of Prudential Regulations for Corporate/Commercial Banking.

3. The FIs, whilst negotiating terms and conditions of transfer and assignment of NPAs to CRCs, should ensure to protect their financial and legal interest.

VI. DISCLOSURE REQUIREMENTS

The FIs, that transfer and assign the NPAs to the CRCs, should provide disclosure - in the manner prescribed below - in the notes to the annual audited financial statements:

i. Details of NPAs transferred and assigned to CRCs during the Year:

- a. Number of NPAs transferred and assigned,
- b. Aggregate gross amount and NBV of transferred and assigned NPAs;
- c. Aggregate value of consideration received as cash and financial instruments;
- d. Aggregate consideration realized for the NPAs transferred and assigned in prior periods;
- e. Aggregate gain / loss over NBV.

ii. Details of outstanding financial instruments received from CRCs

- a. Book value of outstanding financial instruments received from CRC in Current Year and Corresponding Year.

⁵ [EXPLANATION]

The financial instrument, for counterparty exposure calculation under Regulation R-1 of Prudential Regulations for Corporate/Commercial Banking, will have 100 percent weight.