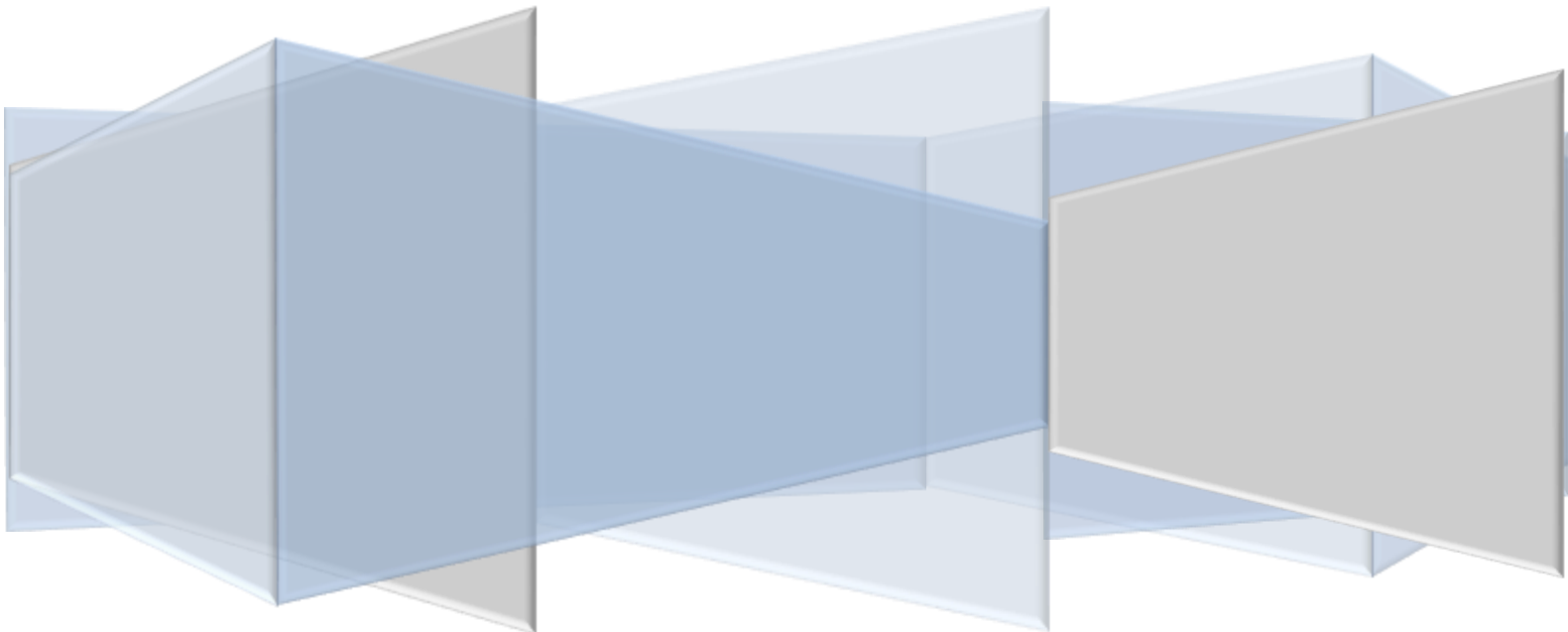




STATE BANK OF PAKISTAN
BANKING POLICY & REGULATIONS DEPARTMENT

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

Revised vide BPRD Circular Letter No. 15 of 2024



Guidelines – Transfer and Assignment of Non-Performing Assets to Corporate Restructuring Companies

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I. INTRODUCTION

1. The Corporate Restructuring Companies Act, 2016, (herein after called **the Act**), provides an overarching legal framework for establishing and regulating Corporate Restructuring Companies (**CRC(s)**) in Pakistan. The CRC(s) established under the Act and licensed by the Securities and Exchange Commission of Pakistan (**SECP**) can, inter alia, acquire, buy, hold, manage, restructure and resolve Non-Performing Assets (**NPA**s) of Financial Institutions and restructure, reorganize, revive and liquidate commercially or financially distressed companies and their businesses.
2. To regulate the transfer and assignment of NPAs from banks and Development Financial Institutions [herein after called **Financial Institutions (FIs)**] to the CRC(s), it has been decided to provide these guidelines to the FIs.
3. The FIs, while engaging with the CRC(s), are required to ensure that transfer and assignment of NPAs is conducted in a fair, transparent and prudent manner, and on an arm's length basis in accordance with provisions of the Act, relevant laws, rules, regulatory instructions (as amended from time to time), and FIs' internal policies, procedures and manuals.

II. POLICY FRAMEWORK

1. Each FI should develop its internal Policy for the transfer and assignment of NPAs to the CRC(s) or appointment of the CRC(s) as an agent, under an agency agreement, for recovery of NPAs. This policy can be an independent document or part of either the Credit Risk Management Policy or any other relevant policy of the FI. The policy should, inter alia, prescribe guidance on the types/categories of NPAs (including the consortium/syndicated NPAs) eligible for the transfer and assignment to the CRC(s) or appointment of the CRC(s) as an agent of the FIs for the recovery of NPAs, process and technique for determining the value of NPAs, general terms and conditions for the transfer and assignment of NPAs to the CRC(s), general terms and conditions for appointing CRC(s) as an agent under an agency agreement, and classification, provisioning and accounting treatment of financial instruments¹ received from the CRC(s) as consideration. The policy shall also prescribe parameters for maintenance of historical data of NPAs and address various aspects of the FIs' engagement with CRC(s) for data sharing including the confidentiality of information and compliance with data protection laws and regulations.
2. The technique, specified for the valuation of NPAs, should be transparent and consistent. It should provide a reasonable estimate of the realizable fair value of the NPAs.
3. The FIs shall, at least on a quarterly basis, present the overall performance of the Special Asset Management Group (SAMG)/NPL Workout Unit (NPL WU) to its Board Risk Management Committee (BRMC). The overall performance evaluation criteria shall be approved either by the Board of Directors (BoD) or by the BRMC².

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

² The evaluation criteria, amongst others, will include the **(a)** year-wise recovery yield, cash and non-cash, separately for on-balance sheet and written-off [where right to recovery remains] NPAs portfolio, **(b)** the recovery costs for the NPA portfolio, including the operating expenses of a functional Special Assets Management Group, **(c)** average time [in-

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III. EXPOSURE LIMITS

1. The exposure limits, prescribed under paragraphs 1 and 2 of Regulation R-1 of Prudential Regulations for Corporate/Commercial Banking, shall not be applicable on NPAs transferred and assigned to the CRC(s) until such time as specified otherwise by the State Bank of Pakistan (**SBP**).
2. The investments of FIs in the equity of CRC(s) shall be reflected in the books of the FIs at 'cost' until such time as specified otherwise by the SBP.

IV. TRANSFER AND ASSIGNMENT OF NON-PERFORMING ASSETS

1. The transfer and assignment of NPAs from FIs to the CRC(s) should be a true-sale, on non-recourse basis, with all risks & rewards of the NPAs transferred and assigned to the CRC(s) and such NPAs shall stand derecognized from the books of the FIs.
2. The FIs will record the financial instruments received from the CRC(s) as consideration on account of transfer and assignment of NPAs at the fair value as determined and agreed upon between the two parties in line with FI's policy for transfer and assignment of NPAs.
3. The FIs may continue to report financial instruments received from CRC(s) at its initial agreed fair value for the first three (3) years of recognition. The financial instruments, at each subsequent reporting date after initial three (3) years, shall be re-measured/revalued as per the relevant International Financial Reporting Standards (IFRS). The gains/losses, if any, arising due to such re-measurement/revaluation will be taken to Other Comprehensive Income (**OCI**)³. The gains, if any, will not be available for dividends until full/partial redemption. The FIs may, at their own discretion, recognize any losses/provision expense⁴ during the initial three (3) years.
4. Upon the transfer of NPAs to CRC(s), the FIs may reverse up to 10 percent of the provision against the value of financial instrument received from CRC(s) into Profit & Loss (P&L) statement. However, such reversal of provision shall not be available for payment of cash and stock dividends. Subsequent to recognition of 10 percent of the initially agreed fair value of the financial instrument in P&L statement, the FI shall not recognize receipt of cash payments against the same financial instrument until the payments received are in excess of 10 percent of its initially agreed upon fair value. In case of cash recovery in excess of 10 percent, only the differential shall be recognized in P&L in the period in which the cash payment has been received.

years] involved in the recovery of Corporate and Commercial NPAs portfolio, **(d)** time value of money &/opportunity costs [e.g. net present value of NPA portfolio and segments within like Corporate/Commercial/Retail NPAs], and **(e)** performance of FIs legal team in pursuing the recovery cases in the Banking Courts.

³ The losses, arising due to transfer and assignment of NPAs to CRCs at lower than Net Book Value, and placed in Other Comprehensive Income (OCI) will not be taken into account for determining Capital Adequacy Ratio (CAR) under the relevant instructions issued by State Bank of Pakistan.

⁴ 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 CRCs as consideration.

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5. The remaining 90 percent provision against the value of financial instruments received from CRC(s) will be maintained. It will be recorded in P&L statement of the year in which actual amount, in the form of upfront full/partial cash consideration, is received from the CRC(s) or to the extent the financial instrument received as consideration is fully/partially redeemed.
6. The losses, if any, arising from transfer and assignment of NPAs at lower than Net Book Value (NBV) should be recognized in Profit & Loss (P&L) statement of such period. The FIs are, however, permitted, until such time as specified otherwise by SBP, to recognize such losses in the following phased manner during a period not exceeding five years from the date of transfer & assignment:

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

The amount of losses not charged to P&L shall be placed into OCI and the amount equivalent to such deferred losses shall not be available for payment of dividends. The FIs shall provide proper disclosures on these losses in the notes to the periodic financial statements.

7. In cases where FIs transfer and assign NPAs at an initial value with arrangement of sharing of recovered amount and profit/mark-up thereon, exceeding the initial value, in pre-agreed proportion, the excess recoverable amount and profit/mark-up thereon, if any, shall be recognized on actual recovery basis. Such arrangements for sharing of excess recovery and profit/mark-up thereof on transferred and assigned NPAs must be consistent with de-recognition of NPAs by the FIs.
8. The FIs may also transfer and assign to the CRC(s) such NPAs, which had already been charged-off/written-off for book cleaning or for a commercial consideration, but the FIs yet hold the right of recovery against the obligors. In such cases, the FIs shall recognize appropriate contra liability⁵ equivalent to the value of financial instruments received as consideration thereof.
9. The FIs, by virtue of transfer and assignment of NPAs to the CRC(s), 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 e-CIB or Private Credit Bureau(s) as complete interests concerning the NPA and obligor thereto are transferred to CRC(s).
10. The FIs may also seek services of external resources for estimating the value of the NPAs for transfer and assignment to CRC(s). The FIs are, however, encouraged to take adequate steps to develop such skills in-house simultaneously.

V. APPOINTMENT OF CORPORATE RESTRUCTURING COMPANY AS RECOVERY AGENT UNDER AN AGENCY AGREEMENT

1. The FIs may, under an agency agreement executed in terms of Section 6B of the Act, appoint a CRC as an agent for the recovery of NPAs, including charged-off/written-off NPAs wherein the FIs hold

⁵ The internal Policy or Procedure Manual prepared, thereunder, may provide necessary guidance on the Accounting Treatment.

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the right to recovery, subject to the terms & conditions of the agency agreement. The agency agreement will, however, not result in the transfer of the NPAs to the CRC(s).

2. The agency agreement should be of specific tenure and thereafter it may either be extended, on mutually agreed terms & conditions, or terminated.

VI. CONSORTIUM/SYNDICATE FINANCING

In case of consortium/syndicated NPAs, the lead FI shall coordinate with all other FIs to prepare a plan for transfer of NPAs to the CRC(s).

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

1. The FIs may accept the consideration, for the transfer and assignment of NPAs to the CRC(s), in cash and/or as financial instruments e.g. Security Receipts, Deferred Payment Notes, Bonds etc. and such instruments will be classified as 'Investments' in the books of the FIs.
2. The financial instrument received by the FIs as a consideration against transfer and assignment of a NPA to CRC(s), shall be assigned a risk weight of 50 percent or as per applicable Basel instructions adopted by SBP, whichever is lower, for calculation of Capital Adequacy Ratio (CAR) under relevant instructions of SBP.
3. The financial instruments will qualify as counterparty exposure⁶ of the FI on the CRC(s) under definition of Exposure at Para 14 of Part-A of Prudential Regulations for Corporate/Commercial Banking.
4. The FIs, while negotiating terms and conditions of transfer and assignment of NPAs to CRC(s), should ensure the protection of their financial and legal interests.

VIII. EXCHANGE OF INFORMATION

1. To enable CRC(s) to perform the requisite due diligence of NPAs prior to the transfer and assignment or the appointment of the CRC(s) as an agent under the agency agreement, the FIs shall exchange information relating to an obligor with CRC(s) on a confidential basis.
2. To facilitate the provision of above information and also to reduce information asymmetries between potential buyers and sellers of NPA portfolios, the Policy Framework under Section II shall prescribe parameters for maintenance of historical data of NPAs - including charged-off/written-off NPAs wherein right of recovery remains with the FIs.
3. The data of NPAs shall preferably include the variables specified in the data templates attached as

⁶ The financial instrument, for counterparty exposure calculation under Regulation R-1 of Prudential Regulations for Corporate/Commercial Banking, will have 100 percent weight.

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*Annexure-I (NPL Transaction Template) and Annexure-II (NPL Screening Template)*⁷. These templates are not supervisory reporting requirements and are designed to act as a market standard to be used by FIs for preparing comparable and standardized data for provision of NPA-related information to CRC(s).

IX. DISCLOSURE REQUIREMENTS

1. The FIs, that Transfer and Assign the NPAs to the CRC(s) or, appoint CRC(s) as agent for recovery of an NPA, should provide disclosure - in the manner prescribed below - in the notes to the annual audited financial statements:
 - i. Details of NPAs Transferred and Assigned/Given under Agency Arrangement to the CRC(s) during the Year:**
 - a. Number of NPAs transferred and assigned,
 - b. Number of NPAs given under the agency arrangement,
 - c. Aggregate gross amount and NBV of transferred and assigned NPAs;
 - d. Aggregate gross amount and NBV of NPAs given under agency arrangement,
 - e. Aggregate value of consideration received as cash and financial instruments;
 - f. Aggregate consideration realized in prior periods for the i) NPAs transferred and assigned, and ii) NPAs given under agency arrangement;
 - g. Aggregate gain / loss over NBV.
 - ii. Details of Outstanding Financial Instruments Received from CRC(s)**
 - a. Book value of outstanding financial instruments received from CRC in current year and corresponding year.
 - b. Balance of unrecognized loss/unrealized gain as of year-end and the previous year-end.
 - iii. Impact of Various Provisions**
 - a. Additional impact on profitability/CAR, arising from availing the benefit provided under section IV, in the relevant notes of financial statements.

⁷For NPL Transaction Template and NPL Screening Template, please refer to BPRD Circular Letter No. 15 of 2024.