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RBI Prescribes Prudential Norms for Specified Non-Financial Assets

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On 16 July 2026, the Reserve Bank of India issued amendment directions to the Reserve Bank of India (Commercial Banks - Resolution of Stressed Assets) Directions, 2025 (Directions) applicable to commercial banks, small finance banks, urban co-operative banks, rural co-operative banks, regional rural banks, local area banks, non-banking financial companies and All India Financial Institutions (collectively, the Regulated Entities).

The Directions prescribe a harmonised prudential framework for immovable assets acquired by Regulated Entities in satisfaction or part satisfaction of their claims against borrowers, referred to as specified non-financial assets (SNFAs). The Directions which will come into force on 1 October 2026 introduces clear conditions for acquisition and imposes an outer limit for disposal, while requiring Regulated Entities to formulate internal policies governing such transactions.

Key Changes

Some of the key changes introduced vide the Directions are set out below:

i. ***Introduction of SNFA***: As per the Directions, SNFA means an immovable asset acquired by a Regulated Entity in satisfaction or part satisfaction of its claims on a borrower. In the case of banks, SNFAs include non-banking assets acquired under the Banking Regulation Act, 1949.

ii. ***Applicability***: The Directions apply to all SNFAs, including those acquired through bilateral arrangements or under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

iii. ***Acquisition framework***: An SNFA may be acquired only where the relevant borrower exposure is classified as non-performing. An SNFA will be considered acquired only where:

    (A) title to the asset is transferred to the Regulated Entity; and

    (B) the Regulated Entity is in a clear position to deal with the asset independently.

    Further, SNFAs may be acquired by a Regulated Entity against full or partial extinguishment of the borrower's exposure on a non-recourse basis. Partial extinguishment will be treated as restructuring, with the residual exposure attracting the prudential treatment applicable to restructuring.

iv. ***Policy requirements and Disposal Period***: Regulated Entities are required to adopt a policy governing the acquisition and disposal of SNFAs. The policy must address the following:

    (A) limits on SNFAs as a share of total assets;

    (B) eligibility criteria;

    (C) approval matrix;

    (D) recovery measures to be explored before acquisition; and

(E) the maximum period for disposal, which should not exceed 7 (seven) years (Disposal Period).

v. ***Restrictions on sale***: Regulated Entities should make all efforts to dispose of SNFAs at the earliest through public auction, in accordance with the principles of auction under the SARFAESI Act. An SNFA must be disposed of within the applicable Disposal Period. An SNFA cannot be sold back to the borrower or its related parties. "***Related parties***" will have the meaning assigned under the Insolvency and Bankruptcy Code, 2016 (IBC). This prohibition continues to apply even where an SNFA has ceased to be classified as an SNFA following its use by the Regulated Entity.

vi. ***Disclosures in case of own use***: An SNFA put to own use will cease to be classified as an SNFA from the date of such use and must be recorded as a fixed asset or under another relevant accounting head. SNFAs will be excluded from the stock of residual exposure, gross non-performing asset, net non-performing asset, stressed exposures and provisioning coverage ratio calculations. They must be separately disclosed in the balance sheet under the prescribed accounting head.

vii. ***Reporting of SNFAs***: Regulated Entities must report SNFA details in the prescribed formats. Reporting is to be made through the Centralised Information Management System portal. Non-bank financial institutions which are housing finance companies are required to furnish details of SNFAs to the National Housing Bank. Regional rural banks and rural co-operative banks are required to report details of SNFAs to National Bank for Agriculture and Rural Development.

viii. ***Legacy Assets***: SNFAs existing as on 30 September 2026 must be brought into compliance with the Directions by the Regulated Entities by 30 September 2027.

ix. ***Valuation and subsequent carrying value***: On acquisition, an SNFA must be recorded in the balance sheet of the Regulated Entity at the lower of:

(A) the net book value of the extinguished exposure; and

(B) the distress sale value of the SNFA, determined by at least 2 (two) independent external valuers.

In case of partial extinguishment, the net book value of the extinguished exposure should be determined proportionately based on the share of debt extinguished. At each subsequent reporting date, the SNFA must be carried at its revised net book value. The revised value must be determined by reference to the value of the extinguished exposure, net of notional provisions that would have applied if the exposure had continued on the books of the relevant Regulated Entity.

Conclusion

The Directions establish a harmonised prudential framework for the limited circumstances in which Regulated Entities acquire immovable assets in satisfaction of stressed borrower claims. The requirement to use public auction, while aligned with transparency and price-discovery considerations, may result in lesser flexibility for Regulated Entities to dispose assets as compared to non-regulated entities and result in increase in sale of stressed accounts by Regulated Entities to non-regulated ones. The legacy-asset transition period provides Regulated Entities with time to identify existing assets and formulate disposal plans. The prohibition on sale back to borrowers or their related parties continuing even after an SNFA is put to own use by Regulated Entities is another move towards ensuring that defaulting entities/ promoters do not find a backdoor and further upholds the 'smell-test' principle envisaged under Section 29A of IBC.

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