

Transition to expected credit loss-based provisioning may hit banks only one time: Icra

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THE RESERVE Bank of India's proposal to implement expected credit loss (ECL)-based loss provisioning by banks could lead to a transitioning impact of 300-400 basis points, including the provisioning for ECL, while shifting to the IND-AS accounting system, a report said.

Banks with higher share of restructured loans, 60 days past dues (DPD) loans and off-balance sheet exposures will see higher impact while those with lower capital cushions would need to raise capital to manage transition, according to rating firm ICRA.

"Decadal low NPA levels, coupled with improved profitability and capital position, could help most banks absorb the impact,"

it said. Further, while the overdue wholesale loans of banks have reduced significantly, the overdues in the retail segment have increased post the onset of the Covid-19 pandemic.

The RBI discussion paper on ECL has proposed a relaxed classification of 60 days past due standard loans as a part of Stage 2 loans (30 days past dues followed by most non-banks at present) and also asked banks to carry ECL provisions on off-balance sheet exposures, including undisbursed credit lines.

While the overall ECL provisions will be based on the historical loss patterns observed by banks, the RBI will also specify a minimum floor, the ICRA report said. ICRA expects the ECL-based loss provisioning by banks to be an important step towards their eventual shift to the Indian

Accounting Standards (IND-AS) regime. The improvement in the financial metrics should help most banks transition smoothly to the new framework, it said.

Going by precedent, ICRA expects the final guidelines to be notified by FY2024 for implementation from April 1, 2025.

In February 2016, the RBI had initially notified the implementation of IND-AS from April 1, 2018 and it had also sought proforma IND-AS from banks starting September 30, 2016. However, the implementation of IND-AS was subsequently deferred. The methodology/basis of computation of ECL is central to IND-AS and migration to ECL-based loss provisioning will be a major step towards the eventual shift to an IND-AS regime for banks.

Full report on
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