

1. **strike a balance** (phrase) – find a fair & reasonable line of action between two contrasting things.
2. **stressed assets** (noun) – non-performing loans NPAs/assets, bad loans, troubled accounts, stressed loans; an account where principal and/or interest remains overdue for a period of time.
3. **nuanced** (adjective) – delicate, subtle, accurate.
4. **noteworthy** (adjective) – significant, notable, important.
5. **clean up** (phrasal verb) – restore, fix, overhaul/revamp.
6. **setback** (noun) – problem, difficulty, issue.
7. **shoot down** (phrasal verb) – reject/refuse, disapprove, overthrow/overturn.
8. **ultra vires** (noun) – Latin, literally ‘beyond the powers’.
9. **prudential** (adjective) – showing care and forethought, especially in business.
10. **accommodate** (verb) – help/assist, serve; adjust/attune.
11. **objective** (noun) – aim, intention, purpose.
12. **stricken** (adjective) – affected, afflicted, troubled.
13. **elbow room** (noun) – scope, freedom, margin.
14. **draw up** (phrasal verb) – prepare, formulate, arrange.
15. **resort to** (verb) – use, utilize, turn to.
16. **bankruptcy** (noun) – legal state of insolvency. An individual or organisation is declared bankrupt if a court judges that the party involved can no longer meet debt payments to creditors. It is defined as the outcome of a legal procedure.
17. **default** (noun) – non-payment, failure to pay, non-remittance.
18. **defaulter** (noun) – a person who is (purposefully) not repaying banks/lenders’ debt on time for various reasons.
19. **insolvency** (noun) – a condition in which the financial difficulties of an individual or organisation are such it is unable to pay its debts.
20. **mandatory** (adjective) – necessary, compulsory, binding.
21. **dissenting** (adjective) – disagreeing, objecting, differing/opposing.
22. **liquidation** (noun) – conversion of assets into cash by selling them (to pay debts).
23. **floor** (noun) – a large trading centre/hall (in the Stock Exchange).
24. **disincentive** (noun) – deterrent, discouragement, check/restraint.
25. **provision** (noun) – financial arrangements for future use; precautionary measures.
26. **stick** (noun) – a threat of punishment or unwelcome measures.
27. **carrot-and-stick** (adjective) – a policy approach that offers both a reward and threat of punishment.
28. **write back** (phrasal verb) – (in finance) adding an amount to a provision (for doubtful/bad debts) which is made against the revenue generated in the said accounting period (and that reduces the value of an asset to offset a loss or expense).
29. **claw back** (phrasal verb) – retrieve, retake, reclaim.
30. **truant** (adjective) – relating to a student who is an absentee/non-attender and stays away from the school.
31. **discipline** (verb) – punish, penalize, take disciplinary action against.
32. **graduate to** (verb) – progress, advance, proceed/develop.
33. **wield** (verb) – exercise, exert, hold.
34. **evergreening** (noun) – (in finance) a practice of providing a new loan in order to service a remaining/pending debt.
35. **push under the carpet** (phrase) – cover up, hide, conceal/ignore (some problem or difficulty).

36. **uphold** (verb) – preserve, protect; justify/vindicate.
37. **draw on** (phrasal verb) – make use of, exploit, use/utilize.
38. **ail** (verb) – trouble, bother, burden.
39. **get bogged down** (phrasal verb) – prevent, entangle, restrict/be stuck.
40. **high-profile** (adjective) – most important, unavoidable, attracting much public attention.
41. **optics** (noun) – (typically in a political situation) the way in which an event is recognized by the public.
42. **subvert** (verb) – undermine, unsettle, distort,
43. **plug** (verb) – stop, close, block/bar.
44. **negate** (verb) – nullify, make ineffective; deny/reject.
45. **put off** (verb) – postpone, defer, delay.

Striking a balance: On stressed assets

The RBI's nuanced approach in the revised circular on stressed assets is noteworthy

The efforts of the Reserve Bank of India to clean up the non-performing loans mess in the banking system suffered a setback in April when the Supreme Court shot down its circular of February 12, 2018, terming it *ultra vires*. Version 2.0 of the circular, titled “Prudential Framework for Resolution of Stressed Assets”, issued by the central bank on June 7, manages to retain the spirit of the original version even while accommodating the concerns of banks and borrowers. The RBI has achieved a good balance between its objective of forcing a resolution of stricken assets and giving banks the elbow room to draw up a resolution within a set timeframe without resorting to the bankruptcy process. Banks will now have a review period of 30 days after a borrower defaults to decide on the resolution strategy, as compared to the one-day norm earlier. They will also have the freedom to decide whether or not to drag a defaulter to the insolvency court if resolution does not take place within 180 days of default. Banks had no such option earlier. By making an Inter Creditor Agreement between lenders mandatory, the RBI has ensured that they will speak in one voice, while the condition that dissenting lenders should not get less than the liquidation value puts a floor on recovery from the resolution process.

The RBI's nuanced approach now is noteworthy. There will be disincentives in the form of additional provision of 20% to be made by banks if a resolution is not achieved within 180 days and a further additional provision of 15% if this extends to a year. If that is the stick, the carrot is that they can write back half of the additional provision once a reference is made to the insolvency court and the remaining half can also be clawed back by banks if

the reference is admitted for insolvency resolution. This approach will give banks the freedom to explore all options before referring a defaulter to the insolvency process. Instead of treating banks like truant schoolchildren who need to be disciplined with the stick, the RBI has graduated to treating them like responsible adults who know what is good for them when it comes to handling defaulters. Of course, the RBI was forced to wield the stick originally only because banks resorted to evergreening **loans** and pushing NPAs under the carpet. It is to be hoped that they will now uphold the trust placed in them by the RBI. The central bank, anyway, retains the right to direct banks to initiate insolvency proceedings in specific cases by drawing on its powers under Section 35AA of the Banking Regulation Act. Meanwhile, the government has to assess what ails the insolvency resolution process, which has got bogged down in the case of several high-profile defaulters, beginning with Essar Steel. The delays in resolution are not good optics, and the gaps that defaulters typically use to subvert the process must be plugged. Ultimately, the RBI's efforts will be negated if banks, put off by the long delays in the resolution process, choose not to refer cases to the insolvency court.