I am Ramanan Ramachandran based out of India. I introduce myself as a management accountant by qualification and a banker by profession having worked for 20 years in various domains such as project appraisal, portfolio monitoring, non-performing loan (NPL) management, debt restructuring, risk management and regulatory reporting. In the last 10 years, I work as a risk consultant engaging with banks across the globe on various risk transformation initiatives. Asset quality is the primary concern of banks and regulators alike, and NPLs are a menace to the banking industry. There are varying practices among banks and jurisdictions in classification of exposures as NPLs. In this respect, the Committee's consultative document on non-performing exposures and forbearance is welcome.

That said, I would like to add my comments on the Committee's consultative document.

Definition of non-performing exposures / Para 24: In the definition of non-performing exposures, the consultative paper includes non-defaulted and unimpaired exposures that show evidence of unlikeliness of full repayment of principal and interest without realisation of collateral, irrespective of the number of days past due [para 24 (iii) (b)]. But the linking of collaterals in para 24 runs counter to the principle in para 26 that collateralisation has no influence on the loan categorisation. Whether exposures are collateralised or not, the cash flows of the underlying transactions or exposures are the primary source of repayment. Only if cash flows are inadequate to service the principal and interest should the exposures qualify as non-performing. Even in cases where collaterals serve as the primary source of revenue generation for the counterparty (apart from serving as a credit risk mitigant for the loan), the categorisation of exposures as NPLs should be based on the adequacy or otherwise of the cash flows generated by those collaterals and not on the realisation of collaterals as risk mitigants. So I suggest rephrasing of the condition as follows:

> "where there is evidence that full repayment of principal and interest **with the cash flows of the underlying transactions** is unlikely, regardless of the number of days past due" (emphasis mine)

No qualitative criterion: There seems to be no qualitative criterion in NPL categorisation, primarily because only a few banks identify loans as non-performing prior to past due status based on qualitative criteria (Para 49 / Third bullet). Though qualitative criteria may not be objective, some banks (especially in Asia) do take into account qualitative criteria (such as non-submission or delayed submission of financial returns by counterparties) in classification of exposures as non-performing, even when their payments are current. This is to enforce more financial discipline on counterparties. The Committee may explore adding qualitative criteria into the NPL definition.

Multiple exposures to counterparty: I agree that when a material exposure to a counterparty is treated as non-performing, all exposures to that counterparty should be reckoned as non-performing. But this is not applicable to retail exposures as per para 28 which allows banks to recognise exposures as non-performing on a transaction-by-transaction basis. There should be no discrimination between counterparty types (whether retail or non-retail) when it comes to recognising NPLs. If retail customers with multiple facilities are delinquent in a few facilities, they are more likely to be delinquent in other "performing" facilities. This is because repayment of all facilities depends on the income potential of the retail customers. If their financial condition deteriorates, it is likely to adverse impact the realisability of all exposures. So for the sake of conservatism, it is better to categorise all retail exposures as NPLs even if a few exposures turn non-performing.

Lack of meaningful mapping between rating, credit categorisation and impairment: One finds it difficult to map these distinct classes. At times, such mapping may not make sense. For instance, a triple-A rated exposure need not necessarily be a performing one; and a non-performing exposure may not be an impaired exposure. Similarly, for provisions, banks follow asset classification like standard, watchlist, sub-standard, doubtful and loss, and banks compute provisions by splitting the exposures into secured and unsecured parts. It is difficult to map the asset classification with rating class or with impairment status. The Committee

Forborne exposures: The Committee has made a distinction between good forbearance and bad forbearance (Paras 121 and 122). Forbearance without establishing the viability of a counterparty's operations is a drag on the resources of an economy. Restructuring the debts of an unviable counterparty is not a forbearance measure at all, as the level of credit riskiness is quite high. To know the extent of such forborne exposures (whether performing forborne exposures or non-performing forborne exposures as per para 43), it would be better to report such exposures into

(a) Forborne exposures – Viability established
(b) Forborne exposures – Viability not established