Flash Alert

22 October 2024

AMENDMENT IN UNIFIED DIRECTIVES-2080

(FOR A, B AND C CLASS BFI'S)

The Nepal Rastra Bank vide Circular 05/81/82 has made certain amendments and additions in the Unified Directives 2080. These amendments and additions apply to all 'A', 'B' and 'C' Class BFI's.

1. Amendment in Directive 2/2080

a) Under 4(1), In the case of term loan disbursed on installment basis, if an installment is not paid by the due date, the entire outstanding loan amount will now be classified based on the number of overdue days. Previously, the classification was only triggered if the principal installment was not paid by the due date.

b) Under 5(3), A Single Obliger Limit (SOL) of NPR 50 lakhs has been established for Gold Loans (Sun Chandi Dhito Karja), as outlined in point 5, Dir 2/2080. For gold loans disbursed before this date, the SOL must be complied with by the end of Ashadh 2083. (Earlier there was no SOL for such gold loans)

c) Under 7(2), For hydro projects, if the grace period is extended either due to a change in the Required Commercial Operation Date (RCOD) or because the fully completed project cannot operate at full efficiency due to issues with the construction or availability of an efficient transmission line, this extension will not be considered a restructuring or rescheduling of the loan. (Earlier this exception only applied to changes in RCOD)

d) Under 6(3), For loans provided to SMEs up to NPR 20 million that are restructured or rescheduled, the loans will now be classified under the "pass" loan category with a lower Loan Loss Provision (LLP) of 1.1%. Previously, an LLP of 1.3% was required.

e) Under 17(3), For margin loans, Banks and Financial Institutions (BFIs) must specify in their product paper that a margin call will be made if there is a shortfall in the value of the collateral. If the customer does not provide additional collateral, the shortfall will be recovered by selling the pledged collateral or securities.

f) Under clause 38, Banks and Financial Institutions (BFIs) must now recognize interest income in accordance with the "NFRS 9-Expected Credit Loss Related Guidelines, 2024." Previously, interest income recognition was to be done according to the "Guidelines on Recognition of Interest Income, 2019."

g) Under 39(5) If loans are requested for the establishment of a vaccine production or biologicals-related industry recognized by the Government of Nepal for treating epidemic diseases, Banks and Financial Institutions (BFIs) must evaluate the business plan and provide the loan at the base rate. Previously, this facility was not available for the biological-related industry.

2. Amendment in Directive 4/2080

a) Under 3(1), Banks and Financial Institutions (BFIs), when conducting Actuarial Valuation, must base it on past data, use reliable and realistic assumptions, and ensure it aligns with NFRS provisions. Additionally, the data, statistics, and assumptions used must first be verified by internal audit. (New addition)

b) Under 3(2)(1), For interest income recognized on an accrual basis (except interest received within 15 days of the fiscal year-end), the amount remaining after deducting income tax, employee bonus, and statutory reserves (General Reserve Fund and CSR Fund) must be transferred from retained earnings to the regulatory reserve. Upon receiving the interest income, the amount is reversed back to retained earnings from the regulatory reserve. (Earlier deduction for Statutory reserve wasn't mentioned)

c) Under 3(2), For hydro projects with a capacity of 50 MW or more, if 60% of the construction is completed, the entire amount in the Interest Capitalized Term Loan (ICTL) can be transferred from the Interest Capitalized Reserve (ICR) to Retained Earnings. Additionally, for other projects that commence commercial production and where interest is capitalized, the entire ICTL amount can also be transferred from ICR to Retained Earnings.

d) Under 3(2)(5), the amount to be deducted during NBA recognition as specified in Directive 4(3)(2)(5) includes a deduction for Income tax, Employee bonus and Statutory Fund (General Reserve fund and CSR fund). Previously, deduction for the statutory fund was not mentioned.

e) Provision as mentioned in Directive 4(3)(2)(6) has been removed.

3. Amendment in Directive 5/2080

a) Under 6(7)2), If the Credit-to-Deposit (CD) ratio exceeds on a monthly average basis, a penalty will be imposed by the Supervision Department based on the prevailing bank rate.

b) Under 11(1), All licensed Banks and Financial Institutions (BFIs) must now consider the 'Risk Management Guidelines,' for effective risk management whereas previously, these guidelines were applicable only to 'A' class BFIs.

4. Amendment in Directive 6/2080

a) Provision under clauses 8(2)(1) and 8(2)(2) (restriction on sanctioning of loans and advances) has been made applicable for promotor shareholders holding more than 0.5% of paid-up capital. (Earlier such % was not quantified)

b) Provision under clause 8(3) (restriction on loans and advances against the collateral of property of shareholders or related persons) has been made applicable for promoter shareholders holding more than 0.5% of paid-up capital and shareholders (Ordinary) holding 1% or more of paid-up capital. (Earlier such % were not quantified.)

c) Under 8(8), clause 8 (Prohibition on disbursement of loan) specifies that there is no prohibition against providing credit card facilities up to the limit set by the licensed institution. (New addition)

d) Under 15(1), Licensed institutions must now submit details of shareholders holding more than 0.5% of the paid-up capital to the respective supervisory department on a semi-annual basis. (New addition)

5. Amendment in Directives other than above mentioned

a) 14(3)(1), Banks and Financial Institutions (BFIs) must provide written information to the Regulatory and Supervisory Department of the NRB regarding the continuation of their operations during any period of NRB closure.

b) 17(4)(1), Under deprived sector lending, any Bank and Financial Institution (BFI) can provide a wholesale loan of up to a maximum of 40% of the total wholesale loan to any single ‘D’ class financial institution.

c) 20(3)(3) and 20(3)(4) state BFIs to hire an Information officer (also hire for the Province office and branch office) to submit documents under the Right to Information Act 2064 and keep a record of the information submitted. Also, information under Section 5(3) of the Right to Information Act 2064 should be updated and published every 3 months. (New Addition)

d) 20(8)(2)(3), For loans disbursed at a fixed interest rate by BFIs, an additional 1% advance payment fee or loan swap fee may be charged under the following conditions: within 2 years of the loan disbursement, up to 2 years after the commercial operation of a project loan with a grace period, or in the case of a loan swap in addition to any fees specified in part (ka). (New addition)

e) 21(9), SDF (Standing Deposit Facility) to be made available by NRB aligning with Open market Business/Transaction bylaws. (New addition)

f) 21(22)(1)(5), Under the TSA agreement, the service period of non-Nepali citizens appointed in the management service will not exceed 4 years. (Earlier it was 3 years)

g) 21(28)(1), Account freeze and release to be done as per ‘*Bank Khata Rokka tatha Phukuwasambandhi biniyamawali,2081’. (new addition)*

h) 21(42), Banker’s cheque/Manager’s cheque can be issued by BFIs to customers if requested. (New addition)

i) Capital Adequacy Framework 2007 (Updated July 2008) 2.3 Elements of Tier 2 capital (d)

~~However, from FY 2020/21, the limit of General Loan loss Provision is set to a maximum of 1.65% of total risk weighted exposures~~ (Now removed)

J.) Capital Adequacy Framework 2015, Tier II Capital

‘***Accrued Interest Receivable on Pass loan included in Regulatory Reserve*’** and ***‘Interest Capitalized Reserve included in Regulatory Reserve’*** are to be included for calculation of Tier II capital. (New addition)

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