ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
भारतीय लागत लेखाकार संस्थान
Statutory Body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

BANKING, FINANCIAL SERVICES & INSURANCE (BFSI)

SPECIAL ISSUE ON ECL

CHRONICLE

23rd Edition, January 2026

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (ICMAI)
(Statutory Body under an Act of Parliament)
www.icmai.in

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Behind every successful business decision, there is always a *CMA*

Mission Statement

"The CMA professionals would ethically drive enterprise globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprise globally."

About The Institute

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as ***"The Institute of Cost Accountants of India"*** from ***"The Institute of Cost and Works Accountants of India"***. This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of transnational Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as ***"Cost and Management Accountants (CMAs)"***. The Institute is the largest Cost & Management Accounting body in the world, having approximately 5,00,000 students and 1,00,000 members all over the globe. The Institution headquartered at New Delhi operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 112 Chapters situated at important cities in the country as well as 11 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Chairman's Message

Special Edition — the ECL Framework: Strategic, Operational and Professional Perspectives

Respected members, colleagues and readers,

It is my privilege to present this special edition of the Chronicles, dedicated to the ***Expected Credit Loss (ECL) framework*** *and its far-reaching implications for Indian banking, financial governance and professional practice. The transition mandated by the Reserve Bank of India from an incurred-loss model to a forward-looking expected-loss approach marks a fundamental shift in how credit risk is recognised, measured and governed. This change goes well beyond accounting treatment; it reshapes provisioning discipline, audit approaches, data architecture, capital planning and the strategic role of finance professionals within institutions.*

The ECL framework introduces a more anticipatory and risk-sensitive regime. Its phased implementation and regulatory glide path reflect a balanced approach – one that seeks to align Indian banks with global best practices while recognising varying levels of institutional readiness. At the same time, the framework places heightened emphasis on data quality, governance, internal controls, model validation and cross-functional coordination among credit, finance, risk and technology teams. Banks that invest early in these capabilities will be better positioned to manage volatility, strengthen stakeholder confidence and enhance long-term resilience.

For the Indian banking system, this transition carries significant strategic implications. Early identification of credit deterioration, sharper portfolio monitoring, improved pricing discipline and more informed capital planning will increasingly define competitive strength. However, these benefits will accrue only if the framework is implemented with rigour, consistency and professional judgement, rather than as a mechanical compliance exercise.

In this evolving environment, the role of Cost and Management Accountants assumes renewed strategic relevance. CMAs are uniquely positioned at the intersection of cost structures, data integrity, financial controls and governance. Their contribution spans validating underlying data, strengthening internal reporting and controls, supporting management judgement, and ensuring alignment between operational realities and financial disclosures. This edition highlights how CMAs can act as critical enablers of reliable provisioning, transparency and regulatory confidence across banks and financial institutions.

The value of this special edition lies in its practical orientation. It distils regulatory intent into structured guidance, implementation roadmaps and governance perspectives that practitioners can readily apply. It addresses operational preparedness, institutional challenges and capacity-building imperatives with clarity and realism, making it a relevant resource not only for finance and risk teams, but also for auditors, senior management and policy stakeholders.

I would also like to place on record another significant initiative of the BFSI Board, which reflects our broader commitment to strengthening sectoral knowledge and professional capability. Recently, the Board released the ***Aide Mémoire on Infrastructure Financing (3rd Enlarged and Revised Edition),*** *formally launched by* ***the Chairman of State Bank of India,*** *who also graciously contributed the foreword. In addition, BFSI Board has formally released 3 Comprehensive Publication named,* ***The Guidance Note on Cost Control Strategies in the Banking Sector, Handbook on Central Bank Digital Currency (CBDC), Monograph on Climate Risk and Green Finance*** *at the* ***63rd National Conference of Management Accountants (NCMAC) January 11th, 2026****. This publication has emerged as a ready reference and comprehensive guidance note for professionals across the sector, reinforcing The Institute of Cost Accountants of India's role in delivering timely, practitioner-oriented resources that respond directly to evolving policy and financing priorities.*

Together, these initiatives underscore a consistent philosophy: enabling professionals to navigate regulatory change with competence, confidence and clarity. Through focused publications, structured learning interventions and continuous engagement with stakeholders, The Institute of Cost Accountants of India remains committed to building capacity at the ground level while contributing to stronger governance and institutional resilience.

I commend the contributors and editors for their thoughtful work and trust that this volume will serve as a valuable reference for the profession and the financial ecosystem at large.

With Best Wishes.

CMA Chittaranjan Chattopadhyay

Chairman of the BFSI (Banking, Financial Services, and Insurance) Board

The Institute of Cost Accountants of India (ICMAI)

From Editorial Desk

Trend and Progress of Banking in India 2024-25

(Based on the Reserve Bank of India's Assessment)

The Reserve Bank of India's Trend and Progress of Banking in India 2024-25 provides a comprehensive and timely assessment of the evolving contours of India's Banking System amid a challenging global environment and a resilient domestic economy. The report once again reaffirms the central role played by Indian Banks in sustaining Economic Momentum while maintaining Financial Stability.

During 2024-25, the Indian Banking Sector demonstrated remarkable resilience, supported by strong Capital Adequacy, improved Asset Quality, comfortable Liquidity, and sustained Profitability. Despite persistent global uncertainties, ranging from geopolitical tensions and supply-chain disruptions to volatile financial markets, Indian Banks remained well-capitalised and operationally robust, reflecting the strength of regulatory oversight and prudent Risk Management Frameworks.

A notable highlight of the year has been the continued improvement in Asset Quality. Non-performing Assets have declined to multi-year lows, aided by better Credit Appraisal Systems, proactive Stress Recognition, and effective Recovery Mechanisms under the Insolvency and Bankruptcy Code (IBC), 2016. The steady reduction in slippages and higher recovery rates underscore the maturing credit culture in the banking ecosystem. This improvement has provided banks with greater balance sheet flexibility to support Productive Credit Growth.

Credit Expansion during the year remained broad-based, driven by Retail, Services, MSMEs, and Infrastructure Sectors. The Banking System played a pivotal role in financing India's Growth aspirations, particularly in Capital Formation and employment-generating sectors. At the same time, Banks have been increasingly cautious in Balancing Growth with Risk, aligning lending strategies with sectoral risk assessments and borrower Cash-flow sustainability.

The Year 2024–25 also marked significant progress in Digital Banking and Financial Inclusion. The deepening of digital public infrastructure, expansion of Fintech Collaborations, and wider adoption of Technology-driven delivery Models have enhanced efficiency, customer outreach, and financial accessibility. These developments have further strengthened India's position as a Global Leader in Digital Financial Services, while also necessitating heightened focus on Cybersecurity, Data Protection, and Operational Resilience.

From a Regulatory perspective, the RBI's emphasis on Forward-looking Supervision, Governance Reforms, and Risk-based compliance has continued to strengthen the Banking Architecture. Enhanced Focus on Climate-related Financial Risks, conduct regulation, and preparedness for Advanced Accounting Frameworks, such as the Transition towards ***Expected Credit Loss (ECL) Norms****, reflects the regulator's commitment to aligning Indian Banking Practices with Global Best Standards.*

Looking ahead, the challenges for the Banking Sector lie in Managing Emerging Risks arising from Climate Change, Technological Disruptions, Cyber Threats, and evolving Customer Expectations. At the same time, Opportunities abound in the form of Sustainable Finance, Green Lending, Cross-border Banking, and Innovation-led Financial Products. Banks will need to invest continuously in Governance, Human Capital, and Advanced Risk Management Systems to remain Resilient and Competitive.

In Conclusion, the Trend and Progress of Banking in India 2024-25 presents a picture of a Strong, Stable, and Future-ready Banking System. As India Progresses towards becoming a USD 5 Trillion Economy, the Banking Sector's Role as a Catalyst for inclusive and sustainable growth will remain paramount. The collective efforts of Regulators, Banks, and Stakeholders will be critical in ensuring that the Sector continues to Evolve with Resilience, Responsibility, and Innovation.

Kolkata,

CMA Chittaranjan Chattopadhyay

Chairman of the BFSI (Banking, Financial Services, and Insurance) Board

The Institute of Cost Accountants of India (ICMAI)

Shri A C Rout
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Preparation for the Implementation of Expected Credit Loss (ECL) Provisions by Scheduled Banks

(Effective from April 1, 2027)

Abstract:

The implementation of Expected Credit Loss (ECL) provisioning represents a paradigm shift in credit risk measurement and provisioning practices for scheduled banks. Scheduled to come into effect from April 1, 2027, this framework requires banks to move away from the traditional Incurred Loss Model to a forward-looking ECL model.

This article examines the conceptual foundation of ECL, regulatory underpinnings, strategic imperatives for banks, implementation challenges, and the roadmap for successful adoption.

The analysis highlights critical considerations in data infrastructure, risk governance, model validation, stakeholder communication, and regulatory compliance.

The banking sector globally has been moving towards forward-looking loss recognition frameworks in response to the lessons from past financial crises. The Expected Credit Loss model, rooted in International Financial Reporting Standards 9 (IFRS 9) and equivalent local standards (such as Ind AS 109 in India), mandates recognition of credit losses based on forward-looking information rather than waiting for objective evidence of impairment. For scheduled banks, this transition is among the most significant accounting and risk management changes in recent decades.

In India, the Reserve Bank of India (RBI) has provided timelines and guidelines for the phased implementation of ECL. Central to this reform is enhancing the resilience of banks, strengthening provisioning buffers, and promoting transparency in financial reporting. With the effective date now established as April 1, 2027, banks must undertake comprehensive preparatory work to ensure seamless adoption.

The Theoretical Foundation of ECL:

a) From Incurred Loss to Expected Credit Loss:

Under the traditional incurred loss paradigm, banks recognized credit losses only after a triggering event indicating credit deterioration. Such reactive provisioning delayed loss recognition and understated risks during economic downturns.

The Expected Credit Loss model, in contrast, requires recognition of lifetime expected losses at loan origination and updated estimates at each reporting date based on changes in credit risk. The model incorporates a broad range of data, including historical loss experience, current conditions, and forward-looking macroeconomic scenarios.

b) Key Principles and Stages:

Under ECL frameworks, financial assets are divided into stages:

- Stage 1: Performing assets with no significant increase in credit risk since initial recognition. Provisioning is based on 12-month expected credit losses.
- Stage 2: Assets with a significant increase in credit risk. Provisioning covers lifetime expected credit losses.
- Stage 3: Credit-impaired assets, where lifetime expected losses are recognized, and interest revenue is calculated on the net carrying amount.

This staging approach ensures timely recognition of credit risk migration and allows banks to build provisions reflective of underlying risk dynamics.

Regulatory Drivers and Mandates:

a) International and Domestic Standards:

The ECL model is embedded in IFRS 9 and its Indian equivalent Ind AS 109, which have been progressively adopted across jurisdictions. These standards were introduced to align provisioning with economic reality, enhance comparability of financial statements, and strengthen risk disclosure practices.

In India, the RBI has issued a series of guidelines and implementation timelines to scheduled commercial banks, recognizing the need for adequate preparation time. The April 1, 2027 deadline provides a structured window for capability enhancement, parallel runs, and regulatory oversight.

b) Regulatory Expectations:

Regulators expect banks to:

- Adopt robust methodologies for ECL computation incorporating credible forward-looking information.
- Maintain strong governance frameworks for risk parameter setting and model validations.
- Ensure transparency in disclosures and align with accounting standards.
- Engage in regular dialogue with auditors and regulators to pre-empt implementation challenges.

Banks are also expected to communicate the impact of transition to stakeholders, including investors and credit rating agencies.

Strategic Imperatives for Banks:

a) Data Infrastructure and Technology:

One of the most critical enablers for ECL implementation is

quality data. Banks need:

- Historical loss data across asset classes.
- Granular exposure and borrower credit information.
- Real-time updates on macroeconomic indicators.

Implementing a scalable data architecture-potentially cloud-based-with robust data governance practices is essential. Legacy systems often lack the ability to integrate diverse data sources, necessitating significant technology upgrades.

Advanced analytical tools, including statistical and machine learning models, may be required to forecast credit losses with high precision. Integration of such tools into the risk and finance workflows ensures consistency of estimates across reporting cycles.

b) Model Development and Validation:

ECL estimation involves complex modelling of credit risk parameters:

- **Probability of Default (PD):**

Likelihood of borrower default over a specified horizon.

PD (Probability of Default) means the likelihood a borrower will default on their obligation over a specific period (e.g., 12 months or lifetime).

  - ❍ Factors: Credit history, financial health, economic conditions.
  - ❍ Estimation: Uses historical data, credit scoring, and forward-looking macroeconomic forecasts

- **Loss Given Default (LGD):**

Expected loss severity in the event of default.

LGD (Loss Given Default) means the percentage of the exposure a lender expects to lose if a default occurs, calculated as (1 - Recovery Rate).

  - ❍ Factors: Collateral value, seniority of debt, borrower's financial health, economic conditions.
  - ❍ Estimation: Reflects realistic recovery expectations, considering collateral and economic outlook.

- **Exposure at Default (EAD):**

The outstanding exposure when default occurs.

EAD (Exposure at Default): The total amount the lender is exposed to at the time of default, including drawn amounts, accrued interest, and potential future draws on committed lines.

  - ❍ Factors: Current outstanding balance, undrawn commitments, potential future usage.
  - ❍ Estimation: Includes both funded and off-balance sheet items, using historical data and regulatory factors.

Banks must choose appropriate modelling techniques and calibrate them to internal and external data. Use of multiple economic scenarios-baseline, optimistic, and pessimistic-is required to capture uncertainty.

Independent validation of models is non-negotiable. Validation teams should assess model performance, challenge assumptions, and ensure compliance with accounting and regulatory standards.

c) Governance and Risk Culture:

Strong governance frameworks underpin ECL implementation. Key considerations include:

- Clear roles and responsibilities across business, risk, finance, and audit functions.
- Board and senior management oversight of methodology, model risk, and provisioning adequacy.
- Periodic review of assumptions in light of evolving economic conditions.

Instilling a risk-aware culture ensures that credit risk information is valued across the organization and integrated into strategic decision-making.

Challenges in Implementation:

a) Data Quality and Availability:

Many banks face challenges in accessing historical loss data at the level of detail required for ECL models. Data gaps may arise from inconsistent reporting formats, incomplete records, or fragmented systems. Bridging these gaps

demands significant investments in data cleansing and standardization.

b) Scenario Design and Forward-Looking Information:

Incorporating forward-looking macroeconomic information is conceptually demanding. Banks must decide which economic variables to include, identify credible sources, and determine scenario weights. Judgement plays a significant role, and regulators expect documented rationale for these choices.

c) Operational Complexity:

ECL implementation requires coordination across risk, finance, IT, and business units. Aligning timelines for data provisioning, model runs, validation, and external audit reviews is operationally complex, especially in large banks with decentralized operations.

d) Impact on Financial Statements:

Transition to ECL can materially affect reported profit and loss due to higher provisions, especially for portfolios with deteriorating credit quality. Banks must assess the impact on capital adequacy, profitability, and regulatory leverage ratios. Clear communication with stakeholders is essential to manage market expectations.

(i) Comparison of Incurred Loss Model and Expected Credit Loss (ECL) Model

Particulars	Incurred Loss Model	Expected Credit Loss (ECL) Model
Recognition of Loss	After objective evidence of impairment	At initial recognition and updated periodically
Nature of Approach	Backward-looking	Forward-looking
Use of Macroeconomic Factors	Not considered	Explicitly incorporated
Provisioning Timing	Delayed	Early and proactive
Risk Sensitivity	Low	High
Alignment with Global Standards	Limited	Fully aligned with IFRS 9 / Ind AS 109

(ii) ECL Staging Framework for Scheduled Banks

Stage	Asset Classification	Credit Risk Status	Provisioning Basis
Stage 1	Performing Assets	No significant increase in credit risk	12-month ECL
Stage 2	Underperforming Assets	Significant increase in credit risk	Lifetime ECL
Stage 3	Credit-Impaired Assets	Objective evidence of default	Lifetime ECL (Net Interest Basis)

(ii) Key Credit Risk Parameters under ECL Framework

Parameter	Description	Key Considerations
Probability of Default (PD)	Likelihood of borrower default	Historical data, rating migration, macroeconomic linkages

Parameter	Description	Key Considerations
Loss Given Default (LGD)	Loss severity after default	Collateral value, recovery timelines, legal environment
Exposure at Default (EAD)	Outstanding exposure at default	Undrawn limits, credit conversion factors

(iv) Implementation Challenges and Mitigation Strategies

Challenge	Impact on Banks	Suggested Mitigation
Data Gaps	Inaccurate ECL estimates	Data cleansing, centralized data repositories
Model Complexity	Operational risk	Phased implementation, expert validation
Forward-looking Scenarios	Subjectivity	Use RBI / government macro forecasts
Capital Impact	Profit volatility	Capital planning and buffer creation
Skill Gaps	Implementation delays	Structured training and capacity building

(v) ECL Computation Framework

Historical Data
↓
Current Credit Conditions
↓
Forward-looking Macroeconomic Scenarios
↓
PD × LGD × EAD
↓
Expected Credit Loss (ECL)

(vi) Roadmap for ECL Implementation (2025–2027)

2025
- Gap Assessment.
- Data Readiness.
- Governance Setup.

2026
- Model Development.
- Parallel Run.
- Validation.

2027
- Go-live (1 April 2027).
- Enhanced Disclosures.
- Regulatory Review.

Roadmap to Successful Adoption:

To navigate these challenges, banks should follow a structured roadmap:

a) Establish a Governance Structure:

Create a cross-functional steering committee chaired by senior management to oversee implementation. Define milestones, deliverables, and escalation protocols.

b) Conduct Gap Assessment:

Assess current provisioning practices, data capabilities, and modelling frameworks against ECL requirements. Identify gaps and prioritize remediation actions.

c) Develop and Validate Models:

Build ECL models aligned with regulatory and accounting standards. Conduct parallel runs alongside existing provisioning methodologies to benchmark results and refine assumptions.

d) Strengthen Data Architecture:

Invest in robust data infrastructure that supports seamless integration of risk and financial data. Implement data quality controls and audit trails.

e) Train and Build Capacity:

Conduct training programs for risk, finance, and audit teams to build expertise in ECL concepts, modelling techniques, and regulatory expectations. Leverage external consultants where necessary.

f) Engage with Regulators and Auditors:

Maintain open dialogue with the RBI, statutory auditors, and external consultants to ensure alignment on methodology, disclosures, and implementation timelines. Address regulatory feedback proactively.

g) Communicate with Stakeholders:

Prepare communication plans for investors, rating agencies, and the market. Articulate the rationale for changes in provisioning patterns and expected financial impacts.

Expected Benefits of ECL Implementation:

Although challenging, ECL implementation offers substantial benefits:

- **Timely loss recognition:** Reflects emerging credit risks before they materialize into defaults.
- **Enhanced transparency:** Improved disclosures support investor confidence and comparability.
- **Risk sensitivity:** Models that incorporate forward-looking information are better aligned with economic realities.
- **Resilience:** Higher quality provisioning strengthens banks' shock absorption capacity during downturns.

These benefits align with global best practices and elevate the risk management standards of the banking sector.

Conclusion:

The transition to the Expected Credit Loss framework by scheduled banks, effective April 1, 2027, represents a defining moment in credit risk management and financial reporting. It demands significant preparation across data capabilities, model development, governance, and stakeholder engagement. While implementation poses challenges, strategic planning, robust governance, and proactive stakeholder communication can mitigate risks and ensure a smooth transition.

In embracing ECL, banks will not only comply with regulatory mandates but also enhance their risk management culture, financial transparency, and resilience in the face of future economic uncertainties. The journey to ECL adoption is complex but integral to the evolution of modern banking.

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Implementation of Ind AS 109 by Banks in India

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Abstract:

Earlier, the RBI issued a 'Discussion Paper' on provisioning as per the ECL Approach which was largely acknowledged as a paradigm shift in how Banks in India were required to provide for financial assets like Loans and Investments. In response to comments received from stakeholders, the RBI issued a press release on 04 October 2023 and announced the constitution of a Working Group for independent inputs on technical aspects pertaining to ECL. The RBI issued final directions on Classification, Valuation, and Operations of Investments on 12 September 2023. The issuance of revised directions on Classification, Valuation and Operations of Investments marks a significant shift in financial reporting requirements for Banking Entities.

Currently, Banks prepare financial statements in accordance with Indian Generally Accepted Accounting Principles (IGAAP). The financial reporting framework under IGAAP comprises directions stipulated by Third Schedule of the Banking Regulation Act, 1949, various guidelines issued by the RBI over a period, the Accounting Standards ('AS') specified under Section 133 of the Companies Act, 2013 read together with the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Rules, 2021. Furthermore, disclosures stipulated under IGAAP do not cover policies, process and systems relating to risk management which are pertinent to better understand financial performance and results of a Banking Company.

Under Ind-AS 109, Indian Banks must classify financial assets, including loans and advances and Held to Maturity (HTM) Investments, based on their business model for managing the assets and the contractual cash flow characteristics (Solely Payments of Principal and Interest, or SPPI). This classification determines their subsequent measurement and the application of the forward-looking Expected Credit Loss (ECL) impairment model.

a) Application to Bank Loans and Advances:

Most Bank Loans and Advances are typically measured at Amortised Cost (AC) because they generally meet the following two criteria:

- ***Business Model Test:*** The Bank's objective is to hold the Loans to collect the contractual Cash Flows.
- ***SPPI Test:*** The contractual cash flows on specified dates are solely payments of Principal and Interest on the Principal amount outstanding.
- ***Impairment:*** Expected Credit Loss (ECL) Model.

A significant aspect of Ind-AS 109 for Loans and Advances is the shift from the "Incurred Loss" Model to the "Expected Credit Loss" (ECL) model, which requires Banks to account for potential losses before they occur. The ECL Model uses a Three-stage Approach:

- **Stage 1:** At Initial recognition, for Assets where Credit Risk has not significantly increased since initial recognition, a 12-Month ECL allowance is recognized. This is the portion of lifetime ECL that would result from default events possible within the next 12 Months.
- **Stage 2:** If the Credit Risk has significantly increased since

initial recognition, but the Asset is not yet Credit-impaired, a lifetime ECL allowance is recognized. This involves assessing all available information, including forward-looking data, to determine changes in Credit Risk. There is a rebuttable presumption that Credit Risk has increased significantly if payments are more than 30 Days past due.

- **Stage 3:** For Assets that are Credit-impaired (i.e., default has occurred), Lifetime ECL is also recognized, and interest revenue is calculated on the Net Carrying Amount (Gross carrying amount less Loss Allowance).

The ECL Calculation requires Banks to use reasonable and supportable information, including:

- Historical Data.
- Current Conditions, and
- Forward-looking Economic Forecasts (e.g., Economic Outlook, Employment Rates).

Key Components of the ECL Calculation include the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

b) Application to Held to Maturity (HTM) Investments:

Under previous Indian Accounting Standards, Banks had a dedicated "Held to Maturity" Category where Investments were carried at amortized cost and not marked to market, provided they had the intent and ability to hold them to maturity.

Ind-AS 109 replaces this with a principle-based Classification using the two tests mentioned above:

- HTM Investments (typically Government Bonds and certain Debt Instruments) can be classified under the Amortised Cost Category if they meet both the "Hold to Collect" Business Model and the SPPI criteria.

- If the Bank's Business Model involves both collecting contractual cash flows and selling the investments (e.g., for Liquidity needs), the Investments would be classified as Fair Value through Other Comprehensive Income (FVOCI).

- Investments held for Trading are Classified as Fair Value through Profit or Loss (FVTPL).

c) Impairment and Measurement:

Ind-AS 109 brings a unified, Principle-based, and Forward-looking approach to valuing and provisioning for Credit Risk across a Bank's Loan and Investment Portfolios, demanding more sophisticated data analytics and judgment from Banks.

- **Amortised Cost / FVOCI HTM Investments:** Like Loans and Advances, these Assets are subject to the ECL Impairment Model. They must be assessed for significant increases in Credit Risk, requiring 12-Months or Lifetime ECL Provisioning based on the Stage.

- **FVTPL HTM Investments:** These are measured at Fair Value with all changes recognized in the Profit and Loss Statement. The ECL Model is not applied to FVTPL instruments as their fair value measurement inherently captures Credit Risk Changes.

Practical Problems:

Here are practical Problems / Case Studies illustrating the Application of Ind-AS 109 to Bank Loans and Advances, and Held-to-Maturity (HTM) Investments in Indian Banks, focusing on key aspects like Classification, Measurement, and Expected Credit Loss (ECL).

Problem 1: Classification and Measurement:

Ind-AS 109 requires financial assets to be classified based on two criteria:

The entity's business model for managing the asset and whether the contractual cash flows are Solely Payments of Principal and Interest (SPPI Test).

Case 1.1: Standard Bank Loan (Amortised Cost):

Scenario: A Bank in India provides a Standard Five-year term loan of ₹ 10 Crores to a Corporate client with a fixed interest rate of 10% per annum, payable in annual instalments. The Bank's objective is to hold the loan to collect the contractual Principal and Interest payments.

Problem:

- How should the Bank classify and measure this Loan under Ind-AS 109?

- What is the Initial Recognition Value if the direct transaction costs are ₹ 1 Lakh?

Solution:

Classification: The Business Model is to Collect Contractual cash flows, and the cash flows are Solely Payments of Principal and Interest (SPPI Test). The loan should be classified as a financial asset measured at Amortised Cost.

Initial Measurement: Financial Assets at Amortised Cost are initially recognised at their Fair Value plus or minus directly attributable Transaction Costs. The Initial recognition value will be ₹ 10 Crores + ₹ 1 Lakh = ₹ 10.01 Crores.

Case 1.2: Investment in Government Bonds (HTM equivalent):

Scenario: An Indian Bank Invests ₹ 50 Crores in Government of India Securities with a 10-Year Maturity and a Fixed Annual Coupon, which Qualify for the 'Held to Maturity' (HTM) Category under RBI Norms (Up to 25% of Investments can be in HTM). The Bank's Management has a clear intention and ability to hold these Bonds until Maturity to collect all contractual Cash Flows.

Problem:

1. How should the Bank Classify and measure this Investment under Ind-AS 109?
2. How would the treatment differ if the Bank frequently Sells similar Government Securities to Profit from Interest Rate changes?

Solution:

Classification: The Business Model is to hold the Assets to Collect Contractual Cash Flows, and Government Securities typically pass the SPPI Test. The investment should be classified as a financial asset measured at Amortised Cost (This is the Ind-AS equivalent of the HTM Classification).

Different Business Model: If the Bank's objective included actively Selling the Securities, the Classification would change to Fair Value Through Profit or Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVOCI), depending on whether the intention was primarily to trade for short-term profit or to use both Collecting and Selling as a strategy.

Problem 2: Impairment (Expected Credit Loss - ECL):

Ind-AS 109 replaces the Incurred Loss Model with a forward-looking Expected Credit Loss (ECL) Model, which requires Banks to provision for potential losses even before a default occurs.

Case 2.1: Staging a Corporate Loan for ECL:

Scenario: A Bank has a ₹ 50 Crores Loan to a manufacturing company. At initial recognition, the loan is Stage-1. Due to a recent economic downturn and the company losing a major contract, the Bank's internal Credit Rating suggests a significant increase in Credit Risk, although the loan is not yet overdue.

Problem:

1. How does the Loan's "Stage" affect ECL Calculation?
2. What action should the Bank take regarding the Loan's Classification for Impairment?

Solution:

1. ECL Calculation Impact:

Stage 1: The Bank recognises a 12-Month ECL (Expected Losses from defaults possible within the Next 12 Months).

Stage 2: The Bank must recognise a Life-Time ECL (Expected Losses from all possible defaults over the Entire Life of the Loan), as a significant increase in Credit Risk has occurred since initial recognition.

Stage 3: The Asset is credit-impaired (Defaulted), and Life-time ECL is also recognised, but interest revenue is calculated on the Net Carrying Amount (Gross Amount minus loss allowance).

2. Action:

The Bank must reclassify the Loan from Stage 1 to Stage 2 due to the significant increase in Credit Risk and measure the Impairment based on the Life-Time ECL. This requires significant judgement and the use of forward-looking information.

Case 2.2: Calculating ECL on a Retail Portfolio:

Scenario: A Bank has a Large Portfolio of Standard Home Loans. The Bank uses a provision matrix approach for this portfolio. For a Specific Segment, Historical Data and forward-looking Economic Factors suggest a Probability of Default (PD) of 0.5% over the Next 12 Months, a Loss Given Default (LGD) of 20%, and an Exposure at Default (EAD) of ₹ 100 Crores for the Segment.

Problem:

1. Calculate the 12-Month ECL for this Portfolio Segment.
2. What Data Challenges might the Bank face in this Calculation?

Solution:

1. ECL Calculation: The ECL is Calculated as the Product of PD, LGD, and EAD.

- ECL = PD × LGD × EAD
- ECL = 0.005 × 0.20 × ₹ 100 Crores = ₹ 10 Lakhs.
- This amount is recognised as a Loss Allowance in the Financial Statements.

2. Data Challenges: Banks often face challenges in gathering sufficient Historical Data covering a full Economic Cycle and incorporating subjective, Forward-looking Macro-Economic Factors (e.g., impact of a potential recession or unemployment rates) into their Models.

Ind AS 109 in ECL Provisions:

Applying Ind-AS 109 for Calculating Expected Credit Loss (ECL) provisions for Bank Loans, Advances, and Held to Maturity (HTM) Investments requires a Forward-looking, Three-stage Impairment Model using key Risk Components:

- Probability of Default (PD).
- Exposure at Default (EAD), and
- Loss Given Default (LGD).

Core Principles of the Ind-AS 109 ECL Model:

The Standard is Principle-based and does not prescribe a single model but requires a comprehensive, unbiased, and probability-weighted estimate of Credit Losses.

- **Proactive Approach:** It replaces the "Incurred Loss" Model, mandating that potential losses be recognized before an actual default event, using Historical Data,

Current Conditions, and reasonable Future Forecasts.

- **Scope:** The ECL Calculation applies to Financial Assets measured at Amortized Cost and Fair Value Through Other Comprehensive Income (FVOCI), which includes typical Bank Loans, Advances, and HTM Investments (Debt Instruments).

- **Time Value of Money:** ECL must be a Present Value measure, Discounted using the Financial Instrument's Original Effective Interest Rate (EIR).

- **The Three-Stage Impairment Model:** Financial Instruments are classified into Three Stages based on changes in Credit Risk since Initial Recognition:

  Stage 1 (Initial Recognition / Performing Assets): For Assets where Credit Risk has not significantly increased since initial recognition, a 12-Months ECL is recognized. This is the present value of Expected Credit Losses resulting from default events possible within the Next 12 Months.

  Stage 2 (Significant Increase in Credit Risk - SICR): If the Credit Risk has increased significantly but is not yet Credit-impaired, a Lifetime ECL is recognized. This is the present value of all expected Credit Losses over the Remaining Life of the financial instrument. A rebuttable presumption exists that risk has increased significantly if payments are 30 Days Past Due (DPD).

  Stage 3 (Credit-Impaired Assets): When the Financial Asset is objectively Credit-impaired (e.g., 90 DPD, Bankruptcy), a Lifetime ECL continues to be recognized. Interest Revenue is Calculated on the Net carrying amount (Gross Carrying Amount Minus the Loss Allowance).

Calculation Methodology and Components:

The ECL is Calculated using the following Key Components:

- **(ECL= PD x LGD x EAD x Discount Factor)**
- **PD (Probability of Default):** The Likelihood of a default occurring over a given time horizon (12 Months or Lifetime).

- **LGD (Loss Given Default):** The Expected Loss Percentage if a default occurs, considering Collateral and recovery expectations.
- **EAD (Exposure at Default)**: The Total Exposure Expected at the Time of Default, including the Outstanding Balance and any Committed but undrawn amounts.

- **Discount Factor:** Used to Present Value the Expected Future Cash Shortfalls using the EIR.

Practical Example (Simplified Loan Portfolio):

A Bank has a Retail Loan Portfolio of ₹10,00,000. Based on Internal Models and Forward-Looking Economic Data (e.g., Expected Rise in Unemployment), the Bank determines:

Stage	Gross Carrying Amount (GCA)	PD (Adjusted for forward look)	LGD	EAD	ECL Amount
Stage 1 (12-month ECL)	₹ 800,000	1% (12-month PD)	30%	₹ 800,000	₹ 800,000 * 1% * 30% = **₹ 2,400**
Stage 2 (Lifetime ECL)	₹ 150,000	8% (Lifetime PD)	35%	₹ 150,000	₹ 150,000 * 8% * 35% = **₹ 4,200**
Stage 3 (Lifetime ECL)	₹ 50,000	100% (Defaulted)	40%	₹ 50,000	₹ 50,000 * 100% * 40% = **₹ 20,000**
Total ECL Provision	**₹ 10,00,000**				**₹ 26,600**

Note: This Example simplifies the Complex Discounting and Multi-scenario Probability weighting required in practice to Illustrate the Stage-based Approach.

Application to HTM Investments:

HTM Investments are typically Debt Securities that the Bank intends to hold until maturity, measured at amortized cost. The same ECL framework applies:

- **Classification:** The Investment is assessed for Significant Increases in Credit Risk at each reporting date.
- **Staging**: It moves through the Three Stages (Stage 1: 12-Month ECL; Stages 2 & 3: Lifetime ECL) based on Credit Risk Changes.
- **Measurement:** The ECL is Calculated using the relevant PD, LGD, and EAD, considering Macro-economic Factors relevant to the Bond Issuer (e.g., Sovereign Ratings, Industry Outlook).

The implementation relies heavily on Robust Data Systems and Significant Management Judgement in developing Models and forward-looking scenarios. The Reserve Bank of India (RBI) encourages Indian Banks to move toward this robust, forward-looking provisioning method.

To Conclude, Ind AS 109 Applies to Bank Loans and Advances and Held-to-Maturity (HTM) Investments by requiring Banks to Classify these Instruments based on their Business Model and the Characteristics of the contractual Cash Flows. Loans and Advances are generally measured at amortized Cost or Fair Value through other Comprehensive Income (FVOCI), while HTM Investments are measured at Amortized Cost. Both Classifications require impairment testing using the Expected Credit Loss (ECL) Model, which assesses Expected Credit Losses on a Forward-looking basis, with the potential for more severe impairment charges for Assets showing a significant increase in Credit Risk.

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Core Framework and Overview of Expected Credit Loss (ECL) Provisions

Abstract:

The Reserve Bank of India (RBI) has proposed a paradigm shift in the credit impairment framework for Indian Banks by transitioning from the traditional Incurred Loss Model to the Expected Credit Loss (ECL) approach, effective from 1 April 2027.

This reform aligns Indian Banking Regulation with Global Best Practices, particularly the principles embedded in IFRS 9, while retaining prudential safeguards unique to the Indian Financial System.

The ECL framework introduces Forward-looking Provisioning, Risk-sensitive Credit Staging, and greater reliance on Data, Models, and Governance.

This Article presents a comprehensive overview of the core ECL framework, its rationale, key building blocks, staging mechanism, transitional arrangements, and the expected implications for Indian Banks. It also highlights the strategic significance of ECL in strengthening financial stability, transparency, and resilience of the Banking System.

Keywords: Expected Credit Loss, ECL Framework, RBI Banking Regulation, Credit Risk Management, Prudential Provisioning, Indian Banks, IFRS 9 Alignment.

Credit risk provisioning is a cornerstone of Banking Stability. Historically, Indian Banks have followed the Incurred Loss Model (ILM) under the Income Recognition, Asset Classification and Provisioning (IRACP) Norms, where provisions are recognized only after objective evidence of impairment emerges. While this approach provided regulatory certainty, it was increasingly criticized for being reactive, pro-cyclical, and insufficiently forward-looking.

The Reserve Bank of India (RBI) issued draft guidelines on October 7, 2025, for the implementation of the Expected Credit Loss (ECL) framework, effective April 1, 2027. This marks a shift from the traditional "Incurred Loss" Model to a forward-looking approach aligned with Global IFRS 9 Standards.

In response to global regulatory reforms following the 2008 financial crisis, the Reserve Bank of India has proposed the adoption of an Expected Credit Loss (ECL) framework for all scheduled commercial banks, to be implemented with effect from 1 April 2027. The ECL framework marks a fundamental shift from "Loss Recognition after Default" to "anticipation of Credit Losses over the Life of an Exposure."

This transition is expected to enhance the early identification of stress, promote prudent risk pricing, and improve the robustness of Bank Balance Sheets across economic cycles.

Rationale for Transition to the ECL Framework:

The move towards ECL provisioning is driven by several structural and regulatory considerations:

- **Limitations of the Incurred Loss Model:** The ILM recognizes

impairment only when a loss event has already occurred. During periods of economic expansion, provisioning remains low, while during downturns it rises sharply, thereby amplifying cyclical volatility in bank profits and capital.

- **Global Regulatory Alignment:** Internationally, Accounting and Prudential Frameworks have converged around forward-looking impairment models, particularly under IFRS 9. Adoption of ECL positions Indian Banks Closer to Global Peers in terms of Transparency, Comparability, and Investor Confidence.

- **Financial Stability Considerations:** ECL Provisioning enables Banks to build buffers in good times, thereby improving shock absorption capacity during economic stress. This is especially relevant for India, given its exposure to Credit Cycles, Sectoral Concentration Risks, and Climate-related Uncertainties.

Key Computation Components

ECL is Calculated as a Probability-weighted estimate using Three Primary Parameters:

- **Probability of Default (PD):** Likelihood of a Borrower Defaulting over a specific period.
- **Loss Given Default (LGD):** The Share of Exposure the Bank expects to Lose if default occurs, after recoveries.
- **Exposure at Default (EAD):** The Total Value the bank is exposed to at the time of default, including undrawn limits.

Core Principles of the ECL Framework:

At its core, the ECL framework is built on three fundamental principles:

- **Forward-Looking Loss Estimation:** Unlike ILM, ECL requires banks to incorporate reasonable and supportable forecasts of future economic conditions. Macroeconomic variables such as GDP growth, inflation, interest rates, and sector-specific indicators play a critical role in estimating expected losses.

- **Risk-Sensitive Credit Assessment:** ECL recognizes that credit risk evolves over time. The framework differentiates exposures based on the degree of credit deterioration since initial recognition.

- **Lifetime Perspective:** For exposures where credit risk has significantly increased, banks are required to recognize expected losses over the remaining contractual life of the asset, rather than limiting provisioning to short-term horizons.

Core Framework: Three-Stage Model

Banks will classify financial assets into three stages based on changes in credit risk since initial recognition:

Stage	Credit Risk Status	Provisioning Requirement
Stage 1	No significant increase in credit risk (SICR).	12-month ECL: Losses expected from default events within the next 12 months.
Stage 2	Significant increase in credit risk (SICR) since origination.	Lifetime ECL: Expected losses over the entire remaining life of the asset.
Stage 3	Credit-impaired (equivalent to current NPAs).	Lifetime ECL: Provisions for assets already in default.

Automatic Trigger: Assets Overdue by more than **30 days** Automatically move to Stage 2, though banks may rebut this with evidence.

Three-Stage Credit Impairment Structure:

A defining feature of the ECL framework is the three-stage impairment model, which links provisioning levels directly to changes in credit risk.

a) Stage 1-Performing Assets:

- Assets with no significant increase in credit risk since origination.
- Provisioning is based on 12-month Expected Credit Loss.
- Interest income is recognized on the gross carrying amount.

b) Stage 2-Under-Performing Assets:

- Assets that have experienced a Significant Increase in Credit Risk (SICR) but are not credit-impaired.
- Provisioning shifts to Lifetime Expected Credit Loss.

- Interest income continues to be recognized on the gross amount.

Stage 3-Credit-Impaired Assets:

- Assets that are in default or considered credit-impaired.
- Lifetime ECL is recognized.
- Interest income is recognized on the Net Carrying Amount (After Provisions).

This Staging Approach introduces Granularity and ensures timely recognition of emerging credit stress.

Implementation & Transition

- **Effective Date:** April 1, 2027, for most SCBs.
- **Transition:** A 4–5-year Glide Path (Until FY2031) to gradually adjust provisions and Manage Capital Impact.
- **Impact:** Expected to increase provisioning and capital requirements, but the Glide Path aims for a limited, manageable impact on Bank Capital.

Key Components of ECL Measurement:

ECL Computation is typically based on Three Quantitative Parameters:

- **Probability of Default (PD)**: The likelihood that a borrower will default over a given time horizon.
- **Loss Given Default (LGD):** The proportion of exposure that is expected to be lost if default occurs, considering collateral, guarantees, and recovery costs.
- **Exposure at Default (EAD):** The estimated outstanding exposure at the time of default, including drawn balances and likely drawdowns of committed facilities.

These parameters must be derived using historical data, adjusted for current conditions and forward-looking macroeconomic scenarios.

Benefits

- Early Warning: Detects credit deterioration sooner.
- Proactive Management: Allows banks to act before defaults occur.
- Better Comparability: Easier to compare bank health globally.

Governance, Models, and Controls:

The ECL framework significantly elevates the importance of governance and internal controls within banks:

- Board and Senior Management Oversight over model assumptions, scenarios, and risk appetite.
- Independent Model Validation to address Model Risk and Bias.
- Robust Data Infrastructure to support granular, borrower-level analysis.
- Audit and Compliance Reviews to ensure regulatory adherence and transparency.

The role of assurance functions, including internal audit and professional experts such as Cost and Management Accountants, becomes critical in validating assumptions and assessing the prudence of provisioning.

Regulatory Overlays and Floors

- Stage 1 Floor: Generally, 0.4%, with lower rates for MSMEs (0.25%) and higher for unsecured retail (1.0%).
- Stage 2 Floor: Proposed at 5% for most categories, but lower (1.5%) for home and gold loans.
- LGD Backstops: Minimum values of 65% for secured and 70% for unsecured exposures if internal models are unavailable.

Transitional Arrangements and Prudential Safeguards:

Recognizing the complexity and capital impact of ECL adoption, RBI has proposed:

- **A phased transition period** beginning 1 April 2027.

- **Prudential floors** to prevent sharp declines in provisioning compared to existing IRACP norms.
- **Capital adjustment mechanisms** to smooth the impact on regulatory capital ratios.

These measures aim to balance global convergence with domestic financial stability.

Expected Impact on Indian Banks:

The implementation of ECL is expected to have multi-dimensional implications:

- **Higher and more stable provisioning levels** over the credit cycle.
- **Improved** risk pricing and credit discipline.
- **Greater transparency** for regulators, investors, and stakeholders.
- **Short-term pressure on profitability,** offset by long-term resilience.

Banks with strong data, analytics, and governance frameworks are likely to adapt more efficiently.

Conclusion:

The adoption of the Expected Credit Loss framework marks a transformational reform in Indian Banking Regulation. By embedding forward-looking risk assessment into provisioning practices, ECL shifts the focus from reactive loss recognition to proactive risk management. While the transition poses operational, data, and capital challenges, it also presents an opportunity for banks to strengthen governance, enhance credit analytics, and build sustainable balance sheets.

Effective implementation of ECL from 1 April 2027 will require co-ordinated efforts across boards, management, regulators, auditors, and professionals. In the long run, the ECL framework is expected to contribute significantly to the resilience, credibility, and global integration of the Indian banking system under the stewardship of the Reserve Bank of India.

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Sectoral and Segmental Considerations under the Expected Credit Loss (ECL) Framework

Abstract:

The Expected Credit Loss (ECL) framework introduces a forward-looking, risk-sensitive provisioning regime that requires Indian banks to assess credit risk at a granular, portfolio-specific level. While the core principles of ECL are uniform, its application varies significantly across sectors and borrower segments due to differences in cash flow patterns, collateral structures, credit cycles, data availability, and regulatory treatments.

Effective from 1 April 2027, the implementation of ECL in India necessitates careful calibration across major lending segments such as corporate and infrastructure finance, MSMEs, retail and housing loans, agricultural credit, and specialized institutions including small finance banks and regional rural banks.

This Article examines the key sectoral and segmental considerations relevant to ECL provisioning, highlighting methodological challenges, risk sensitivities, and prudential implications for Indian banks.

Keywords: Expected Credit Loss, Sectoral Analysis, Segmental Provisioning, Credit Risk Modelling, Indian Banking, Retail Loans, MSME Finance, Agricultural Credit

The Expected Credit Loss framework represents a shift from uniform, rule-based provisioning towards differentiated, risk-sensitive provisioning based on expected outcomes. Under ECL, banks must estimate credit losses considering borrower characteristics, portfolio behaviour, and forward-looking macroeconomic factors. As a result, ***sectoral and segmental differentiation becomes central to accurate ECL measurement.***

Indian Banks operate in a diverse credit landscape encompassing large corporates, infrastructure projects, MSMEs, retail borrowers, agricultural households, and priority sector segments. Each of these segments exhibits distinct risk drivers and credit cycles, necessitating customized ECL methodologies. The sectoral application of ECL from 1 April 2027 will therefore significantly influence provisioning levels, lending strategies, and risk management practices.

Corporate and Large Borrower Segment:

a) Credit Characteristics:

Corporate loans, particularly to large borrowers, are characterized by:

- Higher ticket sizes.
- Concentration risk.
- Sensitivity to business cycles and commodity prices.

ECL provisioning for this segment is heavily influenced by borrower financials, internal ratings, and sectoral outlook.

b) ECL Methodological Considerations:

- **Probability of Default (PD)** models rely on rating migration and financial ratios.
- **Loss Given Default (LGD)** depends on collateral enforceability, security structure, and recovery mechanisms such as IBC, 2016.
- **Stage migration** can be abrupt due to sudden rating downgrades.

Corporate portfolios are therefore prone to provisioning volatility under ECL, particularly during economic downturns.

Under the Reserve Bank of India's (RBI) new Expected Credit Loss (ECL) framework, effective **April 1, 2027**, Indian commercial banks must incorporate specific **Sectoral and Segmental Considerations** when calculating credit loss provisions. This shift from an "incurred loss" model requires banks to adopt a forward-looking, risk-based approach, involving detailed segmentation of their loan portfolios to estimate potential losses more accurately.

Infrastructure and Project Finance:

a) Unique Risk Profile:

Infrastructure loans involve:

- Long tenors.
- High initial leverage.
- Dependence on project cash flows.

Delays in project execution or regulatory approvals can significantly affect ECL estimates.

b) Sector-Specific ECL Challenges:

- Lifetime ECL often becomes relevant early due to long maturities.
- Forward-looking scenarios must capture policy, regulatory, and demand risks.
- LGD estimation is complex due to specialized assets.

Banks must exercise heightened prudence and apply conservative overlays for this segment.

Micro, Small and Medium Enterprises (MSMEs):

a) Credit Behaviour:

MSME lending is characterized by:

a) Limited financial disclosure.

b) Higher sensitivity to economic shocks.

c) Dependence on cash flows rather than collateral.

b) ECL Implications:

- PD estimation often relies on proxy indicators such as turnover, GST data, and repayment behaviour.
- SICR identification may occur earlier due to volatility in cash flows.
- ECL may increase provisioning for MSMEs even before accounts become overdue.

This could influence credit pricing and availability, particularly for marginal borrowers.

Retail Loans (Housing, Personal, Auto, Credit Cards):

a) Portfolio Granularity:

Retail portfolios benefit from:

- Large number of homogeneous exposures.
- Rich historical data.
- Predictable behavioural patterns.

b) ECL Methodology:

- Statistical models are widely used for PD estimation.
- Behavioural EAD and prepayment assumptions are critical.
- Macroeconomic variables such as employment and interest rates play a significant role.

While ECL introduces provisioning for performing retail assets, portfolio diversification helps mitigate volatility.

Agricultural and Priority Sector Lending:

a) Structural and Policy Considerations:

Agricultural credit in India has unique features:

- Seasonal cash flows.
- Crop cycles.
- Frequent policy interventions (loan waivers, interest subventions).

b) ECL Challenges:

- Default definitions differ from standard norms.
- Historical loss data may be distorted by policy measures.
- Forward-looking scenarios must incorporate climatic and policy risks.

Banks may need to apply standardized approaches or regulatory guidance to ensure consistency.

Sectoral and Segmental Considerations

Banks are required to develop their own internal models for measuring ECL, but the draft guidelines specify certain prudential floors and allow for differentiation based on specific asset classes and inherent sectoral risks.

- **Retail vs. Corporate:** The framework necessitates different modelling approaches for retail and non-retail (corporate) exposures due to varying risk profiles and data availability.
- **MSMEs:** Loans to Micro, Small, and Medium Enterprises (MSMEs) are a key focus, and the RBI›s framework is aligned to the unique characteristics of the Indian economy, which includes priority sector lending. The draft norms propose a lower Stage 1 prudential floor of **0.25%** for small and micro enterprises, compared to **0.4%** for general Stage 1 assets.
- **Unsecured Retail Loans:** These loans are considered higher risk and require a higher Stage 1 provisioning floor of **1%**.
- **Secured Loans:** For specific secured asset classes like home loans, loans against property (LAP), and gold loans, the Stage 2 provisioning floor is lower at **1.5%**, while for most other categories it is **5%**.
- **Real Estate:** This is a sector with unique cyclical risks that banks must specifically account for in their forward-looking models using relevant macroeconomic variables.

Specialized Institutions and Smaller Banks:

a) Small Finance Banks and Regional Rural Banks:

These institutions:

- Have concentrated portfolios.
- Operate in geographically limited areas.
- Serve higher-risk borrower segments.

ECL implementation may pose disproportionate challenges due to limited data and modelling capacity.

b) Prudential Expectations:

Regulatory guidance, simplified approaches, and prudential floors will be critical to prevent undue stress on these institutions.

Sectoral Impact on Lending Strategy and Credit Allocation:

The differentiated impact of ECL across sectors is likely to influence:

- Portfolio rebalancing towards lower-risk segments.
- More cautious exposure to long-tenor and cyclical sectors.
- Enhanced monitoring of vulnerable sectors.

While this may initially constrain credit to certain segments, it promotes sustainable and risk-aligned lending.

Governance and Disclosure at Segment Level:

ECL requires banks to:

- Monitor provisioning at portfolio and sub-portfolio levels.
- Disclose segment-wise ECL movements.
- Ensure consistency in assumptions across segments.

This enhances transparency but increases reporting complexity.

Key Implementation Aspects

- **Segmentation:** Banks must segment their portfolios based on homogenous risk characteristics to ensure accurate ECL computation (e.g., product type, duration, geography, industry). A single approach for all segments will not suffice.
- **Macroeconomic Overlays:** A critical component is incorporating forward-looking macroeconomic scenarios and relevant variables (MEVs) specific to each sector or segment into the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) calculations.
- **Data & Modelling:** The quality of historical data is paramount for developing robust, sector-specific models. The move encourages the use of advanced data analytics and potentially AI/fintech solutions to manage this complexity.
- **Prudential Floors:** The RBI has prescribed minimum provisioning floors, which act as a regulatory backstop to ensure prudence, especially for Stage 1 and Stage 2 assets across different product types.

This detailed, risk-sensitive approach aims to build a more resilient and transparent banking system aligned with global standards like IFRS 9.

Conclusion:

The implementation of the Expected Credit Loss framework from 1 April 2027 necessitates a nuanced, segment-specific approach to credit risk provisioning in Indian banks. Sectoral diversity, borrower heterogeneity, and policy-driven features of Indian credit markets require careful calibration of ECL models, assumptions, and overlays.

While ECL may initially raise provisioning requirements and influence credit allocation across sectors, its long-term benefit lies in improved risk recognition, stronger balance sheets, and enhanced financial stability. With calibrated guidance and supervisory oversight by the Reserve Bank of India, sectoral and segmental ECL implementation can support both prudential soundness and inclusive credit growth in India.

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Impact on Banks and the Financial Sector of Expected Credit Loss (ECL) Provisions

Abstract:

The proposed implementation of the Expected Credit Loss (ECL) framework in Indian banks from 1 April 2027 represents a structural reform with far-reaching implications for banks and the broader financial sector. By introducing forward-looking, probability-weighted provisioning across all stages of credit exposure, ECL alters not only accounting practices but also credit risk management, capital planning, profitability dynamics, and market discipline.

This article analyses the multifaceted impact of ECL on banks' balance sheets, earnings volatility, capital adequacy, lending behaviour, governance standards, and financial system stability. It further examines sector-wide implications for credit availability, investor confidence, and macro-financial resilience, highlighting both transitional challenges and long-term benefits.

Keywords: Expected Credit Loss, ECL Impact, Banking Stability, Capital Adequacy, Credit Risk Management, Financial Sector Reforms, Indian Banks.

The adoption of the Expected Credit Loss (ECL) framework marks one of the most significant prudential reforms in Indian banking since the introduction of asset classification and provisioning norms. Under the ECL regime, banks are required to recognize credit losses based on expected outcomes rather than incurred events, thereby embedding forward-looking risk assessment into financial reporting and prudential regulation.

Effective from 1 April 2027, ECL is expected to materially influence how Indian banks price risk, manage capital, recognize income, and respond to emerging credit stress. Beyond individual institutions, the reform will shape systemic resilience, market confidence, and the overall efficiency of financial intermediation in India.

On October 7, 2025, the Reserve Bank of India (RBI) issued draft guidelines for Scheduled Commercial Banks (SCBs) and All India Financial Institutions (AIFIs) to implement an **Expected Credit Loss (ECL)** framework starting **April 1, 2027**. This forward-looking model replaces the current "incurred loss" system, where banks only provide for losses after a default occurs.

Impact on Bank Balance Sheets and Profitability:

a) Increase in Provisioning Levels:

One of the most immediate impacts of ECL implementation will be a structural increase in provisioning, particularly for:

- Long-tenor retail loans.
- Infrastructure and project finance exposures.
- Portfolios with latent credit risk.

Even performing assets will carry a minimum level of expected loss provisions, resulting in higher impairment allowances compared to the incurred loss model.

b) Earnings Volatility:

ECL introduces sensitivity of provisions to:

- Changes in macroeconomic forecasts.
- Sectoral outlook revisions.
- Credit rating migrations.

This may lead to greater short-term volatility in profit and loss accounts. However, over a full credit cycle, ECL is expected to smooth earnings, as provisions are built progressively rather than concentrated at the point of default.

c) Impact on Return Metrics:

Higher and earlier provisioning may temporarily compress:

- Return on Assets (RoA).
- Return on Equity (RoE).

Banks with strong risk management practices and diversified portfolios are likely to adapt more effectively and restore profitability over time.

Impact on Capital Adequacy and Risk Appetite:

a) Capital Consumption:

ECL provisions are charged against retained earnings, directly affecting:

- Common Equity Tier 1 (CET1) Capital.
- Overall Capital Adequacy Ratios.

Although transitional arrangements mitigate the immediate impact, banks with thin capital buffers may face constraints on growth or dividend distribution.

b) Enhanced Capital Planning Discipline:

- The forward-looking nature of ECL compels banks to:
- Integrate credit risk modelling with capital planning.
- Conduct stress testing linked to macroeconomic scenarios.
- Align growth strategies with capital sustainability.

This results in more disciplined balance sheet expansion and improved long-term resilience.
Impact on Credit Pricing and Lending Behaviour:

Risk-Based Pricing of Loans: Under ECL, the cost of expected losses becomes more transparent and quantifiable. This is likely to encourage:

More granular, risk-based loan pricing.

Differentiation across borrowers, sectors, and tenors.

High-risk segments may face higher borrowing costs, while well-rated borrowers may benefit from more competitive pricing.

Portfolio Rebalancing: Banks may rebalance portfolios away from:

Highly cyclical or opaque sectors.

Borrowers with limited data or weak governance.

This could initially constrain credit flow to certain segments but improve overall asset quality and sustainability.

Key Components of the ECL Model

Under the new framework, banks must estimate potential losses using three primary metrics:

- **Probability of Default (PD):** The likelihood of a borrower defaulting.
- **Loss Given Default (LGD):** The percentage of exposure likely to be lost if default occurs.
- **Exposure at Default (EAD):** The total amount at stake at the time of default.

Loans will be classified into three stages based on credit risk:

- **Stage 1:** No significant increase in risk; provisions based on 12-month expected losses.
- **Stage 2:** Material increase in risk (e.g., overdue by 30+ days); requires **lifetime** ECL provisioning.
- **Stage 3:** Credit-impaired assets (NPAs); requires lifetime provisioning.

Impact on Credit Risk Management and Governance:

a) Strengthening of Risk Management Frameworks:

ECL elevates credit risk management from a compliance function to a strategic capability. Banks will need to:

- Develop robust Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) models.
- Embed early warning systems and forward-looking indicators.
- Improve data governance and analytics.

b) Enhanced Board and Management Oversight:

Boards and senior management will play a more active role in:

Approving ECL methodologies and assumptions.

Reviewing provisioning outcomes and overlays.

Ensuring alignment with risk appetite.

This strengthens governance standards across the banking sector.

Impact on Financial Reporting, Transparency, and Market Discipline:

a) Improved Transparency:

ECL requires extensive disclosures on:

- Credit risk profiles.
- Stage-wise provisioning.
- Macroeconomic assumptions and sensitivities.

These disclosures enhance transparency for investors, analysts, and regulators.

b) Investor Confidence and Comparability:

Forward-looking provisioning improves:

- Credibility of financial statements.
- Comparability with global banks.
- Investor confidence in the resilience of Indian banks.

Over time, this may lower funding costs and enhance access to global capital markets.

Impact on the Broader Financial Sector:

a) Systemic Stability:

At a systemic level, ECL contributes to:

- Earlier recognition of stress.

- Stronger loss-absorbing buffers.
- Reduced likelihood of abrupt banking crises.

This enhances the overall stability of the financial system.

b) Pro-Cyclicality versus Counter-Cyclicality:

While ECL may introduce short-term sensitivity to economic outlook changes, its forward-looking provisioning helps build buffers in good times, thereby acting as a counter-cyclical stabilizer over the long run.

c) Spillover Effects on NBFCs and Financial Markets:

The adoption of ECL by banks may:

- Influence provisioning and risk management practices of NBFCs.
- Set higher benchmarks for credit discipline.
- Improve overall credit market efficiency.

Impact on Banks and the Financial Sector

- **Provisioning & Profitability:** Banks will see a one-time increase in provisioning requirements, estimated to be between **₹ 60,000 crore to ₹ 1 lakh crore** across the sector. The most significant impact is expected in **Stage 2 Assets**, where provisioning could jump from 0.4% to a proposed 5% floor.
- **Capital Adequacy (CET1):** Implementation is expected to reduce Common Equity Tier 1 (CET1) capital ratios by an estimated **55 to 100 basis points** over the transition period. To mitigate this, the RBI has provided a **five-year glide path** (through March 31, 2031) to phase in the capital impact.
- **Asset Pricing & Credit Culture:** ECL will likely lead to more **risk-sensitive pricing**, where higher-risk segments face higher loan costs upfront to cover expected losses.
- **Global Alignment:** This shift aligns Indian banking with global standards like **IFRS 9**, making Indian bank financials more comparable to international peers and potentially boosting investor confidence.
- **Inclusions & Exclusions:** The framework applies to SCBs but currently **excludes** Regional Rural Banks (RRBs), Small Finance Banks (SFBs), and Payment Banks. Notably, non-funded exposures like **bank guarantees** and unutilized credit limits will now require provisioning.

Transitional Challenges and Uneven Impact:

Not all banks will be impacted uniformly. Challenges include:

- Smaller banks facing data and modelling constraints.
- Sector-specific stress amplifying provisioning volatility.
- Managing stakeholder expectations during transition.

Regulatory guidance and capacity-building initiatives will be critical in addressing these disparities.

Long-Term Benefits to the Indian Financial System:

Despite transitional challenges, the long-term benefits of ECL include:

- Improved asset quality and credit discipline.
- Reduced accumulation of hidden stress.
- Enhanced global credibility of Indian banking regulation.

Over time, ECL is expected to support sustainable credit growth aligned with economic fundamentals.

Conclusion:

The implementation of Expected Credit Loss provisions from 1 April 2027 represents a transformative milestone for Indian banks and the financial sector. While ECL will initially increase provisioning requirements, influence profitability, and demand significant enhancements in risk management capabilities, it ultimately strengthens the foundations of banking stability and transparency.

By aligning provisioning with forward-looking risk assessment, ECL encourages prudent lending, robust capital planning, and improved governance. With calibrated transitional arrangements and vigilant supervision by the Reserve Bank of India, the ECL framework is poised to enhance the resilience, credibility, and long-term sustainability of India's banking and financial system.

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Key Concepts and Methodology of Expected Credit Loss (ECL) Provisions

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Abstract:

The introduction of the Expected Credit Loss (ECL) framework marks a fundamental shift in credit impairment recognition for Indian banks. Moving away from the traditional incurred loss approach, ECL requires banks to recognize credit losses on a forward-looking and probability-weighted basis. Effective from 1 April 2027, as proposed by the Reserve Bank of India, this framework emphasizes early identification of credit deterioration, integration of macroeconomic expectations, and risk-sensitive provisioning.

This Article examines the key concepts underpinning the ECL framework and elaborates on the methodological aspects of ECL measurement, including staging criteria, significant increase in credit risk, probability of default, loss given default, exposure at default, and scenario-based estimation. The article also highlights methodological challenges and the prudential considerations relevant to Indian banks.

Keywords: Expected Credit Loss, ECL Methodology, Credit Risk Modelling, Probability of Default, Loss Given Default, Exposure at Default, Indian Banking Regulation.

Credit provisioning frameworks define how banks recognize potential losses arising from lending activities. Under the existing Income Recognition, Asset Classification and Provisioning (IRACP) norms, Indian banks follow an incurred loss model, wherein provisions are triggered only after objective evidence of impairment or default is observed. While this approach provides clarity and regulatory simplicity, it delays loss recognition and weakens early warning mechanisms.

The proposed Expected Credit Loss (ECL) framework represents a conceptual shift by requiring banks to estimate and recognize expected losses over the life of a financial exposure, incorporating forward-looking information. With implementation scheduled from 1 April 2027, ECL will significantly alter credit risk measurement, provisioning methodology, and financial reporting practices of Indian banks.

The Reserve Bank of India (RBI) is implementing the **Expected Credit Loss (ECL)** framework for Scheduled Commercial Banks in India, effective **April 1, 2027**, to replace the current 'incurred loss' model. This forward-looking approach aims to enhance financial stability by mandating earlier and more dynamic provisioning for potential credit losses.

Core Concept of Expected Credit Loss:

Definition of Expected Credit Loss:

Expected Credit Loss represents the **probability-weighted estimate of credit losses** over a defined time horizon, discounted to the reporting date. Credit loss is defined as the difference between contractual cash flows due to the bank and the cash flows that the bank expects to receive.

Unlike deterministic provisioning, ECL captures:

- Multiple possible default outcomes.
- Timing of cash shortfalls.
- Impact of economic conditions.

b) Forward-Looking Orientation:

A central conceptual pillar of ECL is its forward-looking nature. Banks are required to consider not only historical credit loss experience but also current conditions and reasonable forecasts of future economic scenarios. This ensures that provisioning reflects emerging risks rather than past events alone.

Three-Stage Impairment Model-Conceptual Framework:

The ECL methodology is operationalized through a three-stage impairment approach, which links credit risk deterioration to provisioning intensity.

a) Stage 1-Performing Assets:

- Assets that have not experienced a significant increase in credit risk since initial recognition.
- Provisioning is based on 12-month ECL, representing losses arising from default events possible within the next 12 months.
- Interest income is calculated on the gross carrying amount.

This stage ensures that even newly originated loans carry a minimum level of prudential provisioning.

b) Stage 2-Assets with Significant Increase in Credit Risk (SICR):

- Assets that show material deterioration in credit risk since origination but are not credit-impaired.
- Provisioning shifts to lifetime ECL, covering expected losses over the remaining contractual life.
- Interest income continues on the gross amount.

This stage serves as an early warning buffer and captures incipient stress well before default.

c) Stage 3-Credit-Impaired Assets:

- Assets where default has occurred or credit impairment is evident.
- Lifetime ECL is recognized.
- Interest income is recognized on the net carrying amount (after provisions).

This stage broadly aligns with the existing concept of Non-Performing Assets, though provisioning is more analytically driven.

Key Concepts

- **Shift from Incurred Loss:** The current system recognizes losses only after a default event has occurred. The ECL framework requires banks to anticipate potential losses based on future expectations, current conditions, and historical data.
- **Forward-looking Approach:** Banks must use forward-looking macroeconomic scenarios (e.g., GDP growth, unemployment rates) to estimate potential losses, making provisions more sensitive to economic cycles.
- **Alignment with Global Standards:** This move brings Indian banking regulations in line with global accounting standards, specifically IFRS 9 (International Financial Reporting Standard 9).
- **Transitional Arrangement:** A glide path until **March 31, 2031**, will allow banks to phase out the impact of additional provisioning on their Common Equity Tier 1 (CET1) capital, ensuring a smooth transition.

Significant Increase in Credit Risk (SICR): Methodological Considerations:

Determining SICR is one of the most critical and judgment-intensive aspects of ECL methodology.

a) Quantitative Indicators:

- Deterioration in internal or external credit ratings.
- Increase in Probability of Default beyond defined thresholds.
- Movement across risk grades or score bands.

b) Qualitative Indicators:

- Adverse changes in borrower's business or financial profile.
- Restructuring or forbearance measures.
- Sectoral stress signals.

Backstop Indicators:

- Presumptive SICR if contractual payments are overdue beyond a specified number of days (Commonly 30 days).

Banks must adopt consistent, well-documented policies to ensure uniform SICR assessment across portfolios.

Methodology and Staging

The ECL framework mandates a three-stage classification of financial assets based on the change in credit risk since initial recognition:

- **Stage 1: Initial Recognition (No Significant Increase in Credit Risk)**
  - **Provisioning:** Banks recognize 12-month ECLs, which are expected losses from default events possible within the next 12 months.
  - **Prudential Floor:** The draft guidelines propose a floor of around **0.4%** for most assets.
- **Stage 2: Significant Increase in Credit Risk (SICR)**
  - **Provisioning:** If the credit risk has increased significantly since origination but the asset is not yet credit-impaired, banks must recognize **lifetime ECLs. A rebuttable presumption exists for accounts overdue by more than 30 days to be classified in this stage.**
  - **Prudential Floor: A floor of around 5% is proposed for m**ost categories of assets.
- **Stage 3: Credit-Impaired Assets (Default)**
  - **Provisioning:** These are non-performing assets (NPAs), and banks must also recognize lifetime ECLs. The provisioning floors are in line with existing NPA norms and based on the type and duration of default.
  - **Upgradation:** Stage 3 accounts require a **six-month cool-off period** in Stage 2 before they can be upgraded to Stage 1.

Key Parameters in ECL Measurement:

The quantitative backbone of ECL methodology rests on three interrelated risk parameters.

a) Probability of Default (PD):

PD measures the likelihood that a borrower will default over a given time horizon.

- 12-month PD is used for Stage 1 exposures.
- Lifetime PD is used for Stage 2 and Stage 3 exposures.
- PD estimation must incorporate borrower characteristics, rating migration, and macroeconomic adjustments.

b) Loss Given Default (LGD):

LGD represents the proportion of exposure that will not be recovered once default occurs.

Key considerations include:

- Collateral value and enforceability.
- Recovery timelines and costs.
- Legal and resolution framework.

In the Indian context, LGD estimation must consider recovery mechanisms such as SARFAESI, IBC, 2016 and compromise settlements.

c)Exposure at Default (EAD):

EAD estimates the expected outstanding exposure at the time of default.

- Includes funded outstanding balances.
- Adjusted for expected drawdowns on undrawn commitments.
- Requires credit conversion factors for off-balance-sheet exposures.

Role of Macroeconomic Scenarios and Probability Weighting:

ECL requires banks to consider multiple forward-looking macroeconomic scenarios, such as:

- Baseline.
- Upside.

- Downside or stress scenario.

Each scenario is assigned a probability, and ECL is computed as a weighted average of losses across scenarios. This approach improves resilience but also introduces modelling complexity and governance challenges.

Discounting and Time Value of Money:

Expected Credit Losses must be discounted using the effective interest rate (EIR) of the financial asset. This ensures that:

- Timing of cash shortfalls is properly reflected.
- Long-dated exposures do not distort provisioning.

Discounting is a key methodological difference from traditional provisioning practices.

Methodological Challenges for Indian Banks:

Implementation of ECL poses several challenges:

- Availability and quality of long-term historical data.
- Integration of risk models with core banking systems.
- Consistency across portfolios and business lines.
- Model risk, bias, and validation.

Strong governance frameworks and professional oversight are essential to mitigate these challenges.

Calculation Parameters

The calculation of ECL is based on three core components:

- **Probability of Default (PD):** An estimate of the likelihood of a borrower defaulting over a given period, incorporating both through-the-cycle and point-in-time approaches.
- **Loss Given Default (LGD):** The magnitude of loss expected if a default occurs, considering collateral valuation and recovery expectations. Regulatory backstops of **65%** for secured and **70%** for unsecured exposures can be used if internal estimates are unavailable.
- **Exposure at Default (EAD):** The total exposure (funded and off-balance sheet) the bank would have at the time of default.

The general formula for ECL is the product of these parameters across various macroeconomic scenarios: **ECL = PD x LGD x EAD.**

Prudential Orientation of RBI's ECL Framework:

While conceptually aligned with international standards, the Indian ECL framework retains a prudential regulatory orientation, with:

- Regulatory floors on provisions.
- Transitional arrangements.
- Supervisory review of models and assumptions.

This ensures that methodological flexibility does not dilute prudence.

Conclusion:

The Expected Credit Loss framework represents a methodological transformation in how Indian banks measure and recognize credit risk. By integrating forward-looking information, risk-sensitive staging, and probabilistic modelling, ECL moves provisioning from a rule-based compliance exercise to a core element of enterprise risk management.

Successful implementation from 1 April 2027 will depend on robust data infrastructure, sound modelling practices, and strong governance under the oversight of the Reserve Bank of India. In the long term, ECL is expected to improve credit discipline, enhance transparency, and strengthen the resilience of the Indian banking system.

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Policy and Industry Response to Expected Credit Loss (ECL) Provisions

Abstract:

*The Reserve Bank of India's (RBI) announcement to implement an **Expected Credit Loss (ECL)** provisioning framework from **1 April 2027** marks a major policy shift in India's banking prudential norms. Designed to replace the traditional incurred loss approach under the Income Recognition, Asset Classification and Provisioning (IRACP) regime, ECL aims to strengthen forward-looking risk recognition, align domestic standards with global best practices, and enhance banking sector resilience. This article examines policy motivations, the supervisory and consultative process, industry responses, concerns raised by banks and analysts, and the broader implications for the Indian financial system.*

It assesses the preparedness of banks in aligning their practices with the new regulations, identifies challenges such as data quality, credit risk modelling, and the impact on capital adequacy ratios, and discusses the potential impact on the banking ecosystem and broader economic stability. Additionally, it highlights the role of technology and innovative solutions in facilitating the smooth transition to ECL adoption.

Key Words: *Expected Credit Loss (ECL), IFRS 9, Reserve Bank of India (RBI), Credit Risk Management, Indian Commercial Banks, Financial Reporting, Capital Adequacy, Credit Loss Provisions, Regulatory Compliance, Banking Sector Policy, Data Quality, Financial Stability, Technological Solutions in Banking, Economic Impact of ECL, Risk-based Provisioning.*

Policy Rationale Behind the ECL Framework: The RBI has driven the shift to an ECL framework to **improve credit risk management**, increase transparency in loss provisioning, and bring Indian banks closer to international standards such as those embedded in global accounting norms like IFRS 9. Under the existing incurred loss model, credit losses are recognised only after a default event, which can delay loss recognition and understate risks during credit cycles. ECL, in contrast, requires banks to estimate **probability-weighted credit losses** over the life of exposures, incorporating forward-looking macroeconomic scenarios. This change is expected to make loss provisioning timelier, risk-sensitive, and comparable across institutions.

As per the RBI's announcement, the ECL framework will be applicable to Scheduled **Commercial Banks and select All India Financial Institutions (AIFIs)** w.e.f. 1 April 2027, with a glide path until March 2031 to moderate the transitional impact on existing books.

Consultative and Supervisory Approach:

The RBI has taken a consultative approach to the ECL rollout. Draft guidelines were issued well before the final implementation date, with inputs sought from banks, rating agencies, accounting bodies, and industry stakeholders. The consultative process involved forming working groups to recommend methodological standards for ECL measurement, segmentation, and model validation. Many of these recommendations have been factored into the RBI's draft Directions on Asset Classification, Provisioning and Income Recognition.

A key element of the policy design is the glide path for provisioning adjustments. Given that ECL is likely to lead to higher aggregate provisions initially, banks will be permitted to spread the impact over a period ending March 2031 to ease pressure on capital and

earnings. This transitional arrangement reflects RBI's intent to balance prudence with financial stability.

The **Reserve Bank of India (RBI)** has introduced a comprehensive **Expected Credit Loss (ECL)** framework for commercial banks, effective **April 1, 2027**. This policy shifts from a reactive 'incurred loss' model to a proactive, forward-looking approach to credit provisioning, largely aligning Indian standards with global norms like IFRS 9.

Industry Feedback and Preparedness:

- **Banking Sector Readiness:** Indian banks have generally acknowledged the ***need for forward-looking provisioning,*** especially after global experiences where delayed recognition of credit stress adversely impacted financial stability. Many large banks have already begun building internal credit risk models, driven partly by IND-AS accounting requirements for non-bank financial companies (NBFCs) and IFRS 9-aligned demands. As a result, some lenders, particularly large private sector banks are better prepared for the transition.

However, industry feedback has also highlighted operational and implementation challenges:

- Need to enhance data quality and risk modelling capabilities across portfolios.
- Uncertainties around macro scenario selection and calibration.
- Requirement for robust governance and model validation frameworks Stakeholders emphasise that these capabilities vary significantly across banks, especially between large banks and smaller or regional institutions, prompting calls for tailored supervisory guidance and capacity building.

- **Capital and Profitability Considerations:** Analysts and rating agencies have noted that the ECL transition may exert ***pressure on capital adequacy***. According to independent estimates, the shift to ECL norms could reduce banks' ***Common Equity Tier 1 (CET1)*** ratios by approximately ***40-70 basis point***s, with public sector banks potentially facing greater impact due to higher risk-weighted exposures.

  Banks have welcomed transitional provisions, including the ability to add back the difference between ECL provisions and current incurred-loss provisions to CET1 capital initially and phase it out by 2031. This regulatory relief helps manage the near-term capital impact and supports a smoother transition.

- **Market and Analyst Perspectives:** Market analysts have offered mixed yet constructive views. Some see the ECL regime as an opportunity for Indian banks to ***modernise credit risk practices***, improve transparency, and align with global peers—a development that could strengthen investor confidence and comparability across financial institutions. Reports have highlighted that well-capitalised banks with strong provisioning buffers are likely to absorb the initial impact with relative ease.

  Brokerage reports recommending investments in select banks (e.g., large, well-managed public and private sector banks) suggest that ***market participants view the transition as manageable*** for robust institutions, given their existing provisioning coverage and risk management frameworks.

Policy and Regulatory Framework

The RBI released the draft "Directions on Asset Classification, Provisioning and Income Recognition" on **October 7, 2025**, which outlines the new ECL framework.

- **Objective**: To strengthen the financial system by mandating earlier recognition of potential credit losses, thereby enhancing transparency, risk management, and overall resilience to economic shocks.
- **Scope**: The framework applies to all Scheduled Commercial Banks (SCBs) and All India Financial Institutions (AIFIs), but excludes Regional Rural Banks (RRBs), Small Finance Banks (SFBs), and Payments Banks.
- **Key Requirement**: Banks must classify loans into three stages based on credit risk and use forward-looking parameters like Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) to calculate provisions.
- **Transition**: A "glide path" is provided until **March 31, 2031**, allowing banks to add back the one-time difference in provisioning to their Common Equity Tier 1 (CET1) capital, phasing out the benefit gradually to prevent sudden capital strain.

Concerns and Criticisms from Industry:

Despite broad support for modernised provisioning, some industry voices have raised concerns:

- **Implementation Timeline and Preparedness:** Certain industry players have remarked that the timeline for full ECL implementation may be ***ambitious***, particularly for banks with limited modelling expertise or weaker data infrastructure. Delays in finalisation of detailed guidelines have been welcomed by some banks as providing ***additional runway*** to prepare systems and processes.

- **Impact on Credit Supply and Pricing:** There is a concern that higher expected provisions could result in more conservative c***redit underwriting and tighter pricing***, potentially affecting credit availability for riskier borrower segments. While forward-looking provisioning enhances prudence, it may also raise lending costs, especially for unsecured or small and medium enterprise (SME) exposures.

- **Regulatory Calibration:** Industry participants emphasise the need for ***clear, consistent, and practical supervisory guidance*** on ECL calculation, including SICR triggers, macroeconomic scenario frameworks, and disclosure standards. Enhanced clarity will be critical for effective implementation without unintended consequences.

Broader Policy and Financial System Impacts:

From a policy perspective, the shift to ECL is part of the RBI's broader agenda to ***strengthen resilience, risk sensitivity, and transparency*** in the banking sector. By mandating forward-looking loss recognition and robust governance expectations, the ECL framework complements other regulatory reforms such as revised Basel III credit risk standards and improved risk management norms.

While the transitional impact may modestly compress near-term profitability for some banks, the long-term benefits are expected to manifest through ***earlier stress recognition, reduced pro-cyclicality, and stronger loss absorption buffers.*** The framework also enhances comparability with global banks, potentially making Indian lenders more attractive to international capital.

Industry Response and Preparedness

The Indian banking industry generally supports the move towards a globally aligned, risk-sensitive framework but has noted several implementation challenges and requested certain relaxations.

- **General Reception**: The shift is viewed as a significant regulatory upgrade that will improve comparability of Indian banks' financials globally and foster a culture of proactive risk management.
- **Impact on Provisions and Capital**: A one-time increase in provisioning requirements is expected, particularly for Stage 2 assets (loans with a significant increase in credit risk but not yet impaired). Analysts and large banks generally expect the impact on core capital (CET1 ratios) to be manageable, given current robust capital buffers.
- **Key Challenges**:
  - **Data and Modelling**: A major hurdle is the need for extensive historical and macroeconomic data, sophisticated IT infrastructure, and specialized expertise for robust ECL model development and validation.
  - **Profitability Pressure**: The initial higher provisioning may slightly impact near-term profitability and could lead to increased loan pricing (around 5-10 bps) for some segments.
  - **Prudential Floors**: Banks have urged the RBI to reconsider or lower the proposed 5% provisioning floor for most Stage 2 loans, arguing it may be too high for certain secured asset classes like home or gold loans and could restrict lending.
  - **Preparation**: Many banks, especially the larger ones, are actively preparing by enhancing their data quality, developing internal models, conducting impact assessments, and strengthening their governance frameworks. Some have already started creating contingent or additional provisions to smoothen the transition.

Conclusion:

The policy response to the introduction of the Expected Credit Loss framework in India reflects a deliberate and consultative regulatory approach aimed at enhancing credit risk management while safeguarding financial stability.

Industry reactions have been broadly supportive of the objectives, though tempered with calls for detailed guidance, phased implementation, and capacity building, especially for smaller banks.

The anticipated impact on capital adequacy, provisioning levels, and credit risk culture will vary across institutions. With strong supervisory oversight by the Reserve Bank of India and active engagement with industry stakeholders, the ECL regime is poised to modernise credit provisioning norms and contribute to a more resilient Indian banking system.

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'ECL Provisions'- Forecasting the PD for Banks'

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Abstract:

Probability of Default (PD) is crucial in Indian Banks' Expected Credit Loss (ECL) provisions because it is a Key Predictive Factor for forward-looking provisioning under the Ind-AS 109 Accounting Standards, moving Banks from an "Incurred Loss" Model to one that Anticipates Losses.

PD helps Banks estimate the likelihood of a Borrower defaulting over a specific time, which is used to Forecast Potential Losses and manage Credit Risk more proactively, enabling Early Recognition of Credit Deterioration and more informed Lending Decisions.

PD is the Central Element that drives the Proactive and Risk-sensitive nature of the ECL framework, enabling Indian Banks to better manage Credit Risk and enhance Financial Stability.

Abbreviations:

EAD=Exposure at Default.

ECL=Expected Credit Loss.

FVOCI= Fair Value Through Other Comprehensive Income.

Ind AS=Indian Accounting Standards.

IRB=Internal Ratings-Based.

LGD=Loss Given Default (LGD).

PD = Probability of Default.

SMA=Special Mention Accounts.

HTM=Held to Maturity.

Probability of Default (PD) is a critical metric used by Indian Banks to estimate the likelihood of a borrower or debt issuer failing to meet their financial obligations within a Specific Timeframe, typically One Year. Its application and Calculation Methods differ significantly between Loans and Advances and Held to Maturity (HTM) Investments, largely due to differences in Data Availability, Regulatory Treatment, and Asset Type.

a) Probability of Default (PD) in Bank Loans and Advances: For Loans and Advances, PD is a cornerstone of Credit Risk Management and is used to determine Loan Pricing, Capital Allocation, and Provisioning for potential losses.

Calculation Methods:

Indian Banks primarily use the following methods for Estimating PD, often within the framework of Basel III Norms.

- ***Internal Ratings-Based (IRB) Approach:*** Larger, Sophisticated Banks use the IRB Approach, which involves developing their own Statistical Models based on ***Extensive Historical Data***. These models analyse:
  - Borrower-specific Factors: Credit History (e.g., CIBIL Scores for Retail Borrowers), financial health (cash flow, leverage, profitability), and management quality.
  - Loan-specific Factors: Loan Amount, Maturity, and whether it is secured by Collateral.
  - Macroeconomic Factors: General Economic Conditions (GDP Growth, Industry Outlook) and their potential impact on borrower solvency.
- ***Credit Scoring Models:*** For Retail and SME Segments,

Standardized Credit Scoring Models are widely used to assign a Score, which is then mapped to a Specific PD.

- ***Historical Default Rates:*** For Corporate Borrowers or Specific Industries, Banks may use Historical default rates published by Credit Rating Agencies like CRISIL, mapping their Internal Ratings to these External Benchmarks.

Banks can efficiently use the patterns of changes in Internal Credit Ratings to forecast the likelihood of Default on Corporate Loans. This Approach allows them to more proactively detect Credit Deterioration and prepare appropriate Forward-looking Loss Provisions.

Regulatory Framework (RBI):

The Reserve Bank of India (RBI) mandates that banks maintain robust systems for Credit Risk Assessment. The recent push towards the Expected Credit Loss (ECL) regime (moving from an "Incurred Loss" Model) requires banks to make forward-looking provisions based on estimated future losses, where PD is a Key Input along with Loss Given Default (LGD) and Exposure at Default (EAD).

Probability of Default (PD) in Held to Maturity (HTM) Investments:

HTM Investments primarily consist of High-quality debt securities, most commonly Government Securities (G-Secs), which Banks intend to hold until maturity.

Calculation and Risk Profile:

- ***Low PD:*** Sovereign Debt (G-Secs) generally carries a very Low or Near-zero probability of default, as governments are typically considered the most creditworthy entities in their own currency.
- ***Accounting Treatment:*** A key characteristic of the HTM Category is that these investments are generally not "Marked to Market." They are held at amortized cost on the balance sheet, and temporary fluctuations in market prices (and thus market-implied PDs) are typically ignored.
- ***Impairment:*** While the explicit Calculation of a Granular PD for each G-Sec is less emphasized than for a Corporate Loan, Banks are still required to assess "other than temporary" diminution in value and make provisions if the issuer's creditworthiness significantly deteriorates.
- ***Corporate Bonds:*** If a Bank holds Corporate Bonds in the HTM Category, the PD of the Corporate Issuer is assessed using methods similar to those for loans, relying on Credit Ratings and financial analysis.

Regulatory Framework (RBI):

The RBI sets Specific Guidelines for HTM.

- ***Classification:*** The Classification into HTM must be made with the clear intention and ability to hold the securities until maturity.
- ***Exemptions***: The RBI has, at times, removed the cap on how much a bank can invest in G-Secs under the HTM category to encourage banks to absorb government debt, reflecting the low perceived risk of these assets.

Summary of Differences:

Feature	Loans and Advances	Held to Maturity (HTM) Investments
Asset Type	Diverse (Retail, Corporate, etc.).	Primarily Government Securities, some Corporate Bonds.
PD Estimation	Granular, using Internal Models / Credit Scores.	Generally Low / Negligible for G-Secs; based on Ratings for Corporate Bonds.
Regulatory Focus	Primary Focus for ECL provisioning and capital adequacy.	Focus on Holding Intent and "Other than Temporary" impairment.
Data Source	Internal Data, Credit bureaus, financial statements.	Credit Rating Agencies, market data (Yields).

How to Arrive Probability of Default (PD)?

Indian Banks use various models, including logistic regression, credit scoring, and market-implied PDs, to estimate the Probability of Default (PD) for both loans and advances and Held to Maturity (HTM) investments.

a) Probability of Default (PD) for Bank Loans and Advances:

For loans and advances, the Reserve Bank of India (RBI) has introduced the Expected Credit Loss (ECL) framework under Indian Accounting Standards (Ind AS 109), which requires banks to provision for expected losses from the time a loan is originated, rather than waiting for an actual default.

Practical Examples and Methods Include:

- ***Statistical Models (e.g., Logistic Regression):*** Banks collect historical data on borrower characteristics (Credit Scores, income, Debt-to-income Ratio, Repayment History) and use statistical models like logistic regression to determine the likelihood of future default.

Example: A model might determine that a borrower with a Credit Score below 550 and a High Debt-to-Income ratio has a High PD (e.g., 10%) compared to a borrower with a Score of 750 and Low Leverage (e.g., 0.5% PD).

- ***Credit Scoring Models***: For retail and SME portfolios, banks use internal or vendor-supplied credit scores. These scores are mapped to a PD using historical default data.

- ***Internal Ratings-Based (IRB) Approach:*** For large corporate assets, some advanced Indian Banks use internal models to estimate PD based on Maximum Likelihood Estimators (MLE) from model-wise default rates.

- ***Special Mention Accounts (SMA):*** In practice, the risk of a loan increases as it moves through "Special Mention Accounts" (SMA-0: 0-30 days overdue; SMA-1: 31-60 days overdue; SMA-2: 61-90 days overdue). If a loan crosses 90 days past due, it's tagged as a Non-Performing Asset (NPA), signifying default. The PD estimation process accounts for this deterioration in credit quality.

- ***Macroeconomic Factors***: Economic conditions (GDP Growth, Unemployment Rates) are incorporated into forward-looking PD Models for Stress Testing and overall portfolio management. The recent decline in NPA levels for Indian Banks (from 11.2% in March 2018 to 3.2% in September 2023) due to Economic Recovery and dispute resolution for large projects demonstrates how macroeconomic factors and specific resolutions affect the overall PD of a loan portfolio.

b) Probability of Default (PD) for HTM Investments:

For Held to Maturity (HTM) investments, which typically consist of high-quality government securities and some corporate bonds that banks intend to hold until maturity, the PD estimation is also crucial under Ind AS 109.

- ***Credit Rating Agencies:*** Banks often use external ratings from agencies like CRISIL, CARE, and India Ratings (Affiliates of Fitch, Moody's, and S&P, respectively) to estimate PDs for Corporate Bonds.

Example: A Bond with an "AAA" Rating will have a very low PD (e.g., <0.1% over a year), while a "BB" rated bond will have a significantly higher PD (e.g., 4%).

- ***Market-Implied PD:*** For publicly traded bonds and debentures, market signals like bond spreads or Credit Default Swap (CDS) prices reflect real-time investor sentiment and implied PDs.

Example: The market had already priced in a higher PD for companies like DHFL and IL&FS even before their official downgrades, as their bond yields shot up and traded at steep discounts, acting as an early warning signal of their eventual defaults.

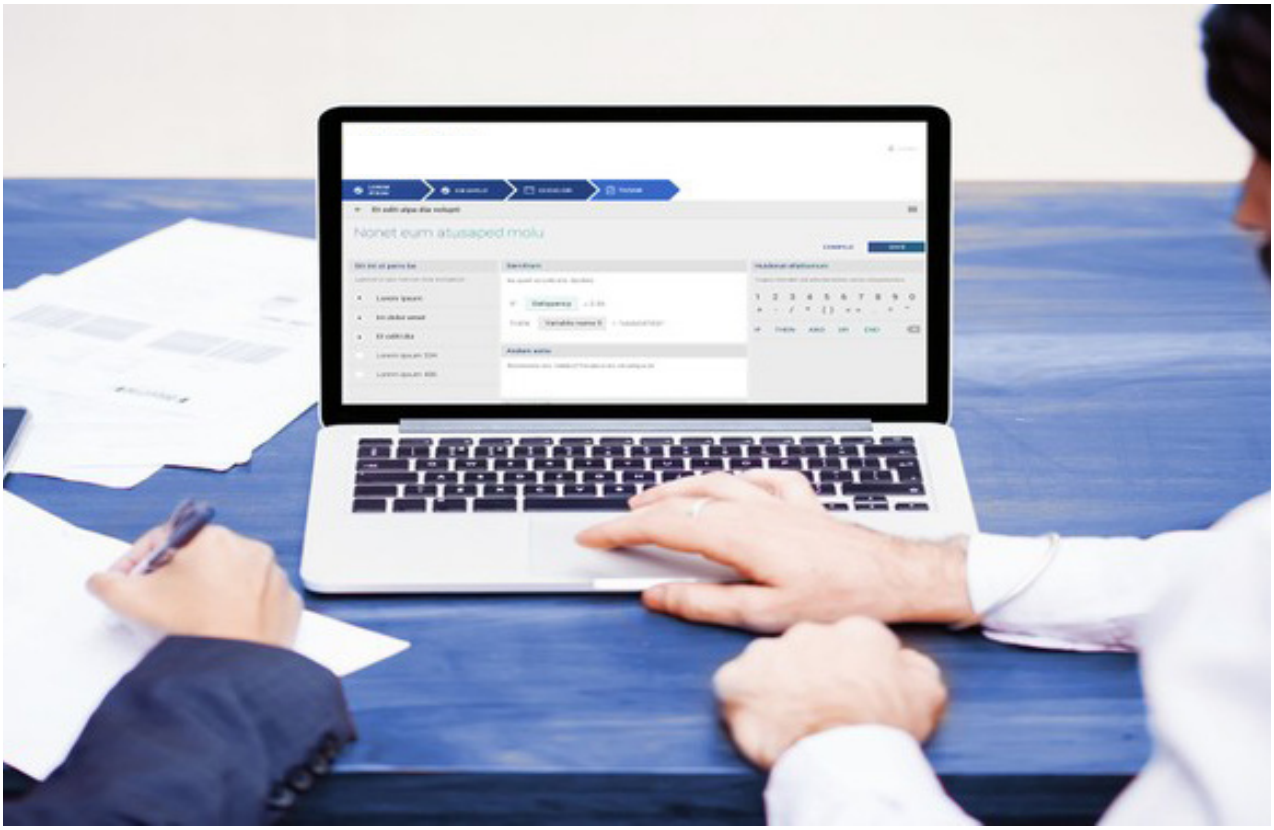
- ***Low Default Portfolios:*** HTM portfolios often contain low-default assets (e.g., Government Securities have virtually Zero PD). For such cases where historical default data is sparse, alternative approaches using credit spreads and expert judgment are used for estimation.

How Probability of Default is Useful in Calculation of ECL Provisions?

Probability of Default (PD) is a cornerstone parameter in the calculation of Expected Credit Loss (ECL) provisions for Indian Banks under the Ind AS 109 frameworks. It is used to estimate the likelihood of a borrower defaulting on their obligations, both for Standard Bank Loans and Held to Maturity (HTM) investments, which are financial assets measured at amortised Cost or Fair Value Through Other Comprehensive Income (FVOCI) and thus subject to impairment testing.

a) Role of PD in ECL Calculation:

ECL is an unbiased, probability-weighted estimate of credit losses over the expected life of a financial instrument. The general formula for ECL is:



ECL=PD×LGD×EAD

Where:

- ***PD (Probability of Default):*** The likelihood of a default occurring over a specific time horizon (12-Month or Lifetime).
- ***LGD (Loss Given Default):*** The estimated loss amount if a default occurs, expressed as a percentage of the EAD.
- ***EAD (Exposure at Default):*** The total exposure at the time of default, including the outstanding principal and potential future drawings.

b) PD is Crucial for Two Main Aspects:

- ***Stage Classification:*** The change in the Risk of Default (specifically, a Significant Increase in Credit Risk or SICR) determines if an asset moves from Stage 1 (12-month ECL) to Stage 2 or 3 (Lifetime ECL).
- ***Loss Measurement:*** PD directly quantifies the Probability of Experiencing the "Loss" part of the ECL Equation, which is then factored into the final provision amount.

c) Practical Examples in the Indian Context:

Indian Banks are required to use Point-in-Time (PiT) PD estimates calibrated with forward-looking macroeconomic factors, rather than Historical Averages, to reflect current and expected future economic conditions.

a. Bank Loans and Advances:

Consider a performing Corporate Loan for an Indian Bank, Classified as Stage 1 at Origination:

Scenario Data:

- Loan Amount (EAD) = ₹ 10,000,000
- 12-Month PD (Estimated based on Internal Rating and Economic Forecasts) = 0.5%
- LGD = 40% (Post-Collateral Recovery Estimates)

ECL Calculation (Stage 1):

- ECL = PD × LGD × EAD
- ECL = 0.005 × 0.40 × ₹ 10,000,000 = ₹ 20,000

This ₹ 20,000 is the initial provision debited to the Profit and Loss Account at the time the Loan is recognised, even if it is fully performing.

Moving to Stage 2 (Significant Increase in Credit Risk):

Suppose, a year later, the borrower's Days Past Due (DPD) Cross 30 days, indicating a significant increase in Credit Risk, moving it to Stage 2. The Bank must now Calculate a lifetime PD.

Scenario Data (Stage 2):

- Remaining EAD = ₹ 80,00,000
- Lifetime PD (Cumulative Probability over the remaining Life, say 4 Years) = 6.0%
- LGD = 40%

ECL Calculation (Stage 2):

- ECL = 0.06 × 0.40 × ₹ 80,00,000 = ₹ 1,92,000

The Higher ECL amount reflects the increased risk and the requirement to provision for potential losses over the entire remaining Life of the Loan.

b. Held to Maturity (HTM) Investments:

HTM Investments, typically Government Securities or high-quality corporate bonds that the bank intends to hold until maturity, are also subject to the ECL framework if accounted for at amortised cost or Fair Value Through Other Comprehensive Income (FVOCI).

Consider an HTM Corporate Bond of an Indian Company:

Scenario Data:

- Bond Value (EAD) = ₹ 50,00,000
- 12-Month PD for this Rating Class (e.g., AA-Rated) = 0.1%
- LGD (Typically Low for Secured Bonds / Government Securities) = 10%

ECL Calculation (Stage 1):

- ECL = 0.001 × 0.10 × ₹ 50,00,000 = ₹ 500

If the Bond Issuer is downgraded or shows Signs of Distress, Significant Increase in Credit Risk (SICR), the Bond moves to Stage 2, and a Higher, Lifetime PD is used, resulting in a larger provision, similar to the loan Example.

To Conclude:

Probability of Default (PD) is the Central Element that links the Forward-looking Assessment of Creditworthiness and Macroeconomic conditions to the specific provisioning amount required under Ind AS 109.

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Loss Given Default- An Overview

Abstract:

Loss Given Default (LGD) is a critical component of the Expected Credit Loss (ECL) provisioning framework for Banks in India, as it directly determines the projected financial loss when a borrower defaults on a loan. Under the New Reserve Bank of India (RBI) Guidelines and the Ind AS 109 Accounting Standard, accurate LGD estimation is crucial for proactive Risk Management, appropriate Provisioning, and Regulatory compliance.

A sound and well-validated LGD Model, incorporating both Historical Data and Forward-looking macroeconomic conditions, is indispensable for Indian Banks to Navigate the New ECL regime effectively and ensure financial stability.

Abbreviations:

EAD = Exposure at Default.

HTM = Held to Maturity.

LGD = Loss Given Default.

RR = Recovery Rate.

Loss Given Default (LGD) for Indian Banks' Loans is typically estimated using Internal Models based on historical Recovery Data, with Average LGDs varying significantly by Loan Type, Collateral, and Economic Conditions.

For Held to Maturity (HTM) Investments, which are generally Government Securities, the LGD is often considered Very Low or Negligible due to the Low Default Risk of Sovereign Debt.

Loss Given Default (LGD) of Bank Loans and Advances:

LGD is a critical measure in Credit Risk Management, representing the proportion of Exposure at Default (EAD) that a Bank is likely to lose after accounting for all recoveries, including the Liquidation of Collateral.

a) Key Factors Influencing LGD in India:

- ***Collateral:*** The presence, Type, Marketability, and Liquidity of Collateral are the most significant determinants of LGD. Secured Loans inherently have Lower LGDs than unsecured loans.
- ***Recovery Process:*** The effectiveness and timing of recovery strategies (e.g., Negotiation, Legal Action) significantly impact LGD. Prompt and effective recovery leads to Lower LGDs.
- ***Loan Type & Sector:*** LGD varies across different Types of Loans. Studies of Indian Banks show distinct LGD Estimates for Commercial versus Retail Loans, and within Commercial Loans, for Corporate versus SME Sectors.
- ***Economic Conditions:*** Macroeconomic Factors influence LGD, as Collateral Values can depreciate during Economic Downturns, increasing Potential Losses.

- ***Seniority:*** Senior Debts have Lower LGDs compared to Subordinated Debts due to their priority in the recovery process.

b) Typical LGD Estimates (Based on a Study of Indian Banks):

- ***Average LGD (Overall)***: The Average LGD for Commercial Loans was found to be Approximately 66.70%, while for Retail Loans it was around 58.30%.

- ***Impact of Recovery Time:*** A delay in the recovery period Significantly Increases LGD. For Example, a Five-year Delay can increase Commercial Loan LGD to nearly 78.59% (Using a 10% Discount Rate).

c) Regulatory Framework:

- The Reserve Bank of India (RBI), following the Basel III framework, requires Banks to use Robust Methodologies for LGD Estimation to Calculate Expected Credit Losses (ECL) and determine regulatory Capital requirements. Banks using the Internal Ratings-Based (IRB) Approach must Estimate LGD using their own Historical Data and adjust these Estimates for potential "Downturn" conditions.

d) Loss Given Default (LGD) of Held to Maturity (HTM) Investments:

HTM Investments primarily consist of High-quality Government Securities (G-Secs) and some other approved securities that Banks intend to hold until maturity.

- ***Nature of HTM Assets:*** Since a large portion of HTM Investments are 'Sovereign Exposures' (Loans to the Government), they are generally considered to have Minimal to Zero Default Risk, especially in the Domestic Currency.

- ***LGD Implications***: Consequently, the LGD for most HTM investments of Indian Banks is practically Negligible or Close to 0%. The Primary Risk associated with HTM is Interest Rate Risk (Market Value Fluctuations), which is typically not accounted for in the LGD Calculation as these Securities are Held to Maturity and not Marked to Market (Except for some Disclosure requirements).

- ***Credit Risk for Non-G-Secs:*** For any 'Non-Sovereign Debt Instruments' classified under HTM (Which are limited by Regulations), LGD would be calculated based on the specific issuer's Creditworthiness and the nature of the Security, similar to other Corporate Debt Exposures.

How to Arrive Loss Given Default (LGD)?

Loss Given Default (LGD) for Indian Banks is typically estimated using Internal Historical "Workout LGD" Data and is Highly dependent on the Type and Liquidity of Collateral. LGD for Held to Maturity (HTM) Investments, usually Government Securities, is generally considered low or zero due to their

'Sovereign Guarantee' and High Liquidity.

a) Practical Examples on LGD of Bank Loans and Advances:

Indian Banks use the "Workout LGD" method, which involves tracking all Cash Flows from the recovery process after a default event, Discounted for the Time Value of Money and Recovery Costs.

Secured Commercial Loans (e.g., Kingfisher Airlines Case) : A prominent public example in India is the Kingfisher Airlines default.

- ***Scenario***: A Consortium of 17 Banks had a Total Outstanding Loan of around INR 9,000 Crores to Kingfisher Airlines. Upon default and liquidation of the Airline's available Assets (Headquarters, Cars, etc.), the Banks could only recover about INR 700 Crores.

Calculation:

- Exposure at Default (EAD) = INR 9,000 Crores.
- Recovered Amount = INR 700 Crores
- Recovery Rate (RR) = Recovered Amount / EAD = INR 700 Crores / INR 9,000 Crores = 8%
- **LGD** = 1 - RR = 92% (RR= Recovery Rate.)

This High LGD (Low Recovery Rate) Highlighted the Challenges in recovering funds from Specialized Assets with Low Market Liquidity and Complex Legal situations in India. The Average LGD for Commercial Loans in an Indian Study was found to be around 66.70% (Historical LGD), increasing with recovery delays.

Secured Retail Home Loans: Home Loans are generally well-Collateralized and have a Lower LGD.

- ***Scenario:*** A Borrower defaults on a 'Home Loan' with an 'Outstanding Balance (EAD)' of INR 30 Lakhs. The Bank forecloses and sells the property for INR 20 Lakhs (Net of Selling Costs).

Calculation:

- EAD = INR 30 Lakhs.
- Recovered Amount = INR 20 Lakhs.
- Recovery Rate (RR) = INR 20 Lakhs / INR 30 Lakhs = 67%.
- LGD = 1 - RR = 33%

Higher Collateral Margins and more Liquid Collateral (like Residential Property in a Stable Market) lead to Lower LGDs.

Unsecured Personal Loans / Credit Cards: Unsecured Loans typically have the Highest LGD as there is NO Specific Collateral to Seize.

- ***Scenario:*** A Borrower defaults on a Personal Loan with an EAD of INR 5 Lakhs. The Bank attempts recovery through Notices and Legal Action but is only able to Recover a Minimal Amount, say INR 25,000, after Significant Effort.

Calculation:

- EAD = INR 5 Lakhs.
- Recovered Amount = INR 25,000
- Recovery Rate (RR) = INR 25,000 / INR 5 lakh = 5%
- LGD = 1 - RR = 95%

Studies in India show Average LGDs for Unsecured Loans are High, around 70-78%. The RBI's Basel II Guidelines prescribe a High LGD of 75% for all Unsecured claims on Corporates, Sovereigns, and Banks under the Foundation Approach.

b) Practical Examples on LGD of Held to Maturity (HTM) Investments:

HTM Investments for Indian Banks are Primarily Government Securities and other High-rated Bonds the Bank intends to Hold until Maturity.

Sovereign Debt (Government of India Securities):

- These Investments carry the Sovereign Guarantee. The Probability of Default is considered Close to Zero.
- LGD = 0% (Or Near Zero, as Full Recovery is Virtually Assured).

Highly Rated Corporate Bonds (Held to Maturity):

- If a Bank Holds an A-Rated Corporate Bond in its HTM Portfolio and the issuer defaults, the LGD would depend on the Bond's Seniority and Collateral.

Example: A Senior Secured Bond might have an LGD of 30-40%, while a Subordinated or Unsecured Bond might have an LGD of 60-100%.

c) Summary of Key Factors Influencing LGD in India:

- ***Collateral:*** The Value, Liquidity, and Enforceability of Collateral are the most critical determinants of LGD.
- ***Recovery Time:*** Longer Recovery Periods increase LGD due to the Time Value of Money and Accumulated Costs.
- ***Seniority of Claim:*** Senior Secured Claims have Lower LGD than Junior or Unsecured Claims.
- ***Economic Conditions***: Downturns Lead to Higher LGD as Collateral Values often Decline.

How Loss Given Default (LGD) is Useful in Calculation of ECL Provisions?

Loss Given Default (LGD) is a Crucial Component in Calculating Expected Credit Loss (ECL) provisions for Indian Banks under the Ind AS 109 frameworks, which mandates a Forward-looking, Risk-sensitive Approach to Provisioning.

The Core Formula used is:

ECL = Probability of Default (PD) × Exposure at Default (EAD) × LGD.

a) How LGD is Useful?

LGD represents the Estimated Percentage of the Exposure at the time of default that a Bank will lose after all recovery efforts (e.g., Selling Collateral) are Exhausted. It is Calculated as 1 Minus the Recovery Rate (RR) (LGD = 1 - RR).

- ***Quantifying Potential Loss:*** LGD provides a Specific Monetary Value (or Percentage) of the Actual Loss in a default scenario, moving beyond just the Probability of Default.
- ***Reflecting Collateral Value:*** It directly incorporates the Value and Liquidity of any Collateral held against the Loan or Investment. Assets Secured by Tangible Collateral (e.g., Real Estate, Gold) typically have Lower LGDs because the Bank can recover a portion of the Loss by Selling the Collateral.
- ***Incorporating Forward-Looking Information:*** Under Ind AS 109, LGD Models must use Forward-looking Macroeconomic Data (e.g., GDP Growth, Unemployment Rates, Real Estate Prices) to estimate future losses accurately, reflecting how Economic Downturns might affect Collateral Values and Recovery Rates.
- ***Staging and Lifetime ECL:*** LGD Estimates are applied over a 12-month Horizon for Stage 1 Assets (No significant Increase in Credit Risk) and over the Entire Lifetime of the Asset for Stage 2 (Significant increase in Credit Risk) and Stage 3 (Defaulted) Assets.

b) Practical Examples:

The Application of LGD is Consistent across Bank Loans / Advances and Held to Maturity (HTM) Investments, as both fall under the Ind AS 109 ECL framework for Impairment Calculation.

Example : Secured Retail Loan (e.g., Home Loan): An Indian Bank provides a Home Loan of ₹ 50 Lakhs. The House serves as Collateral. The Bank determines the following:

- ***EAD*** (Outstanding Balance at the Time of Default) = ₹ 45 Lakhs.
- ***PD*** (Probability of Default) = 2% (12-Month PD for Stage 1 Asset).
- ***Recovery Rate*** (Based on Historical Data and Current Real Estate Market Forecasts) = 60%.
- ***LGD*** = 1 - 60% = 40%.
- ***ECL (12-Month)*** = EAD × PD × LGD = ₹ 45 Lakhs × 2% × 40% = ₹ 36,000.

The LGD of 40% ensures that the ECL Provision reflects the protection offered by the Real Estate Collateral, leading to a lower Potential Loss compared to an Unsecured Loan.

Example : Unsecured Corporate Loan / HTM Corporate Bond: An Indian Bank holds an unsecured Corporate Bond classified as HTM with a face value of ₹ 1 Crore.

- ***EAD*** = ₹ 1 Crore (Assuming Default at Maturity).
- ***PD*** = 5% (Lifetime PD for a Stage 2 Asset due to Significant Increase in Credit Risk).
- ***Recovery Rate*** (Based on Historical Recovery for Unsecured Corporate Exposures in India) = 25%.
- ***LGD*** = 1 - 25% = 75%.

- ***ECL (Lifetime)*** = EAD × PD × LGD = ₹ 1 Crore × 5% × 75% = ₹ 3.75 Lakhs.

The Higher LGD (75%) for the Unsecured Instrument reflects the Greater Potential Loss for the Bank in a Default Scenario.

In both cases, the LGD is Crucial for moving from a Potential Exposure Amount (EAD) to a realistic estimate of the actual loss the Bank should provision for, ensuring compliance with Ind AS 109 requirements for resilient and Transparent Financial Reporting.

Conclusion:

EAD (Exposure at Default) in ECL (Expected Credit Loss) modelling under accounting standards like IFRS 9/Ind AS 109 is the predicted total amount a lender is exposed to a borrower at the moment of default, used with Probability of Default (PD) and Loss Given Default (LGD) to calculate ECL, representing the forward-looking expected loss over the instrument's life. It's crucial because it quantifies the potential financial hit, factoring in current balances and undrawn commitments, ensuring realistic provisioning for future credit losses, unlike older "Incurred Loss" Models.

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Exposure at Default (EAD) And Why it is Crucial for Banks?

Abstract:

Exposure at Default (EAD) is a Crucial Parameter in the Expected Credit Loss (ECL) framework for Banks in India as it directly quantifies a Bank's Maximum Potential Financial Jeopardy at the Time a Borrower Defaults. It is one of the Three Core Components, alongside Probability of Default (PD) and Loss Given Default (LGD), used to Calculate expected losses (ECL = PD × LGD × EAD).

EAD ensures that Banks in India do not merely Account for the Currently Outstanding Loan amount but also for the realistic increase in exposure that is likely to happen in Stressed Scenarios, thus strengthening the Bank's Financial Resilience.

Exposure at Default (EAD) is the estimated outstanding amount a Bank might Lose if a Borrower or counterparty defaults. For Indian Banks, EAD is a critical metric under the Reserve Bank of India's (RBI) Risk Management framework, particularly for calculating Expected Credit Losses (ECL) and determining Regulatory Capital Requirements.

Exposure at Default (EAD) of Bank Loans and Advances:

EAD Calculation varies depending on whether the Exposure is a fixed-amount Term Loan or a Revolving Credit Facility (Like a Line of Credit or Credit Card). Indian Banks primarily use Two Approaches for EAD Calculation as per RBI Guidelines, which align with the Basel Framework:

- ***The Standardized Approach (SA) and***
- ***The Intern***al Ratings-Based (IRB) Approach.

Term Loans and Fixed Exposures: For Term Loans with a Fixed Repayment Schedule, the EAD is generally straightforward to Calculate: it is the Outstanding Balance (Principal plus Accrued Interest) at the Time of Default.

Revolving Credits and Off-Balance Sheet Items: For Revolving Credits and other Off-balance Sheet Items (Like Guarantees and Commitments), the Calculation is more Complex because the full Sanctioned Limit may not be drawn at the Time of Default.

- ***Standardized Approach (SA) / Foundation IRB (F-IRB):*** The RBI provides specific Credit Conversion Factors (CCFs) that Banks must apply to the undrawn portion of these facilities. The EAD is the sum of the Current Drawn Amount and the Undrawn Amount multiplied by the applicable CCF.

For Example, for a Commitment with a Short Time Horizon (Less

than 1 Year), a Lower CCF might be applied compared to a Longer-term Commitment. If a Bank can unconditionally cancel the Undrawn Commitment, A 0% CCF is Applied.

- ***Advanced IRB (A-IRB) Approach:*** Banks that meet Specific Data and Modelling requirements can use their own Internal Models to Estimate EAD and determine appropriate CCFs based on Historical Data and Borrower Behaviour. This approach allows for a more Risk-sensitive Estimation, considering factors like a Borrower's tendency to draw down more heavily on their Credit Line as they approach default.

b) Key Considerations for Indian Banks:

- ***Regulatory Framework:*** The RBI mandates the use of EAD, along with Probability of Default (PD) and Loss Given Default (LGD), to calculate Expected Losses (EL = PD x LGD x EAD) and determine necessary Capital Reserves.

- ***Forward-looking***: EAD is a Forward-looking Metric that considers potential changes in Credit Utilization up to the Point of Default.

- ***Risk Mitigation:*** EAD Estimates are typically made Net of any Specific Provisions already raised. Collateral is generally accounted for in the Loss Given Default (LGD) Calculation rather than EAD itself.

c) Exposure at Default (EAD) of Held to Maturity (HTM) Investments:

The concept and application of EAD for Held to Maturity (HTM) investments differ from loans because HTM securities are typically Held to Maturity and are not subject to Mark-to-Market (MTM) fluctuations on the Balance Sheet. The Primary Risk is the issuer defaulting on the Bond or Security.

- ***Definition of HTM:*** These are Securities that Banks acquire with the intent to hold them until they mature. The RBI imposes limits on the Total Percentage of a Bank's Net Demand and Time Liabilities (NDTL) that can be classified under the HTM category (e.g., Historical Limits were around 23%, Subject to Phased Reductions).

- ***EAD Application:*** For a Performing HTM Investment, the EAD at any point in time would be the Carrying Value of the Security (usually acquisition Cost Plus/Minus amortized Premium/Discount). If the issuer defaults, the Bank's Exposure is the full carrying Value of the Investment, similar to a Term loan.

- ***Loss Calculation:*** The Potential Loss on an HTM Investment in case of Default is calculated using the same EL Formula (PD x LGD x EAD). The EAD is the Value of the Investment at the time of the Issuer's Default. The LGD would be determined by the Recovery Rate on the Specific Security, which depends on factors like the Type of Security (e.g., Government Securities have Very Low LGD) and any Available Collateral.

- ***Sale Restrictions:*** Banks are generally not Expected to Sell Securities in the HTM Category. Sales are Permitted only under Exceptional Circumstances like Liquidity Stress, with Board Approval. Profits or Losses from such Sales are recognized in the Profit and Loss account and Profits Appropriated to a 'Capital Reserve'.

In essence, while the EAD for Loans involves Dynamic Modelling of Future Utilization, EAD for HTM Investments is a more Static measure of the Investment's Carrying Value, with the Primary Risk being the Complete failure of the Counterparty to honour its obligations at Maturity.

How to Arrive Exposure at Default (EAD)?

Exposure at Default (EAD) represents the Estimated Outstanding amount a Bank is exposed to when a Borrower Defaults. The calculation of EAD varies significantly depending on the Product Type and whether it is an On-balance sheet or Off-balance sheet item, guided by Reserve Bank of India (RBI) Norms and Basel III regulations.

a) Practical Examples of EAD for Bank Loans and Advances:

For Indian Banks, the EAD Calculation for Loans and Advances generally follow these practical approaches:

- ***On-Balance Sheet Items: Term Loans:*** For a Standard Term Loan with a Fixed Repayment Schedule, the EAD at any given time is the outstanding Principal Balance (plus any accrued interest and fees).

- ***Example:*** A Borrower takes a Business Loan for ₹ 1,00,000. After Two Years, the Borrower has repaid ₹ 40,000, and the remaining Outstanding Balance is ₹ 60,000. If the Borrower Defaults at this Point, the EAD is ₹ 60,000.

b) Off-Balance Sheet Items:

Lines of Credit and Commitments-For Revolving Credits and other Undrawn Commitments, the EAD is more complex as it

must account for potential future drawdowns by the borrower before the actual default occurs. Banks typically use Credit Conversion Factors (CCFs) to estimate the portion of the undrawn amount that is likely to be drawn.

Example: Revolving Credit Facility - A Company has a Sanctioned Credit line of 50,000. It has Currently drawn 20,000, leaving an Undrawn Amount of 30,000. Based on Historical Data and Regulatory Guidelines, the Bank applies a CCF (e.g., 80%) to the undrawn amount to Estimate Potential Future Exposure (PFE).

- Drawn Amount: ₹ 20,000.
- Undrawn Amount: ₹ 30,000.
- CCF: 80% (or 0.80)
- PFE (Estimated Future Drawdown): ₹ 30,000 * 0.80 = ₹ 24,000
- ***EAD: Drawn Amount + PF***E = ₹ 20,000 + ₹ 24,000 = ₹ 44,000

Example: Bank Guarantees / Letters of Credit (Non-Market Related): A Bank provides a Financial Guarantee for a Corporate Client for ₹ 100 Crores.

- The Sanctioned Amount is ₹ 100 Crores.
- According to RBI Norms under the Standardized Approach, certain Non-market related Off-balance Sheet items have specific CCFs. For Guarantees and Specific Commitments, the CCF can range from 20% to 100%, depending on the Nature and Maturity of the Commitment.
- If a Bank Guarantee has already been issued, the EAD is Typically 100% of the Guaranteed Amount because the Bank is fully liable upon default of the Primary arty. EAD = ₹ 100 Crores.

c) Treatment of Held to Maturity (HTM) Investments:

- The EAD concept is Primarily used for calculating Credit Risk Capital requirements under Basel Norms for Loans and Advances, and Off-balance Sheet Exposures.
- HTM Investments, which are Debt Securities the Bank intends to hold until maturity, are typically subject to Market Risk and Specific Credit Risk / Interest Rate Risk Capital Charges, but the Calculation does not use the same EAD Methodology as loans.

- For these Investments, the exposure is Generally the Book Value or the Face Value of the Security, and the Risk is managed through Valuation and Classification Norms set by the RBI.

The Credit Risk for Government Securities held in the HTM Category is considered Zero for Capital Charge purposes. For other Rated Securities, Risk Weights are applied based on their Credit Rating.

In essence, while HTM Investments involve Exposure, the Calculation of that Exposure for Regulatory Capital is treated differently (via Risk Weights) than the EAD Calculation for Standard Bank Loans and Credit Facilities.

How Exposure at Default (EAD) is Useful in Calculation of ECL Provisions?

Exposure at Default (EAD) is a Critical Parameter in the Calculation of Expected Credit Loss (ECL) Provisions for Indian Banks Operating under the Ind AS 109 frameworks. It represents the Gross Exposure a Bank would have to a Borrower at the exact time of default. The Fundamental Formula for ECL, which applies to both Bank Loans and Held to Maturity (HTM) Investments, is:

ECL = PD × LGD × EAD × Discount Factor

Where **PD is Probability of Default** and **LGD is Loss Given Default.**

a) Usefulness of EAD in ECL Calculation:

EAD provides the necessary Exposure Base amount for the Potential Loss Calculation. Without an accurate EAD, the

resulting ECL Provision would be misstated, regardless of how accurate the PD and LGD estimates are. The key aspects of its usefulness include:

- ***Determining the Potential Loss Amount:*** EAD establishes the maximum potential financial commitment the bank stands to lose.
- ***Accounting for Undrawn Limits:*** For facilities like credit lines or guarantees, EAD includes the currently drawn amount plus any portion of the undrawn commitment that is expected to be used before or at the time of default. This forward-looking approach is central to Ind AS 109.
- ***Risk Differentiation:*** Accurate EAD estimation, especially for off-balance sheet items, allows Banks to differentiate the Risk Profile of various Products (e.g., a Letter of Credit has a different EAD Profile than a simple Term Loan).
- ***Regulatory Alignment***: The Reserve Bank of India's (RBI) proposed ECL framework also relies on EAD, PD, and LGD estimates, incorporating Historical Data and Macroeconomic Forecasts.

b) Practical Examples:

The Calculation of EAD differs slightly depending on the Nature of the Loans / Financial Instrument:

Bank Loans and Advances: For a Standard Term Loan with a Fixed Repayment Schedule, the EAD at any future point in time is primarily the Projected Outstanding Loan Balance based on the Expected Amortisation Schedule.

Example 1: Term Loan

- A Bank has a ₹ 10,00,000 Term Loan with NO undrawn commitments.
- At the Reporting Date, the Outstanding Balance is ₹ 8,00,000.
- The EAD for this Loan is Simply the ₹ 8,00,000 Gross Carrying Amount. The Bank would use this EAD in the ECL formula:

ECL = PD × LGD × ₹ 8,00,000

Example 2: Revolving Credit Facility (e.g., Overdraft or Credit Card)

- A Borrower has a Sanctioned Credit Limit of ₹ 5,00,000 with a Current Drawn Balance of ₹ 2,00,000.
- The Bank uses Internal Models to estimate a Credit Conversion Factor (CCF) for the undrawn portion. The CCF reflects the likelihood that the remaining ₹ 3,00,000 will be drawn before default.

If the Bank Estimates a CCF of 60%, the EAD is calculated as:

- EAD = Drawn Amount + (Undrawn Amount × CCF).
- EAD = ₹ 2,00,000 + (₹ 3,00,000 × 60%)
- EAD = ₹ 2,00,000 + ₹ 1,80,000 = ₹ 3,80,000

The Bank would use ₹ 3,80,000 as the EAD in the ECL Calculation.

c) Held to Maturity (HTM) Investments:

HTM Investments, such as Corporate Bonds, are Debt Instruments the Bank intends to hold until maturity. The EAD for these is the Gross carrying amount of the Investment at the Time of Default.

Example 3: Corporate Bond (HTM Investment):

- A Bank holds a Corporate Bond Valued at ₹ 50,00,000 (Its Gross Carrying Amount).
- The Bond is Currently Classified as Stage 1 (No Significant Increase in Credit Risk), so the Bank Calculates a 12-Month ECL.
- The EAD used for the 12-Month ECL Calculation is the Current ₹ 50,00,000 Amount.
- If the Bond is reclassified to Stage 2 due to a Significant increase in Credit risk, the Bank measures Lifetime ECL, but the EAD remains the Gross Carrying Amount, adjusted for any Projected Future Cash Flows until Default.

In Both Cases, EAD Serves as the Essential Monetary Base, which is then Probability-Weighted (PD) and Adjusted for Recovery Expectations (LGD) to arrive at the Final ECL Provision Amount.

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Implementation Challenges and Best Practices of Expected Credit Loss (ECL) Provisions

Abstract:

The implementation of the Expected Credit Loss (ECL) framework represents a fundamental transformation in credit risk provisioning for Indian banks. While ECL enhances prudence through forward-looking, risk-sensitive loss recognition, its adoption poses significant implementation challenges related to data quality, modelling complexity, governance, systems integration, and organizational readiness. Effective from 1 April 2027, Indian banks must navigate these challenges while ensuring regulatory compliance, financial stability, and operational continuity.

This Article analyses the key implementation challenges associated with ECL and outlines best practices that banks can adopt to ensure a smooth, credible, and resilient transition. The discussion emphasizes governance, data and model risk management, change management, and supervisory alignment as critical success factors.

Keywords: Expected Credit Loss, ECL Implementation, Model Risk, Data Governance, Best Practices, Banking Regulation, Indian Banks

The transition to the Expected Credit Loss framework marks a shift from rule-based provisioning to a model-driven, judgment-intensive, and forward-looking approach. Unlike the incurred loss model, ECL requires banks to estimate losses over different time horizons, incorporate macroeconomic forecasts, and continuously reassess credit risk throughout the life of an exposure.

For Indian banks, the implementation of ECL from 1 April 2027 is not merely an accounting change but an enterprise-wide transformation affecting credit origination, risk management, finance, IT systems, governance, and culture. Successful adoption will depend on how effectively banks identify and manage implementation challenges while embedding best practices consistent with regulatory expectations and global standards.

The implementation of the Reserve Bank of India's (RBI) Expected Credit Loss (ECL) framework for commercial banks by the April 1, 2027 deadline presents a major shift from the current "incurred loss" model, aligning India with global standards (IFRS 9/CECL). This transition, while enhancing financial resilience, involves significant implementation challenges and necessitates specific best practices to ensure a smooth transition.

Key Implementation Challenges:

Data Availability, Quality, and Granularity:

One of the most significant challenges in ECL implementation is the availability of reliable, granular, and consistent historical data. ECL models require long time series of data on defaults,

recoveries, prepayments, collateral values, and borrower behaviour.

Indian banks often face:

- Incomplete historical loss data.
- Inconsistent data definitions across systems.
- Limited borrower-level data for legacy portfolios.

Data gaps can undermine the robustness of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) estimates.

b) Credit Risk Modelling Complexity:

ECL introduces sophisticated modelling requirements, including:

- Lifetime PD estimation.
- Scenario-based macroeconomic adjustments.
- Behavioural EAD modelling.

Many banks, particularly smaller institutions, may lack in-house expertise in advanced credit risk modelling. There is also a risk of overfitting models or excessive reliance on assumptions that may not hold across economic cycles.

c) Determination of Significant Increase in Credit Risk (SICR):

Identifying SICR is one of the most judgment-intensive elements of ECL. Challenges include:

- Defining appropriate quantitative thresholds.
- Ensuring consistency across portfolios.
- Avoiding excessive volatility due to frequent stage migrations.

Inconsistent SICR assessment can lead to provisioning instability and supervisory concerns.

d) Integration of Forward-Looking Macroeconomic Information:

Incorporating macroeconomic forecasts into ECL models requires:

- Selection of relevant macro variables.
- Construction of multiple scenarios.
- Assignment of probability weights.

Forecast uncertainty, particularly in an emerging economy context, can materially influence provisioning outcomes and introduce earnings volatility.

e) Systems and Process Integration:

ECL implementation requires seamless integration between:

- Core banking systems.
- Risk engines.
- Finance and general ledger systems.

Many Indian banks operate on legacy IT infrastructure, making real-time data flow, reconciliation, and reporting a major operational challenge.

f) Governance, Controls, and Accountability:

ECL significantly increases reliance on management judgment, increasing the risk of:

- Bias in assumptions.
- Inadequate documentation.
- Weak challenge mechanisms.

Without strong governance, ECL models may fail to meet supervisory expectations.

Implementation Challenges

- **Data Quality and Availability**: A primary challenge is the need for sufficient, high-quality historical data covering at least one full economic cycle to model Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) accurately. Many banks' legacy systems suffer from data gaps and inconsistencies, not being designed for the forward-looking, granular data required for ECL calculations.
- **Model Development and Complexity**: Developing and validating complex internal models for different asset classes and portfolios is a significant technical challenge. Models must incorporate multiple forward-looking macroeconomic scenarios, which introduces subjectivity and complexity in estimation.
- **IT Infrastructure Upgradation**: The new framework necessitates substantial investment in IT systems and technology for data aggregation, processing, and real-time risk assessment to support ECL computation and reporting requirements.
- **Talent and Expertise Gap**: A shortage of qualified professionals with expertise in both finance and the complex modelling techniques required for ECL implementation is a major hurdle.
- **Governance and Oversight**: The framework requires a robust governance structure with clear roles for the Board, Chief Financial Officer (CFO), Chief Risk Officer (CRO), and Chief Technology Officer (CTO) to oversee model development, validation, and ongoing monitoring.
- **Impact on Capital and Profitability**: The shift is expected to result in a one-time increase in provisioning, potentially impacting a bank's capital adequacy ratios (specifically Common Equity Tier 1 or CET1) and short-term profitability, though a transition period is provided.

Organizational and Change Management Challenges:

Beyond technical issues, ECL presents substantial organizational challenges:

- Breaking silos between risk, finance, IT, and business teams.
- Training staff across multiple functions.
- Managing cultural shift from compliance-driven to analytics-driven provisioning.

Resistance to change and skills gaps can delay or dilute effective implementation.

Best Practices for Effective ECL Implementation:

a) Strong Governance Framework:

Banks should establish a robust governance structure with:

- Clear Board-level oversight of ECL policies.
- Dedicated management committees for model approval and monitoring.
- Defined roles and responsibilities across functions.

Regular reporting to the Board on provisioning outcomes and model performance is essential.

b) Comprehensive Data Governance Strategy:

Best practices include:

- Creation of a centralized credit risk data repository.
- Standardization of data definitions and hierarchies.
- Ongoing data quality monitoring and remediation.

Investment in data infrastructure is a prerequisite for credible ECL outcomes.

c) Conservative and Transparent Modelling Approach:

Banks should adopt:

- Models that are conceptually sound and explainable.
- Conservative assumptions where data limitations exist.
- Clear documentation of methodologies and limitations.

Model simplicity and transparency often enhance supervisory acceptance.

d) Robust SICR Framework:

A well-designed SICR framework should combine:

- Quantitative metrics (PD movement, rating migration).
- Qualitative indicators (sector stress, restructuring).
- Backstop criteria (overdue thresholds).

Consistency and stability in staging decisions are critical.

e) Prudent Use of Overlays and Expert Judgment:

Management overlays should:

- Address known model gaps or emerging risks.
- Be well-supported by evidence.
- Be temporary and subject to periodic review.

Transparent disclosure of overlays enhances credibility.

f) Independent Validation and Assurance:

Best practices include:

- Independent model validation teams.
- Periodic back-testing and benchmarking.
- Strong internal audit coverage of ECL processes.

These measures help manage model risk and enhance confidence in provisioning outcomes.

Best Practices

- **Strengthen Data Governance and Systems**:
  - Invest in robust data management systems to ensure data completeness, accuracy, and consistency across different internal systems (e.g., core banking, loan origination, NPA monitoring).
  - Establish unique customer identifiers across all facilities to facilitate accurate, borrower-level credit risk assessment.
- **Develop and Validate Robust Models:**
  - Utilize external consulting firms to develop sophisticated models if in-house expertise is limited.
  - Ensure models are independently validated before deployment and periodically monitored and re-validated as part of a strong Model Risk Management (MRM) policy.
  - Perform thorough analysis to understand portfolio risk characteristics and choose appropriate modelling techniques.
- **Ensure Strong Governance and Collaboration**:
  - Establish a dedicated ECL sub-committee with representation from finance, risk, and IT departments to ensure a cohesive implementation strategy.
  - Clearly define roles and responsibilities across the "three lines of defense" (front line operations, risk management/compliance, and internal audit) for effective oversight and control.

- **Align with Regulatory Guidance**:
  - Adhere to the RBI's prescribed prudential floors and use them as a backstop against excessive optimism in internal modelling, ensuring adequate provisioning levels.
  - Leverage the provided glide path/transition period (until March 2031 for capital adjustments) to manage the impact on capital and build necessary buffers.
- **Invest in Training and Capacity Building**: Provide extensive training programs for staff across all relevant departments to build the necessary skills and understanding of the new ECL framework and its requirements.
- **Conduct Parallel Runs and Impact Assessments**: Conduct parallel runs of the ECL framework alongside existing provisioning methods well before the 2027 deadline to identify gaps, refine models, and assess the potential impact on financial statements and capital.

Supervisory Alignment and Regulatory Engagement:

Proactive engagement with supervisors is critical during the transition phase. Banks should:

- Share implementation roadmaps and timelines.
- Discuss key assumptions and methodologies.
- Respond promptly to supervisory feedback.

Close alignment with the expectations of the Reserve Bank of India reduces the risk of regulatory surprises.

a) Leveraging Transitional Period Effectively:

The transitional period provided by the regulator should be used to:

- Refine models and improve data quality.
- Strengthen governance and controls.
- Build internal capacity and expertise.

Banks should avoid treating transitional relief as a substitute for robust implementation.

b) Role of Professional Expertise and Capacity Building:

The complexity of ECL underscores the importance of:

- Skilled risk professionals.
- Accounting and cost management expertise.
- Continuous training and upskilling.

Interdisciplinary collaboration enhances implementation quality and sustainability.

c) Long-Term Benefits of Adopting Best Practices:

While challenging, effective ECL implementation delivers long-term benefits:

- Earlier identification of credit stress.
- Improved capital planning and risk pricing.
- Enhanced transparency and market confidence.

Banks that invest early in best practices are likely to gain strategic advantages.

Conclusion:

The implementation of Expected Credit Loss provisions from 1 April 2027 is both a challenge and an opportunity for Indian banks. Technical complexity, data limitations, and organizational readiness pose significant hurdles, but these can be addressed through strong governance, disciplined modelling, robust data management, and proactive supervisory engagement.

By adopting best practices and leveraging the transition period effectively, Indian banks can transform ECL from a regulatory requirement into a strategic tool for prudent risk management and sustainable growth. With vigilant oversight by the Reserve Bank of India, ECL implementation is poised to strengthen the resilience, transparency, and credibility of the Indian banking system.

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Provisioning and Reporting under the Expected Credit Loss (ECL) Framework

Abstract:

The adoption of the Expected Credit Loss (ECL) framework represents a significant transformation in provisioning and financial reporting practices of Indian banks. Effective from 1 April 2027, the ECL approach replaces the traditional incurred loss model with a forward-looking, risk-sensitive, and probability-weighted provisioning mechanism.

This shift has profound implications for the quantum, timing, presentation, and disclosure of credit loss provisions in banks' financial statements.

This Article examines the provisioning mechanics under the ECL framework, the linkage between credit staging and provision levels, treatment of interest income, interaction with prudential floors and transitional arrangements, and enhanced reporting and disclosure requirements.

It also highlights the governance and assurance challenges associated with ECL provisioning and reporting in the Indian banking context.

Keywords: *Expected Credit Loss, ECL Provisioning, Credit Impairment, Financial Reporting, Prudential Provisions, Indian Banks, RBI Regulations*

Provisioning for credit losses is one of the most critical prudential and accounting functions of banks. Under the prevailing Income Recognition, Asset Classification and Provisioning (IRACP) norms, Indian Banks recognize provisions largely after a credit event has occurred or an asset has slipped into non-performance. While this model offers clarity and regulatory certainty, it delays loss recognition and limits transparency regarding emerging credit risks.

The Expected Credit Loss (ECL) framework fundamentally alters this approach by requiring Banks to recognize credit losses based on expected outcomes rather than incurred events. From 1 April 2027, Indian banks will be required to estimate and provide for expected credit losses on all relevant financial assets, including performing exposures. This change will significantly affect provisioning levels, income recognition, capital adequacy, and financial disclosures.

The Reserve Bank of India (RBI) is introducing a forward-looking **Expected Credit Loss (ECL)** framework for Indian Commercial Banks effective **April 1, 2027**, replacing the current "Incurred Loss" Model. This shift aligns Indian accounting practices with Global Standards like IFRS 9 and Ind AS 109, promoting earlier recognition of potential Credit Losses.

Provisioning Philosophy under the ECL Framework:

a) Shift from Event-Based to Risk-Based Provisioning:

The ECL framework introduces a risk-based provisioning philosophy, wherein provisions are directly linked to the assessed credit risk of an exposure rather than its regulatory classification alone. This results in:

- Earlier recognition of credit losses.
- Smoother provisioning across economic cycles.
- Reduced cliff-effect provisioning at the point of default.

b) Universal Applicability of Provisions:

Unlike the incurred loss model, where provisions are largely concentrated on NPAs, ECL requires provisioning for:

- Performing assets.
- Under-performing assets.
- Credit-impaired assets.

Thus, every credit exposure carries a provision, with the quantum varying based on credit risk.

Provisioning under the ECL Framework

The core of the ECL framework is a three-stage asset classification model that determines the level of provisioning required:

- **Stage 1: Performing Assets**: These are loans with no significant increase in credit risk since initial recognition. Banks must provision for **12-month expected credit losses**. The draft norms propose prudential provisioning floors, for example, a floor of **0.4%** for most assets and **1%** for unsecured retail loans.
- **Stage 2: Significant Increase in Credit Risk (SICR)**: This stage includes assets where the credit risk has increased materially but are not yet credit-impaired. A loan overdue by more than **30 days** is generally presumed to have a SICR. For these assets, banks must provision for **lifetime expected credit losses**. The proposed floor for most Stage 2 assets is **5%**, though it is lower for specific categories like home loans (**1.5%**).
- **Stage 3: Credit-Impaired Assets (NPAs)**: These are non-performing assets where the borrower is in default (overdue by more than **90 days**). Lifetime ECL provisioning is required, with floors based on the product type and duration of default.

ECL calculation requires banks to use forward-looking macroeconomic scenarios and internal models based on Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

Provisioning Across the Three ECL Stages:

Provisioning under ECL is intrinsically linked to the three-stage impairment model.

a) Stage 1-Provisioning for Performing Assets:

For assets that have not experienced a significant increase in credit risk since origination:

- Banks are required to recognize **12-month Expected Credit Loss.**
- This represents expected losses from default events possible within the next 12 months.
- Provisions are typically lower but applied across a large base of assets.

This introduces a baseline prudential buffer even for newly originated and high-quality loans.

b) Stage 2-Provisioning for Assets with Significant Increase in Credit Risk:

For exposures that have witnessed material deterioration in credit risk:

- Lifetime ECL must be recognized.
- Provisions increase sharply as losses are estimated over the entire remaining contractual life.
- **Stage 2** acts as an early stress absorption layer.

This stage significantly enhances the sensitivity of provisioning to emerging credit stress.

c) Stage 3-Provisioning for Credit-Impaired Assets:

For credit-impaired or defaulted assets:

- **Lifetime ECL** continues to apply.
- Provisions reflect expected recoveries after considering collateral, guarantees, and legal remedies.
- This stage broadly corresponds to NPAs but with a more analytical provisioning approach.

Interest Income Recognition and Its Interaction with Provisions: A critical reporting implication of ECL

provisioning is the treatment of interest income:

- **Stage 1 and Stage 2 Assets:** Interest income is recognized on the gross carrying amount of the exposure.
- **Stage 3 Assets:** Interest income is recognized on the net carrying amount (i.e., after deducting ECL provisions).

This approach ensures that income recognition aligns with the economic reality of recoverability and avoids overstatement of earnings on impaired assets.

Reporting under the ECL Framework

The framework mandates enhanced governance and comprehensive disclosure standards to ensure transparency and comparability:

- **Mandatory Disclosures**: Banks are required to provide extensive quantitative and qualitative disclosures in their financial statements, covering their credit risk management practices, ECL estimation methodologies, and key assumptions (e.g., macroeconomic forecasts).
- **Regulatory Submissions**: Specific reports regarding the ECL approach, macroeconomic assumptions, and adjustments must be submitted to the RBI.
- **Governance and Control**: A robust governance structure is required, involving active oversight from the Board of Directors and designated committees to manage model risk and ensure data quality.

The RBI is providing a **five-year glide path until March 31, 2031**, to help banks manage the one-time transitional impact on their Common Equity Tier 1 (CET1) capital.

Prudential Floors and Regulatory Overlays:

While ECL is conceptually aligned with international accounting standards, the Indian framework incorporates prudential safeguards to maintain financial stability.

a) Prudential Provisioning Floors:

- Banks may be required to maintain minimum provisioning levels prescribed by the regulator, even if model-derived ECL amounts are lower. This prevents under-provisioning due to overly optimistic assumptions or model limitations.

b) Management and Regulatory Overlays:

Banks may apply

- Management overlays to address model limitations or emerging risks.
- Regulatory overlays as directed by supervisors.

Such overlays reinforce prudence but must be transparently documented and disclosed.

Transitional Arrangements and Capital Impact:

Recognizing the potential impact of ECL on profitability and capital, the RBI has proposed **phased transitional arrangements** beginning 1 April 2027.

Key features include:

- Gradual absorption of increased provisioning into profit and loss.
- Capital adjustment mechanisms to smooth the impact on regulatory capital ratios.
- Enhanced supervisory monitoring during the transition phase.

These measures balance global convergence with domestic financial system stability.

Financial Reporting and Disclosure Requirements:

ECL significantly enhances the scope and depth of financial disclosures.

a) Quantitative Disclosures:

Banks will be required to disclose:

- ECL provisions by stage.
- Reconciliation of opening and closing provisions.
- Movement between stages during the reporting period.

b) Qualitative Disclosures:

Disclosures must also cover:

- Credit risk management practices.
- Key assumptions and judgments used in ECL estimation.
- Description of macroeconomic scenarios and probability weightings.

c) Transparency and Comparability:

Enhanced disclosures improve:

- Transparency for investors and analysts.
- Comparability across banks and over time.
- Regulatory oversight and market discipline.

Governance, Controls, and Assurance:

Provisioning and reporting under ECL require strong governance frameworks:

- Board oversight of provisioning policies and risk appetite.
- Independent model validation and periodic back-testing.
- Internal audit and assurance reviews of ECL computation and disclosures.
- Clear documentation of assumptions, overrides, and overlays.

Professional expertise, including that of cost and management accounting and risk professionals, becomes critical in ensuring credibility and consistency.

Challenges in Provisioning & Reporting under ECL:

Indian banks are likely to face several challenges:

- Data gaps and historical loss information.
- Integration of risk models with financial reporting systems.
- Managing earnings volatility during economic cycles.
- Ensuring consistency across portfolios and geographies.

Addressing these challenges requires early preparation, system upgrades, and capacity building.

Conclusion:

The provisioning and reporting framework under Expected Credit Loss marks a decisive shift towards forward-looking, transparent, and risk-sensitive financial reporting in Indian banking. By extending provisioning to performing assets and aligning income recognition with credit quality, ECL enhances the credibility of bank financial statements and strengthens prudential resilience.

While the transition effective from 1 April 2027 will pose operational and financial challenges, it also offers an opportunity to embed robust credit risk management practices across the banking system. With strong governance and supervisory oversight by the Reserve Bank of India, ECL-based provisioning and reporting are expected to contribute significantly to the long-term stability and integrity of Indian banks.

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Expected Credit Loss (ECL) Provisioning

(Evolution and Comparative Assessment: NBFCs vs Indian Banks- Effective April 1, 2027)

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Abstract:

Expected Credit Loss (ECL) provisioning marks a pivotal evolution in credit risk measurement and financial reporting. Implemented for many Non-Banking Financial Companies (NBFCs) in India that follow Indian Accounting Standards (Ind AS), ECL represents a forward-looking approach to provisioning. It aligns Indian NBFC practices with global standards, enabling provision recognition based on expected future losses rather than incurred losses alone.

With scheduled implementation of ECL for Indian Banks from April 1, 2027, differences and convergence effects between NBFC and banking provisioning frameworks merit detailed analysis. This article critically examines the ECL methodologies, key differences, regulatory design, and the implications for financial stability and credit risk management in India.

Keywords: Expected Credit Loss (ECL), Ind AS 109, NBFCs, Indian Banks, RBI, provisioning, forward-looking, financial risk management.

Credit risk provisioning is a core component of financial reporting and risk management for lending institutions. Historically, Indian Banks and certain NBFCs applied Incurred Loss models, recognizing provisions only after objective evidence of credit deterioration. Ind AS 109, derived from IFRS 9, introduced a paradigm shift by mandating a forward-looking ECL model, fundamentally changing how credit impairment is recognized.

Since 2020, RBI has mandated that NBFCs following Ind AS adopt an ECL framework with a board-approved policy, positioning them ahead of Banks in transition to forward-looking provisioning. Indian Banks are scheduled to implement a variant of the ECL model from April 1, 2027. This article delineates similarities and differences between these frameworks, regulatory expectations, measurement mechanics, and practical implications.

Evolution of Credit Loss Provisioning in India:

Traditional Incurred Loss Model: Under the incurred loss paradigm, provisions are recognized when a credit event adversely affects collectability-typically after delinquency or objective evidence. This delayed recognition has been criticized for underestimating latent risks, as witnessed in global financial crises.

a) Ind AS 109 and Expected Credit Loss:

Ind AS 109 mandates recognition of an allowance for credit losses based on expected losses over future periods, rather than waiting for actual defaults. It introduces a three-stage model:

- **Stage 1:** Performing assets-12-month ECL.
- **Stage 2:** Significant increase in credit risk-lifetime ECL.
- **Stage 3:** Credit impaired-lifetime ECL with interest recognition on net carrying amount.

This framework enhances forward-looking risk capture and predictive provisioning.

Comparative Overview of Credit Loss Provisioning Frameworks in India

Particulars	NBFCs under Ind AS 109	Indian Banks (ECL w.e.f. 1.4.2027)
Regulatory Basis	Ind AS 109 (Accounting Standard)	RBI Prudential Framework (Regulatory + Accounting alignment)
Objective	True & fair financial reporting	Financial stability and prudential risk management
Provisioning Approach	Forward-looking Expected Credit Loss	Forward-looking Expected Credit Loss with regulatory overlays
Applicability	Ind AS-compliant NBFCs	All Scheduled Commercial Banks
Implementation Timeline	Effective since 2019-20	Effective from April 1, 2027
Governing Approval	Board-approved ECL Policy	Board-approved ECL Policy + RBI supervisory oversight
Regulatory Floors	Not prescribed	Likely minimum regulatory provisioning floors
Supervisory Review	Limited (primarily audit-driven)	Intensive RBI supervisory review

ECL in NBFCs: Current State:

Since RBI's 2020 directive, NBFCs applying Ind AS (particularly large and systemically important NBFCs) calculate ECL per Ind AS 109, supported by:

- Board-approved ECL policies.
- Regular assessment of credit risk changes.
- Use of forward-looking information (macroeconomic forecasts, borrower indicators).
- Portfolio segmentation and risk grading evolution.

This has led to **provision buffers accrual upfront**, potentially improving resilience to credit deterioration. NBFCs have thus operationalized ECL for several years, providing practical insights into model calibration, data analytics requirements, and policy governance.

Staging Comparison-NBFCs (Ind AS 109) vs Banks (Proposed RBI ECL)

Stage	NBFCs-Ind AS 109	Banks-RBI ECL (Indicative)
Stage 1	Performing assets with no significant increase in credit risk	Standard assets with normal credit risk
Provision Basis	12-month ECL	12-month ECL
Interest Recognition	On gross carrying amount	On gross carrying amount
Stage 2	Significant Increase in Credit Risk (SICR)	Assets showing early stress or heightened risk
Provision Basis	Lifetime ECL	Lifetime ECL (possibly with regulatory overlays)
Interest Recognition	On gross carrying amount	On gross carrying amount
Stage 3	Credit-impaired assets	Non-performing assets (NPAs)
Provision Basis	Lifetime ECL	Lifetime ECL (aligned with prudential norms)
Interest Recognition	On net carrying amount	On net carrying amount

ECL for Banks Effective April 1, 2027:

a) Regulatory Mandate:

The Reserve Bank of India (RBI) has decided to align Indian Banks with an ECL-based provisioning regime effective April 1, 2027. This shift aims to harmonize the provisioning norms across financial intermediaries and align with global best practices.

b) Scope and Framework:

While Ind AS-applicable Banks currently follow Ind AS 109 for financial reporting, RBI's guidance introduces a prudential overlay or regulatory ECL regime for statutory provisioning under the Banking Regulation Act. Key aspects include:

- Alignment with global expected loss frameworks (e.g., IFRS 9, CECL).
- Incorporation of RBI-specific templates, classifications, and staging criteria.
- Robust credit risk assessment policies, including regulatory floors.
- Forward-looking macroeconomic scenarios incorporated in ECL calculations.

Evolution from Incurred Loss to Expected Credit Loss Model

Traditional Model (Incurred Loss)

Loan Origination ➔ Performing ➔ Default Event ➔ Provision Recognized

Expected Credit Loss Model

Loan Origination ➔ Risk Monitoring ➔ Forward-looking Assessment

⬇

Provision Recognized (12-month / Lifetime ECL)

Interpretation: Under ECL, provisioning begins at origination, improving loss absorption capacity well before default materializes.

Key Differences Between NBFC and Banking ECL Frameworks:

Although both NBFCs and Banks adopt forward-looking provisioning, several structural and regulatory distinctions exist:

a) Regulatory Objective:

- **NBFCs (Ind AS 109):** Financial reporting–oriented

provisioning based on accounting standards.

- **Banks (RBI ECL):** Prudential provisioning for regulatory capital and financial stability, alongside accounting recognition.

b) Staging and Classification Criteria:

NBFCs use Ind AS 109 staging based on significant increases in credit risk relative to lifetime ECL triggers. Banks may adopt variant staging thresholds prescribed by RBI, often informed by regulatory risk sensitivity tests and supervisory judgments.

c) Macro-Economic Scenarios and Overlays:

NBFCs implement forward-looking provisioning primarily for financial reporting. Banks' models will include prudential overlays calibrated by RBI, requiring multiple scenarios (baseline, optimistic, adverse) and stress test references, potentially resulting in higher provisions during downturns.

d) Data and Systems Requirements:

Banks, given larger and more complex portfolios, face more significant data integration and modelling challenges. NBFCs' experience offers useful best practices, but Banks are expected to adopt more rigorous governance, validation, and supervisory review processes.

e) Regulatory Floors and Buffers:

RBI may prescribe regulatory floors or minimum provision thresholds to safeguard against model variations and procyclicality. NBFCs under Ind AS lack such prudential floors, reflecting an accounting rather than regulatory capital requirement.

Illustrative Provisioning Impact – Incurred Loss vs ECL

Year	Credit Quality	Incurred Loss Provision (%)	ECL Provision (%)
Year 1	Fully Performing	Nil	0.5 – 1.0
Year 2	Mild Deterioration	Nil	1.5 – 3.0
Year 3	Significant Risk Increase	1 – 2	5 – 7
Year 4	Default / NPA	25 – 40	40 – 60

Key Insight: ECL results in earlier and smoother provisioning, whereas incurred loss models create sharp spikes at default stage.

Implications for Financial Institutions:

a) Risk Management Enhancements:

Banks' transition to ECL fosters a risk culture emphasizing early risk recognition, proactive portfolio monitoring, and integration of macroeconomic analytics in credit decisions.

b) Capital Adequacy and Earnings Volatility:

Forward-looking provisioning may temporarily increase provisioning charges, affecting short-term profitability and capital ratios. Banks may need to balance provision buffers with capital adequacy planning.

c) Convergence and Harmonization:

Aligning NBFC and banking provisioning enhances comparability, transparency, and investor confidence. It reduces the arbitrage between entities classified as NBFCs vs Banks.

d) Supervisory Expectations:

RBI's supervisory reviews will likely focus on:

- Appropriateness of staging criteria.
- Validation of forward-looking assumptions.
- Governance and internal controls.
- Adequacy of disclosures to stakeholders.

Use of Forward-Looking Information

Parameter	NBFCs (Ind AS 109)	Banks (RBI ECL)
Macroeconomic Variables	GDP, inflation, sector outlook	GDP, inflation, interest rates, stress-test variables
Scenario Analysis	Usually 2-3 scenarios	Mandatory multi-scenario (baseline, adverse, severe)
Weightage Determination	Management judgment	RBI-guided supervisory expectations
Overlays	Limited	Prudential and supervisory overlays expected

Practical Challenges and Strategic Responses:

a) Modelling Complexities:

Developing robust ECL models requires significant investment in data infrastructure, credit risk expertise, scenario analysis capabilities, and model validation frameworks.

b) Behavioural Adjustments:

Institutions must evolve credit culture-shift from reactive provisioning to anticipatory risk management involving credit origination policies and portfolio diversification.

c) Training and Capacity Building:

Human capital development, including upskilling risk, finance, and audit teams, is central to successful ECL implementation.

Conclusion:

The transition to Expected Credit Loss provisioning for Indian Banks from April 1, 2027 represents a transformative shift in credit risk recognition-bringing Indian Banks in line with NBFCs and global best practices. While NBFCs applying Ind AS have operationalized ECL since 2020, regulatory ECL for Banks introduces prudential overlays, staging norms, and supervisory expectations that shape credit provisioning beyond accounting recognition. This evolution enhances financial resilience, aligns risk and capital management, and signals a strengthened regulatory architecture aimed at mitigating future credit stress episodes.

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Transitional Arrangements and Prudential Floors under the Expected Credit Loss (ECL) Framework

Abstract:

The transition to the Expected Credit Loss (ECL) framework represents a structural reform in credit risk provisioning for Indian banks. While ECL enhances prudence through forward-looking and risk-sensitive provisioning, its immediate adoption may lead to sharp increases in provisions and potential volatility in profitability and capital adequacy.

To mitigate these transitional challenges and preserve financial stability, the Reserve Bank of India has proposed calibrated transitional arrangements and prudential provisioning floors.

This Article examines the objectives, design principles, and mechanics of transitional provisions and prudential floors under the ECL framework. It analyses their role in balancing global best practices with domestic banking realities and highlights governance and implementation considerations relevant to Indian banks during the transition period beginning 1 April 2027.

Keywords: *Expected Credit Loss, Transitional Arrangements, Prudential Floors, Credit Risk Provisioning, Capital Adequacy, Indian Banks, RBI Regulation.*

The Expected Credit Loss (ECL) framework fundamentally changes the timing and magnitude of credit loss recognition in banks. By requiring provisioning based on expected outcomes rather than incurred events, ECL typically leads to earlier and higher recognition of credit losses, especially on performing and under-performing assets.

For Indian banks, many of which operate in a developing credit market with heterogeneous data quality, evolving recovery mechanisms, and cyclical sectoral risks, an abrupt shift to ECL could create unintended stress on earnings, capital ratios, and lending capacity. Recognizing these challenges, the regulator has proposed transitional arrangements and prudential floors as integral components of the ECL framework effective from 1 April 2027.

These measures are not dilutions of prudence but rather stabilizing mechanisms designed to ensure a smooth, credible, and orderly transition to the new regime.

The Reserve Bank of India (RBI) is implementing the Expected Credit Loss (ECL) framework for Indian commercial banks from **April 1, 2027**, replacing the existing incurred loss model. The transition includes specific arrangements and prudential floors designed to manage the impact on capital and ensure robust provisioning.

Rationale for Transitional Arrangements:

a) Avoidance of Capital Shock:

ECL provisioning typically results in a day-one increase in

impairment allowances, particularly for long-tenor retail, infrastructure, and project finance exposures. Without transitional relief, this increase could materially erode retained earnings and regulatory capital.

b. Earnings Volatility Management:

Immediate full recognition of ECL may introduce sharp volatility in profit and loss statements, especially during periods of economic uncertainty. Transitional arrangements allow banks to absorb these impacts gradually.

c) Readiness and Capability Considerations:

Indian banks are at different stages of readiness in terms of:

- Data availability.
- Credit risk modelling maturity.
- System integration.

Transitional measures provide time for banks to refine models, strengthen governance, and improve data quality without compromising regulatory discipline.

Transitional Arrangements

To smooth the impact of a one-time increase in provisioning when the ECL framework takes effect, the RBI has provided a glide path for banks until **March 31, 2031**.

- **Capital Impact Phasing**: Banks can add the difference between the ECL-based provisions and the existing provisions as of **March 2027** back to their Common Equity Tier 1 (CET1) capital.
- **Gradual Phase-out**: This capital benefit will be phased out gradually over the four-year transition period, ensuring an orderly adjustment to the new regime without a sudden strain on capital ratios.

Nature and Scope of Transitional Arrangements:

a) Phased Recognition of ECL Impact:

Under the proposed framework, banks may be permitted to **phase in the incremental ECL provisions** over a defined transition period beginning 1 April 2027. This approach ensures that the cumulative prudential impact of ECL is recognized, but not in a single accounting period.

b) Interaction with Regulatory Capital:

Transitional arrangements are expected to include mechanisms whereby:

- A portion of the incremental ECL provisions may be neutralized for capital adequacy computation during the transition period.
- The neutralization reduces progressively until full impact is absorbed.

This approach mirrors international regulatory practices while retaining supervisory discretion.

c) Alignment with Supervisory Review:

Transitional relief is not automatic or unconditional. Banks are expected to:

- Demonstrate credible ECL models.
- Maintain transparent documentation.
- Comply with supervisory expectations.

Supervisors retain the authority to withdraw or adjust transitional benefits if prudential concerns arise.

Prudential Floors

The RBI has prescribed prudential floors (minimum provisioning percentages) as a regulatory backstop to prevent the underestimation of losses or "Model Gaming", ensuring consistency and prudence across the banking system, even if internal models suggest lower provisions.

Prudential Floors: Concept and Purpose:

a) Definition of Prudential Floors:

Prudential floors refer to minimum provisioning levels that Banks must maintain under ECL, irrespective of the output generated by internal credit risk models.

b) Rationale for Prudential Floors:

The introduction of Sophisticated Models increases the risk of:

- Model optimism.

- Over-reliance on historical benign periods.
- Underestimation of tail risks.

Prudential floors act as a safeguard against these risks by ensuring that provisioning does not fall below a regulator-determined minimum.

Prudential Floors vis-à-vis Existing IRACP Provisions:

A key design principle of the Indian ECL framework is that **ECL provisions should not be materially lower than provisions under the existing IRACP norms**, particularly during the initial years of implementation. This ensures:

- Continuity in prudential discipline.
- Avoidance of regulatory arbitrage.
- Protection against sudden reversals in asset quality recognition.

Where model-derived ECL is lower than the prudential floor, banks are required to maintain provisions at the floor level.

Provisioning Floors by Stage

Loans are classified into three stages based on credit risk:

- **Stage 1 (No Significant Increase in Credit Risk)**: 12-month ECL recognized. The general floor is **0.4%**.
  - Specific asset classes like small and micro enterprises have a lower floor of **0.25%**.
  - Unsecured retail loans have a higher floor of **1%**.
- **Stage 2 (Significant Increase in Credit Risk but not Credit Impaired)**: Lifetime ECL recognized. The general floor is **5%** for most categories.
  - Specific secured assets like home loans, loans against property, and gold loans have a lower floor of **1.5%**.
- **Stage 3 (Credit Impaired/Defaulted)**: Lifetime ECL recognized. Provisioning floors are based on the asset's vintage (duration of default) and collateral, ranging from **25% to 100%** for unsecured exposures after one year.

Management Overlays and Supervisory Overlays:

a) Management Overlays:

Banks may apply management overlays to address:

- Data limitations.
- Emerging sectoral risks.
- Macroeconomic uncertainty not fully captured in models.

Such overlays must be:

- Well-justified.
- Consistently applied.
- Periodically reviewed.

b) Supervisory Overlays:

The regulator may impose supervisory overlays in cases where:

- Model assumptions are deemed insufficiently conservative.
- Systemic risks are building up.
- Portfolio-level stress is observed.

These overlays reinforce the prudential orientation of ECL.

Regulatory Backstops for Models

For banks unable to reliably estimate their own risk parameters, the RBI has proposed minimum regulatory values:

- **Probability of Default (PD) floor**: **0.05%**.
- **Loss Given Default (LGD) floor**: **65%** for secured exposures and **70%** for unsecured exposures.

Governance and Disclosure Requirements:

Transitional arrangements and prudential floors significantly elevate governance expectations.

a) Board and Senior Management Oversight:

The Board is expected to:

- Approve transitional policies.
- Review capital and provisioning impact.
- Ensure consistency with risk appetite.

Transparency in Financial Reporting:

b) Banks must clearly disclose:

Banks must clearly disclose:

- Impact of transitional arrangements on provisions and capital.
- Nature and quantum of prudential floors applied.
- Rationale for overlays and overrides.

Such disclosures enhance stakeholder confidence and market discipline.

Challenges in Implementing Transitional Measures:

Indian banks may face challenges such as:

- Balancing regulatory relief with investor expectations.
- Managing comparability across banks with differing transition strategies.
- Avoiding prolonged dependence on transitional concessions.

Addressing these challenges requires disciplined implementation and timely exit from transitional support.

Long-Term Prudential Significance:

Transitional arrangements and prudential floors are temporary stabilizers, not permanent features. Over time:

- Models are expected to mature.
- Data quality is expected to improve.
- Reliance on floors and overlays should reduce.

The ultimate objective is a fully embedded, model-driven ECL regime that is both risk-sensitive and prudentially robust.

Key Insights

- The ECL framework is a paradigm shift towards proactive risk management, aligning Indian banks with global standards like IFRS 9.
- The primary impact on provisioning is expected to be on Stage 2 assets, as most banks already have high provision coverage for Stage 3 assets (NPAs).
- The transition is expected to be smooth, as most large Indian banks maintain strong capital buffers and have been preparing for the change for some time.

Conclusion:

The success of the Expected Credit Loss framework in India depends not only on sound modelling but also on the effectiveness of its transitional and prudential safeguards. Transitional arrangements provide banks with the necessary time and flexibility to adapt to a fundamentally new provisioning paradigm, while prudential floors ensure that conservatism is not compromised during this transition.

Together, these mechanisms strike a critical balance between innovation and stability, enabling Indian banks to migrate to a forward-looking provisioning framework without destabilizing the financial system. With vigilant supervisory oversight by the Reserve Bank of India and strong internal governance, transitional arrangements and prudential floors will play a pivotal role in the credible and resilient adoption of ECL from 1 April 2027.

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Effective Approaches to Implementing Expected Credit Loss Provisions in Banks

(An International Perspective

Following the Great Financial Crisis, Accounting Standard setters have required Banks and other Companies to make provision for Expected Credit Losses against Loans granted. While the rules adopted by the two main standard-setting bodies differ, Banks must, in both cases, provide for Expected Credit Losses from the Time a loan is granted, rather than awaiting "Trigger Events" signalling imminent losses. In the short term, provisions may rise but the impact on regulatory capital is expected to be limited. However, the new rules are likely to alter the behaviour of banks in credit downturns, potentially dampening pro-cyclicality. Banks, Supervisors and market participants must prepare for their respective roles in implementing the new approach and in assessing its impact

In the aftermath of the Global Financial Crisis (GFC) of 2008, it became clear that traditional incurred-loss provisioning frameworks delayed recognition of credit deterioration, contributing to systemic risk. As a corrective measure, the Expected Credit Loss (ECL) paradigm was developed to ensure forward-looking recognition of credit impairment in bank financial statements. Under the International Financial Reporting Standards (IFRS), ECL is codified in IFRS 9 Financial Instruments (2018), whereas in the United States a similar approach "the Current Expected Credit Loss (CECL)" model is embedded in US GAAP (ASC 326) and became mandatory for most banks starting 2020-22.

Effective approaches for implementing Expected Credit Loss (ECL) provisions involve robust governance and model validation, the use of Forward-looking Macroeconomic variables, and close cooperation between risk and finance departments.

Although the Principles behind ECL are Globally shared, Countries have adopted diverse strategies and supervisory practices when implementing provisions. This article examines effective country-level approaches, regulatory alignment, model frameworks, and challenges in implementing ECL provisions globally.

The ECL Framework: Fundamentals and Variants:

- **IFRS 9 Model:** Under IFRS 9, banks estimate expected losses that reflect forward-looking information and assess credit risk continuously throughout a financial asset's life. Assets are categorized in three stages:
  - **Stage 1:** Performing assets- recognize 12-month ECL.
  - **Stage 2:** Assets with significant increase in credit risk-recognize lifetime ECL.

- **Stage 3:** Credit-impaired assets- recognize lifetime ECL.

This staged approach contrasts with traditional models that recognize losses only when impairment has occurred.

- **CECL Model (US):** In the United States, CECL requires banks to recognize lifetime ECL at origination for all loans- a more conservative and less staged outcome. It does not use SICR staging but uses point-in-time probabilities of default throughout the asset life.

Country-Level Implementation Approaches:

- **European Union: Harmonization under IFRS 9:** The European Banking Authority (EBA) monitors IFRS 9 implementations across EU member states and ensures supervisory consistency. Key features include:
  - **Mandatory IFRS 9 for consolidated financial statements** of listed entities.
  - Use of **macroeconomic overlays and back testing** to improve model reliability.
  - Emphasis on reducing judgment biases in overlays through enhanced governance and documentation.

Regulators in France, Germany, Spain, and Italy have supplemented IFRS 9 with n**ational prudential guidance** to tighten provisioning norms and improve transparency.

- **Gulf Cooperation Council (GCC):** Countries like **Saudi Arabia, UAE, Qatar, Bahrain, Kuwait, and Oman** have adopted IFRS 9 with additional regulatory guidance:
  - **Saudi Central Bank (SAMA)** emphasizes conservative provisioning and stress testing.
  - **Central Bank of UAE (CBUAE)** mandates strong model governance, validation, and periodic stress testing.
  - Regulators in GCC encourage **internal and external credit ratings** and back testing of ECL estimates.

These approaches reflect a blend of international standards with localized supervisory expectations tailored to high oil-price volatility and SME risk profiles.

- **Spain and Italy:** Coordinated Resolution Frameworks: In Spain and Italy, IFRS 9 adoption has reinforced loan resolution mechanisms and asset management vehicles:
  - Post-crisis legacy portfolios of non-performing loans (NPLs) were reduced through securitisation guarantees and stronger ECL provisioning that improved investor confidence in distressed assets.
  - Collaboration with specialised institutions helped standardise provisioning and disposal practices.
- **Poland and Central & Eastern Europe:** Polish regulators adopted a **conservative supervisory stance**, requiring banks to integrate lifetime ECL more proactively. This elevated the sensitivity of lending practices to credit risk developments, acting as a preventive buffer against new NPL accumulation.
- **Emerging Markets & Developing Economies:** Many emerging economies implemented IFRS 9 in 2018 or later, often facing **data quality, modelling skill gaps, and governance challenges:**
  - Lack of robust historical data and limited expertise led to reliance on simpler PD/LGD models and external benchmarks.
  - Supervisors provided phased timelines and technical support to banks for model development and validation.
  - Coordination between risk, finance, and IT teams proved critical to integrate ECL into existing systems.

Country Approaches to ECL Implementation:

Different countries have adopted distinct frameworks for ECL, primarily based on the International Financial Reporting Standard 9 (IFRS 9) or US GAAP's ASC 326 (CECL).

- **Europe and many other IFRS 9 countries:** Implementation began in 2018 under IFRS 9, which uses a three-stage impairment model.
  - **Stage 1 (Performing assets):** Banks recognize 12-month ECL.
  - **Stage 2 (Significant increase in credit risk):**

Banks recognize lifetime ECL.

- **Stage 3 (Credit-impaired assets):** Lifetime ECL is also recognized.

This approach requires a significant increase in credit risk (SICR) assessment to determine the stage, offering flexibility but also requiring clear, consistent supervisory expectations.

- **United States:** The Current Expected Credit Loss (CECL) standard (ASC 326) became effective for most banks in 2022.
  - CECL mandates the calculation of lifetime expected losses for all in-scope financial assets from initial recognition.
  - The single-measurement approach of CECL was considered potentially simpler to implement for smaller institutions.

Key Success Factors in Implementation:

- **Regulatory Guidance and Supervision:** Across jurisdictions, a defined **regulatory roadmap** with clear milestones for implementation enhances compliance. Regulators that provide guidelines for model validation, governance, and macroeconomic scenario integration see more consistent ECL application.

The EBA's (European Banking Authorities) focus on timely practice adjustments and back testing, for example, improves consistency and reduces excessive judgment in provisioning.

- **Data Infrastructure and Analytics:** Modern ECL models demand extensive data infrastructure to capture historical performance, current risk indicators, and multiple macroeconomic scenarios:
  - Larger banks invest in advanced analytics, AI-driven early warning systems, and automated model recalibration.
  - Smaller banks may partner with larger institutions or adopt vendor platforms to meet data requirements.
- **Governance and Cross-Functional Collaboration:** Effective ECL frameworks feature:
  - **ECL oversight committees** involving risk, finance, and compliance units.
  - Periodic **model validation** and recalibration, ensuring parameters reflect evolving risk conditions.
  - Strong documentation and audit trails for model assumptions and overlays.

These governance practices have been particularly emphasized in GCC and European banks.

The new ECL provisioning standards are intended to induce a major change in how banks approach and manage credit risk. While provisions may increase significantly for some banks, the regulatory capital impacts in the transition to the new regime appear likely to be relatively limited (and may be further dampened by supervisors). In future, banks will be asked to examine the nature, likelihood and timing of the risks embedded in their lending decisions, and to reflect this assessment in their financial statements as soon as a loan is made. If this assessment is performed appropriately and with the full range of future risks in mind, this should reduce the pro-cyclicality of the financial system.

Effective Implementation Strategies:

In both IFRS 9 and CECL frameworks, effective implementation relies on several shared practices:

- **Robust Model Risk Management (MRM):** Banks must design and implement their own ECL models, which are subject to rigorous, independent validation and periodic monitoring.
- **Data Quality and Availability:** ECL is data-intensive, requiring sufficient historical data covering at least one full economic cycle. Many countries relied on external data or regulatory guidance in the initial stages if internal data was scarce.
- **Incorporation of Forward-Looking Information:** A key element of effective implementation is the use of unbiased, probability-weighted estimates across multiple macroeconomic scenarios (e.g., GDP, unemployment rates) to project potential future losses.
- **Strong Governance and Oversight**: Active oversight from the Board of Directors and a designated committee ensures that the framework is robust and that significant management judgments and overlays are appropriate and well-documented.

- **Clear Definition of Default and SICR:** Countries like those in Europe use regulatory backstops, such as 30 days past due (DPD) for SICR assessment and 90 DPD for defining default, to ensure consistency.

- **Collaboration:** Successful implementation requires close collaboration between different departments, including credit risk, finance, IT, and operations, to ensure alignment of data and processes across the entire credit lifecycle.

- **Transitional Arrangements:** Regulators in several countries, including Europe and the US, provided transitional arrangements to smooth the impact of initial ECL adoption on banks' regulatory capital ratios.

Common Challenges and Mitigation Strategies:

- **Modelling and Data Quality:** Countries with limited historical data encounter modelling challenges. Mitigation includes:
  - ➤ Use of adjusted external data (e.g., sovereign and industry risk proxies).
  - ➤ Simplified segmentation with robust overlay frameworks validated by supervisors.

- **Judgment and Scenario Selection:** Forward-looking models inherently embed judgment -especially in the selection and weighting of macroeconomic scenarios. Enhanced governance and documented approvals help mitigate subjective bias.

- **Regulatory vs Accounting Objectives:** While ECL under IFRS is accounting-focused, banking regulators often align capital adequacy standards with Basel III. Integrated communication between accounting and prudential supervisors is critical to avoid contradictory incentives.

Conclusion:

International experience demonstrates that successful ECL implementation depends not just on adherence to accounting standards like IFRS 9 or CECL, but also on **robust regulatory frameworks, strong model governance, quality data infrastructure, and cross-disciplinary collaboration within banks**. Countries that combine clear supervisory guidance with practical implementation support-such as staging criteria, back testing, and scenario analysis-produce more effective and reliable credit loss provisioning. As emerging markets transition to ECL models, the transfer of global best practices can help mitigate risk, reinforce financial stability, and enhance transparency in the banking sector.

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Impact of the Expected Credit Loss (ECL) Framework on the Profitability of Indian Banks from April 1, 2027 Onwards

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Abstract:

From April 1, 2027, the Reserve Bank of India (RBI) has proposed the adoption of a forward-looking Expected Credit Loss (ECL) provisioning framework for scheduled commercial banks. This marks a pivotal shift from the traditional incurred-loss model to a predictive provisioning regime aligned with international standards. The transition is expected to affect how Indian banks recognize credit risk, manage capital, and report profitability. This article examines the mechanics of the ECL framework, its implications for bank profitability, capital adequacy, risk management practices, and the broader banking ecosystem.

The banking sector's approach to credit risk provisioning plays a crucial role in shaping financial stability, earnings quality, and investor confidence. Under the current incurred-loss model, banks recognize credit losses only after a loss event has occurred typically, when a borrower defaults or is significantly past due. However, global regulatory evolution, particularly under International Financial Reporting Standard 9 (IFRS 9), emphasizes expected losses provisioning for potential credit losses over the life of financial assets based on forward-looking information.

In India, the RBI has proposed the implementation of the ECL framework from April 1, 2027, with a glide path to full compliance by March 31, 2031. This reform aims to strengthen risk sensitivity and align Indian bank accounting with global best practices.

The Expected Credit Loss (ECL) framework, effective April 1, 2027, shifts Indian banks to a predictive provisioning model, increasing upfront provisions and potentially lowering initial profitability and capital (CET1) due to "front-loading" expected losses, though a transitional arrangement allows phasing in these impacts until 2031 to ease the transition, with overall system impact estimated as moderate and mitigated by recent asset quality improvements. Banks will provision for future losses (PD x LGD x EAD) for all stages, especially Stage 2 (significant risk increase), requiring enhanced governance, data, and modelling.

Conceptual Overview of the ECL Framework:

The ECL framework requires banks to classify financial assets into stages based on credit risk and estimate losses over expected future horizons:

- **Stage 1:** Assets with no significant increase in credit risk since initial recognition provisions based on 12-month ECLs.
- **Stage 2:** Assets showing a significant increase in credit risk-lifetime ECLs.
- **Stage 3:** Credit-impaired assets provisions based on lifetime ECLs and enhanced loss recognition.

Under this model, provisions are determined upfront based on probability-weighted outcomes across multiple macroeconomic scenarios, rather than waiting for observable default events. The RBI has also proposed prudential floors on loss given default (LGD) to ensure consistency.

Broader Implications

The Expected Credit Loss (ECL) framework, effective from April 1, 2027, will likely result in a modest one-time hit to the profitability of Indian banks due to higher initial provisioning, but is expected to enhance long-term financial resilience and transparency. The ECL framework is a significant operating model change, aligning Indian banking standards with global norms like IFRS 9 and CECL. This shift will require banks to:

- Invest in robust data management and analytical capabilities to accurately compute Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).
- Strengthen internal governance and risk management practices, with active oversight from boards and senior management.
- Price loans more accurately based on risk, potentially improving long-term loan book quality and resilience.

Key Impacts on Profitability & Capital:

- **Front-loading of Losses:** Banks must provision for 12-month (Stage 1) or lifetime (Stage 2) expected losses, leading to higher provisions than the current incurred-loss model.
- **Initial Profit Hit:** This increased provisioning will likely reduce profits and potentially lower Common Equity Tier 1 (CET1) capital ratios initially.
- **Transitional Arrangement:** A 4-year glide path (2027-2031) allows banks to add back a portion of the difference between ECL and existing provisions to CET1, smoothing the capital impact.
- **Mitigating Factors:** Improved asset quality and higher existing Provision Coverage Ratios (PCR) on NPAs will lessen the overall provisioning surge compared to earlier years.

Implications for Bank Profitability:

- **One-Time Provisioning Impact:** The immediate effect of adopting ECL will be an increase in provisioning requirements as banks recognize expected losses earlier than under the incurred-loss model. Analysts point out that this could result in a one-time increment in credit costs at the point of transition, which can depress reported profitability in the initial quarters of FY 2027-28.

However, the RBI has designed a phased implementation and a glide path until March 2031 to mitigate sharp earnings volatility. This approach spreads the provisioning load over several years, reducing the likelihood of a sudden profit shock.

- **Profitability Across Bank Types:** The extent of impact on net profits will vary across banks:
  - ✓ **Large private sector banks** with strong provisioning buffers and high contingent provisions are expected to absorb the transition more effectively, experiencing relatively milder impacts on profitability.
  - ✓ **Mid-sized and smaller banks**, particularly those with higher unsecured retail exposures (e.g., personal loans, credit cards, microfinance), may face higher incremental provisions, pressuring earnings in the near term.
  - ✓ **Public sector banks** could see a larger provisioning adjustment due to legacy asset quality issues, although improvements in asset quality over recent years provide some cushion.
- **Enhanced Earnings Stability:** While ECL may reduce reported profits initially, it enhances the quality of earnings by recognizing credit risks early. Over the medium term, this forward-looking provisioning can smooth profit cycles by reducing the need for abrupt "catch-up" provisions when assets deteriorate. It also aligns interest income recognition with underlying credit risk.

Shift to Forward-Looking Model

From 'Incurred Loss' to 'Predictive': Banks move from reacting to defaults (IRACP) to proactively estimating potential future losses.

Key Inputs: Provisions will be based on Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

Stage-Based System: Loans categorized into Stage 1 (low risk), Stage 2 (significant increase in credit risk), and Stage 3 (credit-impaired).

Key Impacts on Profitability:

- **Higher Overall Provisioning:** The forward-looking ECL model requires banks to estimate and provision for potential credit losses much earlier than the current "incurred loss" model, leading to an overall increase in provisioning requirements, especially for Stage 2 assets (those with a significant increase in credit risk but not yet impaired).

- **One-time Provisioning Increase:** The transition to the ECL framework will involve a one-time increase in provisioning on existing loan books when it takes effect in 2027. This initial adjustment is expected to be absorbed by banks' existing capital buffers.

- **Earnings Volatility:** While the initial impact is a one-off, the ongoing application of the ECL model, which uses forward-looking macroeconomic scenarios, may introduce some volatility in earnings report-to-report, although it will smooth losses across economic cycles in the long run.

- **Prudential Floors:** The Reserve Bank of India (RBI) has proposed minimum provisioning floors (e.g., a 5% floor for most Stage 2 assets), which are higher than current norms for standard and some non-performing assets. These floors ensure a minimum level of prudence and may require some banks to provision more than their internal models might suggest.

- **Capital Buffers and Glide Path:** To mitigate a sudden strain on capital and profitability, the RBI will allow banks a glide path until March 31, 2031, to phase out the impact of additional provisioning on their capital adequacy (Common Equity Tier 1 or CET1 ratios).

Capital Adequacy and Risk Management:

- **Capital Ratios:** Analysts estimate that the transition to ECL could reduce Common Equity Tier 1 (CET1) capital by several dozen basis points, with the impact on public sector banks somewhat higher than on private banks.

To offset this, the RBI allows banks to add back the difference between ECL provisions and existing provisioning for a defined period, softening immediate capital strain.

- **Risk Culture and Governance:** ECL mandates robust credit risk models, governance frameworks, and data

systems. Banks will need to invest in analytics, scenario modelling, and portfolio management practices, strengthening overall risk management capabilities.

Strategic and Operational Considerations:

- **Lending Behaviour:** In the short run, some banks may adopt more conservative underwriting standards, particularly in high-risk segments, anticipating higher provisioning. Over time, better risk pricing and borrower screening may emerge as benefits, improving portfolio resilience.

- **Market Perception and Transparency:** Transitioning to ECL aligns Indian banks with global accounting norms, improving comparability for international investors and credit rating agencies. Moreover, recognizing expected losses early may bolster market confidence, potentially enhancing valuations once initial adjustments stabilize.

Operational Changes & Governance

Enhanced Governance: Requires board oversight, skilled committees, and robust internal controls for model validation and data integrity.

Data & Systems: Need for continuous monitoring, rolling computations, and integrating ECL into pricing/limits.

Policy and Regulatory Synergy: The rollout of the ECL framework coincides with the phased implementation of revised Basel III risk weights from April 2027. Together, these changes aim to rationalize capital and risk recognition frameworks, providing a coherent regulatory regime that balances growth with financial stability.

Conclusion:

The implementation of the ECL framework from April 1, 2027 represents a paradigm shift in Indian banking regulation. While it is likely to exert short-term pressure on profitability due to higher provisioning requirements, its long-term benefits include stronger risk management practices, higher transparency in credit risk reporting, and enhanced earnings quality.

The ECL framework aims for greater resilience and transparency, aligning India with international standard. While there's an initial cost (higher provisions, potential profit dip), the RBI's phased approach and improved banking sector health aim to ensure a manageable transition.

Banks with robust asset quality, strong capital bases, and advanced risk systems will navigate this transition with relatively limited disruption. For the sector as a whole, ECL heralds a more resilient banking system better equipped to withstand economic cycles and aligned with global standards.

Overall, the transition may modestly affect short-term reported profitability, but is widely expected to benefit the sector's long-term stability and investor confidence.

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Why the Expected Credit Loss (ECL) Model Is Superior to the Incurred Loss Model for Indian Banks

Abstract:

The Reserve Bank of India (RBI) has announced a landmark reform in credit risk provisioning by mandating the adoption of the Expected Credit Loss (ECL) framework for Indian banks effective April 1, 2027, with a calibrated transition period. This reform replaces the long-standing Incurred Loss Model embedded in the IRACP norms. The article critically examines why the ECL model is conceptually, prudentially, and strategically superior to the incurred loss approach. It analyses regulatory intent, global convergence, financial stability considerations, and the implications for capital adequacy, governance, and risk culture in Indian banks.

Keywords: *Expected Credit Loss, Incurred Loss Model, RBI Guidelines, Credit Risk Provisioning, Indian Banking, IFRS 9, Financial Stability*

Credit loss provisioning lies at the heart of banking soundness. In India, provisioning norms have historically been governed by Income Recognition, Asset Classification, and Provisioning (IRACP) guidelines issued by the RBI. While these norms have served the system well during earlier decades, recurring stress cycles, especially post-2008 and during the NPA crisis of 2014–2018 have revealed structural weaknesses in a reactive provisioning regime.

Globally, the financial crisis exposed the limitations of "too little, too late" provisioning. International standard-setters responded by replacing incurred loss approaches with forward-looking expected loss models. In this context, RBI's decision to migrate Indian banks to an ECL framework represents not merely an accounting change, but a systemic risk reform.

The Expected Credit Loss (ECL) model is superior to the Incurred Loss (IL) model for Indian banks primarily because the ECL approach is forward-looking, promoting proactive risk management, greater financial stability, and alignment with global best practices. The IL model, in contrast, is backward-looking and often results in "too little, too late" provisioning.

The Incurred Loss Model: Concept and Structural Limitations:

- **Core Features of the Incurred Loss Model:** Under the incurred loss model currently followed by Indian banks:
  - ✓ Credit losses are recognised only after objective evidence of impairment arises.

- ✓ Provisioning is largely triggered by days-past-due (DPD) norms (e.g., 90 days).
- ✓ Historical data dominates assessment, with limited use of future-oriented indicators.
- ✓ Standard asset provisions are minimal and largely regulatory in nature.

This approach aligns provisioning with realised stress rather than emerging risk.

- **Structural Weaknesses of the Incurred Loss Model**: The incurred loss framework suffers from several fundamental shortcomings:
  - ✓ **Delayed Loss Recognition;** Credit deterioration often begins much earlier than regulatory default triggers. Incurred loss norms fail to capture this early stress.
  - ✓ **Procyclicality:** Provisions rise sharply during downturns, precisely when bank profitability and capital are already under pressure.
  - ✓ **Understatement of Risk During Growth Phases:** During credit booms, provisioning remains artificially low, masking build-up of systemic risk.
  - ✓ **Poor Alignment with Risk Management Practices:** Modern risk management relies on probability-based and scenario-based analysis, which the incurred loss model does not support.

Key Reasons for Superiority:

- **Early Loss Recognition:** The ECL model requires banks to estimate and provision for potential losses from the moment a loan is granted, incorporating future economic conditions. The IL model only allowed for loss recognition after a "loss event" (e.g., a payment becoming overdue by 90 days) had already occurred. This delay under the IL model was a key driver of financial crises, as problems were not reflected in financial statements in a timely manner.
- **Forward-Looking and Dynamic Provisioning**: The ECL model is predictive, using factors like Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are adjusted based on macroeconomic forecasts. This dynamic approach ensures that provisions increase as soon as the credit risk of a borrower increases, even if they are not yet in default.
- **Enhanced Financial Stability and Resilience:** By forcing banks to build stronger capital buffers against potential future losses, the ECL framework makes the banking sector more resilient to economic downturns and credit shocks. The IL model's delayed provisioning could exacerbate downswings in the economic cycle.
- **Improved Risk Management:** The new framework incentivizes banks to adopt more sophisticated credit risk management capabilities and internal rating models to measure risk appropriately. This fosters better internal governance and a stronger risk culture within the institution.
- **Global Alignment and Transparency**: The adoption of the ECL model (aligned with IFRS 9 and Ind-AS 109) brings Indian accounting standards in line with international norms. This enhances the comparability of Indian banks' financial statements with global peers, improving investor confidence and attracting investment.

Comparison of Models:

Feature	Expected Credit Loss (ECL) Model	Incurred Loss (IL) Model
Timing of Loss Recognition	Proactive; recognized from initial loan recognition based on expected future events.	Reactive; recognized only when there is objective evidence of an actual loss event or default.
Basis of Assessment	Uses a wide range of forward-looking information, including historical data, current conditions, and future macroeconomic forecasts.	Relies primarily on past events and current information (e.g., days past due).

Feature	Expected Credit Loss (ECL) Model	Incurred Loss (IL) Model
Provisioning Level	Generally, results in higher, more timely provisions, especially for "Stage 2" loans where credit risk has increased significantly.	Often results in "too little, too late" provisioning, as minimal amounts are set aside until a loan becomes a non-performing asset.
Alignment	Aligned with global accounting standards such as IFRS 9 and Ind AS 109.	Based on older accounting standards like IAS 39 and current IRACP norms in India.

Expected Credit Loss (ECL) Model: Conceptual Framework:

- **Definition and Philosophy:** The Expected Credit Loss (ECL) model requires banks to recognise credit losses based on expectations of future defaults, rather than waiting for defaults to occur.

It reflects the principle that:

"Credit risk exists from the moment a loan is originated, not from the moment it defaults."

- **Key** Components of the ECL Model: ECL is computed using three core quantitative parameters:

Parameter	Description
Probability of Default (PD)	Likelihood that a borrower will default
Loss Given Default (LGD)	Percentage of exposure likely to be lost if default occurs
Exposure at Default (EAD)	Expected outstanding exposure at time of default

These parameters are **forward-looking** and incorporate macroeconomic variables such as GDP growth, interest rates, inflation, and sectoral trends.

- **Three-Stage Credit Risk Classification:** The ECL framework introduces a staging mechanism based on changes in credit risk:

Stage	Credit Risk Status	Provisioning Requirement
Stage 1	Performing assets	12-month ECL
Stage 2	Significant increase in credit risk (SICR)	Lifetime ECL
Stage 3	Credit-impaired assets	Lifetime ECL + interest income on net basis

This structure ensures graduated provisioning as risk increases.

Comparative Analysis: Incurred Loss vs ECL Model:

- **Conceptual Comparison:**

Aspect	Incurred Loss Model	Expected Credit Loss Model
Recognition trigger	Past default event	Future expected default
Orientation	Backward-looking	Forward-looking
Risk sensitivity	Low	High

Aspect	Incurred Loss Model	Expected Credit Loss Model
Provision timing	Late	Early
Economic cycle impact	Highly procyclical	Counter-cyclical

- **Impact on Financial Statements:**

Dimension	Incurred Loss	ECL
Asset quality reporting	Delayed stress recognition	Transparent risk disclosure
Profit volatility	Sharp during downturns	Smoother over cycles
Capital planning	Reactive	Proactive
Investor confidence	Moderate	High

Why ECL Is Superior for Indian Banks:

- **Early Warning and Preventive Risk Management:** ECL transforms provisioning from a post-mortem exercise into a preventive control mechanism. By capturing early deterioration signals, such as rating downgrades, sectoral stress, or macroeconomic slowdown banks can:
  - ✓ Tighten credit monitoring.
  - ✓ Restructure exposures early.
  - ✓ Reduce eventual NPAs.
- **Reduction of Procyclicality:** One of RBI's core motivations is to mitigate **procyclical amplification** of stress. ECL spreads provisioning over the life of the asset, avoiding sharp spikes during crises.
- **Alignment with Global Regulatory Standards:** ECL aligns Indian banks with:
  - ✓ **IFRS 9** (Europe and most global jurisdictions).
  - ✓ **CECL** (United States).
  - ✓ **Basel III supervisory expectations.**

This enhances India's credibility in global capital markets and facilitates cross-border banking operations.

- **Improved Governance and Risk Culture:** Implementation of ECL necessitates:
  - ✓ Stronger credit risk governance.
  - ✓ Model validation frameworks.
  - ✓ Independent oversight by risk committees.
  - ✓ Enhanced role of internal audit and compliance.

This elevates the overall risk culture within banks.

RBI Guidelines and Transition Framework (Effective April 1, 2027):

- **Scope of Applicability:**
  - ✓ Scheduled Commercial Banks.
  - ✓ All India Financial Institutions.
  - ✓ Upper-Layer NBFCs (already largely aligned).
- **Phased Transition and Capital Relief: To mitigate transitional impact:**
  - ✓ RBI allows a glide path up to March 31, 2031.
  - ✓ Transitional ECL impact may be added back to CET-1 capital in a phased manner.
  - ✓ Existing IRACP provisions will be replaced, not layered.

This balanced approach ensures **financial stability without regulatory shock.**

Strategic Implications for Indian Banks:

- **Systems and Data Infrastructure:** Banks must invest in:
  - ✓ Granular borrower-level data.
  - ✓ Historical default databases.

- ✓ Scenario modelling capabilities.

- **Human Capital and Skill Development:** ECL demands interdisciplinary expertise involving:
  - ✓ Risk management.
  - ✓ Finance and accounting.
  - ✓ Data analytics.
  - ✓ Macroeconomic forecasting.

This opens a significant role for **Cost and Management Accountants (CMAs)**, risk professionals, and model validators.

- **Impact on Credit Pricing:** With risk fully priced through ECL, banks are likely to:
  - ✓ Improve risk-based pricing.
  - ✓ Discourage under-priced lending.
  - ✓ Promote sustainable credit growth.
  - ✓ Challenges and Mitigation Strategies:

Challenge	Mitigation
Model complexity	Phased rollout, supervisory guidance
Data limitations	Centralised data pooling, industry benchmarks
Earnings volatility	Transitional capital relief
Governance burden	Strengthened board oversight

Conclusion:

The Reserve Bank of India (RBI) is transitioning Indian banks to the ECL framework to achieve these benefits, with an effective date of April 1, 2027, and a glide path provided to ease the transition impact on capital. The transition from the Incurred Loss Model to the Expected Credit Loss Model marks a decisive shift in India's banking regulation—from reaction to anticipation, from compliance to prudence, and from short-term recognition to long-term resilience.

While implementation challenges are inevitable, the ECL framework is structurally superior, globally aligned, and systemically stabilising. RBI's calibrated roadmap ensures that Indian banks evolve into forward-looking, risk-sensitive institutions capable of supporting sustainable economic growth.

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Factors Determining Probability of Default in Expected Credit Loss Model

(To be Implemented in Indian Banks w.e.f. 1 April 2027)

Abstract:

From 1 April 2027, Indian banks will migrate to the Expected Credit Loss (ECL) framework, replacing the traditional incurred-loss–based provisioning system. The ECL model requires banks to recognise credit losses on a forward-looking basis, incorporating macroeconomic expectations and borrower-specific risk characteristics. At the core of ECL computation lies the ***Probability of Default (PD),*** *which represents the likelihood of a borrower defaulting over a given time horizon. This article examines the principal factors determining PD under the ECL framework, with specific reference to Indian banking conditions, regulatory expectations, modelling approaches, and practical implications for profitability and risk management.*

The Indian banking system has historically followed a rule-based provisioning framework under the Income Recognition, Asset Classification and Provisioning (IRACP) norms, where provisions were recognised only after the occurrence of credit impairment. While this approach ensured simplicity and regulatory certainty, it was criticised for delayed loss recognition and pro-cyclicality.

To align Indian banks with global best practices, the Reserve Bank of India (RBI) has proposed the adoption of the Expected Credit Loss (ECL) model from 1 April 2027. Under ECL, credit losses are recognised based on expectations of default, even before an actual default event occurs. This approach enhances transparency, strengthens risk management, and improves the resilience of the banking system.

The ECL model is built on three quantitative components:

- Probability of Default (PD).
- Loss Given Default (LGD).
- Exposure at Default (EAD).

Among these, PD plays a pivotal role, as even small changes in PD can result in significant variations in provisioning levels and profitability.

Concept and Role of Probability of Default:

Probability of Default refers to the likelihood that a borrower will fail to meet its contractual obligations within a specified period. Under the ECL framework, PD is applied over two distinct horizons:

- **12-month PD**-applicable to Stage 1 assets, where there has been no significant increase in credit risk.
- **Lifetime PD**-applicable to Stage 2 and Stage 3 assets, where

credit risk has increased significantly or the asset is credit-impaired.

The expected credit loss is computed as:

ECL = PD x LGD x EAD

Thus, PD acts as the probability-weighting factor for potential losses and directly influences both the timing and magnitude of provisions.

Regulatory Context for PD under Indian ECL Framework:

The RBI's proposed ECL guidelines emphasise prudence, comparability, and stability. Banks are expected to:

- Use **point-in-time PD** estimates that reflect current and forward-looking conditions.
- Incorporate reasonable and **supportable macroeconomic forecasts.**
- Apply prudential **PD floors**, especially during the initial years, to prevent under-provisioning.
- Ensure robust **model validation** and governance oversight.

PD estimation is therefore not merely a statistical exercise but a regulated process subject to supervisory scrutiny.

Key Factors Determining Probability of Default:

- **Borrower-Specific Financial Factors:** The financial strength of the borrower is the most fundamental determinant of PD. Key indicators include:
  - **Profitability trends**-declining margins or recurring losses increase default risk.
  - **Cash flow adequacy**-weak operating cash flows reduce debt-servicing capacity.
  - **Leverage ratios**-high debt levels amplify vulnerability during economic downturns.
  - **Net worth and capital structure**-erosion of equity raises PD.

Illustration: A manufacturing company experiencing declining EBITDA margins and rising debt-equity ratio is likely to witness an upward revision in PD, even if it has not yet defaulted.

- **Credit Behaviour and Repayment History:** Past behaviour is a strong predictor of future defaults. Behavioural indicators include:
  - Timeliness of repayments.
  - Frequency of delinquencies.
  - History of restructuring or moratoriums.

Days Past Due (DPD) thresholds play a critical role in PD reassessment.

Example: A borrower moving from regular repayment to 30–60 days past due may be classified under Stage 2, triggering lifetime PD estimation.

- **Internal and External Credit Ratings:** Most banks derive PDs from internal rating models, sometimes benchmarked to external ratings. Rating migrations are key triggers for PD changes:
  - **Upgrades** reduce PD.
  - **Downgrades** increase PD and may indicate Significant Increase in Credit Risk (SICR).

Credit ratings aggregate multiple risk dimensions into a single indicator, making them a central input to PD estimation.

Key Factors Determining Probability of Default under ECL

Sl. No.	Factor Category	Description	Impact on PD
1	Borrower Financial Strength	Profitability, cash flows, leverage, net worth	Weak financials increase PD
2	Credit Behaviour	Repayment history, days past due, restructuring	Adverse behaviour sharply raises PD

Sl. No.	Factor Category	Description	Impact on PD
3	Credit Rating	Internal / external rating migration	Downgrade leads to higher PD
4	Collateral & Security	Quality, coverage, enforceability	Strong collateral moderates PD
5	Macroeconomic Factors	GDP growth, interest rates, inflation	Adverse outlook increases PD
6	Sectoral Risk	Industry cyclicality and stress	High-risk sectors attract higher PD
7	Product Type	Retail, SME, Corporate, unsecured loans	Unsecured & SME loans show higher PD
8	Regulatory Floors	RBI-prescribed minimum PD	Ensures prudential conservatism

- **Collateral and Security Characteristics:** Although collateral primarily affects LGD, it also indirectly influences PD through risk mitigation and borrower behaviour.

Key aspects include:

- Nature and quality of collateral.
- Coverage ratio.
- Legal enforceability and recovery track record.

In India, the effectiveness of recovery mechanisms such as SARFAESI and IBC influences how collateral strength is reflected in PD calibration.

- **Macroeconomic and Forward-Looking Factors:** A defining feature of ECL is the incorporation of forward-looking information. PD models must consider macroeconomic variables such as:
  - GDP growth.
  - Interest rate movements.
  - Inflation.
  - Employment levels.
  - Sector-specific outlooks.

Banks are expected to evaluate multiple scenarios (baseline, optimistic, pessimistic) and probability-weight them.

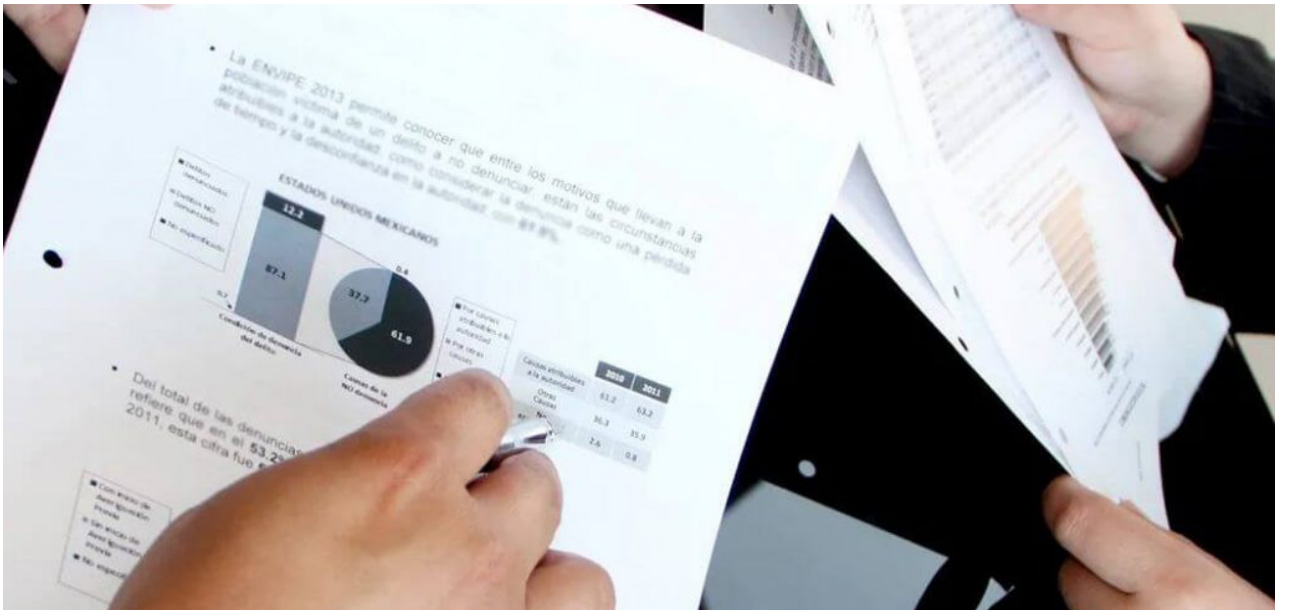
Illustration: During an economic slowdown, PDs for MSMEs and cyclical industries such as construction or metals may increase significantly due to reduced cash flows and demand uncertainty.

- **Sectoral and Industry Risk:** Different sectors exhibit varying default behaviours. PD estimation must account for:
  - Industry cyclicality.
  - Regulatory risks.
  - Commodity price volatility.
  - Technological disruption

For example, infrastructure projects may carry higher PD during early construction phases, while export-oriented sectors may be sensitive to global demand shocks.

Illustrative PD Differences by Borrower Segment

Borrower Segment	Typical 12-Month PD	Risk Explanation
AAA-rated Corporate	0.10% – 0.30%	Strong balance sheet, stable cash flows
Mid-rated Corporate	1.50% – 3.00%	Moderate leverage, sector sensitivity
SME Borrower	3.00% – 6.00%	Limited buffers, higher volatility
Retail Housing Loan	0.20% – 0.50%	Stable income, secured exposure
Unsecured Retail Loan	4.00% – 8.00%	No collateral, behaviour-driven risk



- **Product and Portfolio Characteristics:** PD varies across product types:
  - **Retail housing loans**-typically low PD due to stable income profiles and collateral.
  - **Unsecured retail loans**-higher PD due to absence of security.
  - **SME loans**-elevated PD owing to limited financial buffers.
  - **Corporate loans**-PD sensitive to leverage and sector cycles.

Banks must segment portfolios appropriately to capture these risk differentials.

- **Significant Increase in Credit Risk (SICR):** Identification of SICR is central to PD determination. SICR indicators include:
  - Increase in DPD beyond regulatory thresholds.
  - Significant credit rating downgrade.
  - Adverse changes in business or economic conditions.

Once SICR is identified, PD estimation shifts from 12-month to lifetime horizon, leading to higher ECL provisions.

- **PD Modelling Approaches:** Indian banks are expected to adopt robust PD modelling methodologies, such as:
  - **Statistical scorecard models** using logistic regression.
  - **Rating transition matrices** for lifetime PD estimation.
  - **Hybrid models** combining expert judgement with quantitative outputs.

Point-in-time PDs are preferred under ECL, though excessive volatility must be managed through governance controls and overlays.

Practical Implications for Indian Banks:

- **Impact on Profitability**: Higher and earlier provisioning under ECL will affect reported profits, particularly during economic downturns or portfolio stress.
- **Capital Planning and Pricing:** PD directly influences risk-based pricing and capital adequacy planning. Higher PD portfolios may require higher interest spreads or tighter credit controls.
- **Data and Governance Challenges:** Banks face challenges related to:
  - Availability of long-term historical data.

- Model validation and back-testing.
- Regulatory audits and supervisory reviews.

Strong governance frameworks are essential to ensure credibility and consistency in PD estimation.

Practical Implementation Challenges in Indian Banks:

- **Data Limitations:** Many Indian banks face challenges with long historical datasets, affecting PD calibration quality.
- **Regulatory Prudential Floors:** RBI's floor constraints help manage model risk but may lead to conservative provisioning in early years of implementation.
- **Integration with Risk Governance:** PD outputs must feed credit-risk governance, capital planning, pricing decisions and strategic portfolio management.

Illustrative Indian Banking Example:

- **Corporate Term Loan:**
  - Exposure: ₹100 crore.
  - Current status: 35 days past due.
  - Internal rating downgraded by two notches.
- **ECL Impact:**
  - Asset shifts from Stage 1 to Stage 2.
  - PD horizon changes from 12-month (1.2%) to lifetime (6.5%).
  - Resulting ECL provision increases substantially, despite no NPA classification.

This example highlights how PD, rather than default, drives provisioning under ECL.

Conclusion:

The determination of Probability of Default under the ECL framework represents a fundamental shift in credit risk assessment for Indian banks. PD is no longer a backward-looking statistic but a forward-looking risk indicator that integrates borrower behaviour, financial strength, macroeconomic expectations, and portfolio characteristics.

As Indian banks prepare for ECL implementation from 1 April 2027, robust PD estimation will be critical to balancing prudence, profitability, and regulatory compliance. Institutions that invest in strong data infrastructure, sound modelling practices, and effective governance will be better positioned to manage earnings volatility and enhance financial resilience in the evolving regulatory landscape.

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Expected Credit Loss (ECL) Computation

(Agricultural Segment Loans under Crop-Season Based NPA Norms)

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Abstract:

The implementation of Expected Credit Loss (ECL) provisioning represents a paradigm shift in credit risk measurement for Indian financial institutions. Unlike the incurred loss model, ECL requires forward-looking assessment of credit deterioration across the life of a loan. However, agricultural advances in India follow crop-season–based Non-Performing Asset (NPA) recognition norms, which differ materially from the standard 90-days-past-due framework applicable to other loan segments. This divergence creates conceptual and operational challenges in aligning agricultural loan classification with the ECL staging framework. This Article examines how Expected Credit Loss should be calculated for agricultural segment loans under the new ECL regime. The study analyses asset classification rules, scope of agricultural advances, borrower-level NPA identification, and repayment cycle alignment, and then maps these to ECL stages, probability of default (PD), loss given default (LGD), and exposure at default (EAD). The article concludes that while agricultural NPAs continue to be identified using crop-season norms, ECL computation must be fully compliant with forward-looking credit risk principles, incorporating behavioural indicators, climate risk, and repayment cycle sensitivity.

Keywords: Expected Credit Loss, Agricultural Loans, Crop Season Norms, NPA Classification, RBI Prudential Norms, Credit Risk Modelling

Agriculture occupies a unique position in India's financial system. Given its dependence on monsoon cycles, climatic volatility, and seasonal cash flows, the Reserve Bank of India (RBI) has historically permitted special prudential treatment for agricultural advances. One of the most significant departures from standard banking practice is the **crop-season–based recognition of Non-Performing Assets (NPAs)**, which replaces the otherwise universal 90-days-past-due norm.

With the proposed implementation of **Expected Credit Loss (ECL) norms from 1 April 2027**, financial institutions are required to adopt a forward-looking impairment framework for all financial assets, including agricultural loans.

ECL on Agriculture Segment Loans: This transition raises a fundamental question: **How should ECL be calculated for agricultural loans when their NPA recognition itself follows a distinct logic?**

Overview of the ECL Framework:

Expected Credit Loss is a probability-weighted estimate of credit losses over the expected life of a financial asset. Unlike the incurred loss model, ECL requires recognition of losses **before a default event occurs**, based on:

- Probability of Default (PD).
- Loss Given Default (LGD).
- Exposure at Default (EAD).
- Forward-looking macro-economic information.

The ECL framework typically operates through three stages:

- **Stage 1:** Performing assets with no significant increase in credit risk (12-month ECL).
- **Stage 2:** Assets with significant increase in credit risk (Lifetime ECL).
- **Stage 3**: Credit-impaired assets (Lifetime ECL with interest on net basis).

For most loan segments, staging is closely linked to days-past-due (DPD). Agricultural loans, however, require a different approach.

Regulatory Basis for Agricultural Loan Classification:

- **General NPA Classification under ECL Norms:** Under the new ECL norms, a financial asset is classified as NPA if interest or principal remains overdue for more than 90 days in the case of term loans and similar exposures.

ECL on Agriculture Segment Loans-NPA identification is applied at the borrower level, meaning all exposures to a borrower become NPAs once any one facility is classified as such.

However, agricultural advances are carved out as a special category.

- **Crop-Season Based NPA Norms for Agriculture: The agricultural advances shall continue to follow crop-season–based asset classification norms**, depending on the duration of crops raised by the borrower.

ECL on Agriculture Segment Loans:

- **Short duration crops**: NPA if overdue for two crop seasons.
- **Long duration crops:** NPA if overdue for one crop season.

This framework recognizes the seasonal nature of farm incomes and ensures that temporary cash flow mismatches do not automatically trigger default classification.

Scope of Agricultural Advances Covered:

The crop-season–based norms apply only to specified agricultural credit facilities.

ECL on Agriculture Segment Loans:

- **Loans to Individual Farmers:** Including:
  - Crop loans.
  - Kisan Credit Card (KCC) loans.
  - Medium and long-term farm development loans.
  - Pre- and post-harvest loans.
  - Loans against pledge of agricultural produce.
  - Loans to distressed farmers.
  - Loans to small and marginal farmers for land purchase.
- **Loans to Corporate Farmers and Farmer Collectives:** Including:
  - Loans to FPOs/FPCs.
  - Loans to partnership firms and cooperatives of farmers.
  - Aggregate exposure limits specified per borrower.
- **Loans to PACS and Similar Institutions**: Loans to Primary Agricultural Credit Societies and similar entities for on-lending to agriculture also qualify under the crop-season framework.

All other agricultural loans outside this scope follow standard 90-days delinquency norms for NPA identification.

Reconciling Crop-Season Norms with ECL Staging:

- **NPA Recognition vs Credit Risk Deterioration:** A critical conceptual distinction must be made:
  - **NPA classification determines** when an asset becomes credit-impaired (Stage 3).
  - **ECL staging** requires recognition of increased credit risk before NPA classification.

Therefore, even though an agricultural loan may not be an NPA under crop-season norms, it may still migrate from Stage 1 to Stage 2 under ECL.

- **Mapping Agricultural Loans to ECL Stages:**

ECL Stage	Agricultural Loan Status
Stage 1	Performing, repayments within crop cycle.
Stage 2	Delays indicating stress within crop cycle.
Stage 3	Classified as NPA after prescribed crop seasons.

This approach ensures that ECL remains forward-looking while respecting regulatory NPA norms.

Probability of Default (PD) for Agricultural Loans:

- **PD Measurement Challenges:** Traditional PD models based on DPD buckets are inadequate for agriculture due to:
  - Seasonal repayment structures.
  - Monsoon dependency.
  - Government intervention through loan waivers and interest subvention.
- **PD Estimation Approach:** PD for agricultural loans should incorporate:
  - Historical crop-season delinquency data.
  - Crop-wise and region-wise default patterns.
  - Borrower behaviour under KCC limits.
  - Climate and rainfall indicators.
  - Market price volatility for farm produce.

Even if a loan is not yet an NPA under crop norms, a deterioration in these indicators may trigger Stage 2 classification.

Loss Given Default (LGD) in Agricultural Lending:

LGD reflects the proportion of exposure that will not be recovered once default occurs.

Key LGD Determinants:

- Type of security (land, produce, warehouse receipts).
- Government guarantees or interest subvention schemes.
- Recovery mechanisms through PACS or cooperatives.
- Historical recovery rates post-default.

Loans secured by agricultural produce with adequate margins, typically exhibit lower LGD.

ECL on Agriculture Segment Loans-Exposure at Default (EAD):

EAD for agricultural loans includes:

- Outstanding principal.
- Accrued interest up to default.
- Undrawn portion of KCC limits (credit conversion factor).

KCC loans require special treatment due to their revolving nature and seasonal utilisation patterns.

- **Computation and Modelling Considerations:** The ECL computation for agricultural loans requires specific adjustments to standard risk parameters to account for the unique crop-season dynamic:
  - **Probability of Default (PD):** The PD models must incorporate the crop-season specific default definitions. Historical default data needs to be mapped to crop cycles and local climatic/economic factors (e.g., monsoon data, yield forecasts, commodity prices), not just calendar days past due. Forward-looking macroeconomic scenarios, such as expected rainfall or government support policies, are crucial adjustments to historical PDs.
  - **Exposure at Default (EAD):** This is the outstanding balance at the time of default. The EAD models should consider the timing of the loan disbursement relative to the crop cycle and potential drawdowns on limits before a default occurs.
  - **Loss Given Default (LGD):** The LGD represents the expected loss after recoveries. For agricultural loans, recovery often depends on crop yield and

market value of the harvest, which can be highly variable. LGD models must factor in:

- **Value and enforceability of collateral (e.g., land, equipment).**
- **Government relief packages or insurance payouts, if applicable.**
- **Time required for** recovery, which may be longer due to legal processes and dependence on future harvest cycles.

- **Staging Criteria (SICR):** The 30 DPD (Days Past Due) rebuttable presumption for moving an asset to Stage 2 (lifetime ECL) needs careful application. For agricultural loans, a payment delay might be a normal part of the crop cycle and not necessarily a significant increase in credit risk (SICR) until a full crop season has passed without payment. The criteria for SICR must align with the crop season norms, potentially using custom metrics instead of generic DPD counts.
- **Data and Governance:** Robust data collection on crop types, sowing and harvesting dates (as determined by SLBC), weather patterns, and historical recovery rates specific to agricultural portfolios is essential for accurate modelling and validation.

Treatment of Kisan Credit Card (KCC) Loans:

KCC loans form a significant portion of agricultural credit and are explicitly included under crop-season norms

ECL on Agriculture Segment Loans-ECL Implications:

- Utilisation patterns must be analysed across seasons.
- PD must reflect behavioural risk, not just contractual delinquency.
- Stage migration may occur even without formal NPA status.

- **Borrower-Level NPA Identification and ECL Impact:** ECL on Agriculture Segment Loans-The borrower-level NPA classification: Consequently:
  - If one agricultural exposure becomes Stage 3, all exposures to the borrower are treated as credit-impaired.
  - ECL must be calculated on a consolidated borrower basis.

This is particularly relevant for farmers with multiple facilities (Crop loan + Term Loan + KCC).

Forward-Looking Information in Agricultural ECL:

ECL for agriculture must incorporate forward-looking factors such as:

- Monsoon forecasts.
- Crop disease outbreaks.
- Input cost inflation.
- Government policy announcements (MSP, Loan Waivers).

These factors influence PD and stage migration even before repayment default occurs.

Special Cases: Rural Housing Loans to Agriculturists:

The repayment schedules for rural housing loans to agriculturists be linked to crop cycles. ECL on Agriculture Segment Loans-ECL modelling for such loans must therefore:

- Use crop-linked cash flow assumptions.
- Avoid mechanical DPD-based triggers.
- Recognize stress signals consistent with agricultural income cycles.

Governance and Model Validation:

Banks and AIFIs must establish:

- Separate ECL models for agricultural loans.
- Independent validation of crop-based PD models.
- Periodic back-testing against actual defaults.

This ensures compliance with ECL principles while respecting regulatory norms.

Implementation Challenges:

Key challenges include:

- Data availability at crop and farmer level.
- Integration of climate data.
- Alignment between accounting and prudential classification.
- Training of credit and risk staff.

Despite these challenges, ECL offers a more realistic assessment of agricultural credit risk.

Conclusion:

The adoption of Expected Credit Loss norms does not eliminate the special treatment accorded to agricultural loans under India's prudential framework. Crop-season–based NPA classification continues to apply to specified agricultural advances, even under the new ECL regime.

ECL on Agriculture Segment Loans-However, ECL computation must go beyond mere NPA identification and incorporate forward-looking assessment of credit risk.

Agricultural loans may migrate to Stage 2 well before they become NPAs under crop norms, necessitating lifetime ECL recognition. PD, LGD, and EAD models must be tailored to the unique characteristics of agricultural lending, including seasonality, climate dependency, and policy interventions. When implemented thoughtfully, the ECL framework can enhance risk sensitivity, provisioning adequacy, and resilience of agricultural credit portfolios without undermining the socio-economic objectives of farm lending.

In summary, ECL for the agricultural segment adapts the general ECL formula (ECL = PD x LGD x EAD) by aligning the definition of 'default' and 'significant increase in credit risk' with the unique, cyclical nature of crop seasons and incorporating forward-looking, sector-specific risk factors.

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How Should Provisions Be Made Under the Expected Credit Loss (ECL) Model for Bank Guarantees, Letters of Credit, Forward Contracts, and Derivative Contracts

(Off-Balance Sheet Items-India's Framework from April 1, 2027)

From April 1, 2027, Indian banks will transition from the outdated incurred loss model to a forward-looking Expected Credit Loss (ECL) framework aligned broadly with IFRS 9 Financial Instruments. The shift is part of the Reserve Bank of India's efforts to bring domestic credit loss provisioning practice in line with global standards and strengthen banking sector resilience by recognising potential credit losses earlier. A phased glide path until March 31, 2031 is proposed to mitigate one-time impacts on capital and profitability.

While much of the discussion about ECL focuses on loans and debt securities, a comprehensive ECL model must also address off-balance sheet exposures, notably bank guarantees, letters of credit (LCs), forward contracts, and derivative contracts. These exposures, though not traditional loan assets, embody potential credit risk that can crystallise into actual losses and therefore require robust provisioning.

ECL Fundamentals & Off-Balance Sheet Scope:

- **Expected Credit Loss (ECL) Model Basics**: Under the ECL model, banks must estimate a **probability-weighted present value of all cash shortfalls** expected over the life of a financial instrument. This includes future losses even in the absence of a past loss event, a major departure from the incurred loss approach. Assets are classified into three stages based on credit risk movement:
  - **Stage 1:** 12-month ECL for assets with no significant increase in credit risk.
  - **Stage 2:** Lifetime ECL for assets with significant credit risk deterioration.
  - **Stage 3:** Lifetime ECL for credit impaired assets.
- **Off-Balance Sheet Items & ECL Scope:** The RBI's draft framework explicitly includes **off-balance sheet exposures** (such as guarantees, letters of credit and undrawn limits) within the scope of ECL provisioning. This means banks must recognise and measure expected losses on such exposures based on the risk inherent in potential drawdowns or utilisation.

Under IFRS 9, off-balance sheet exposures such as **financial guarantee contracts and loan commitments** fall within the ECL model's ambit, and expected credit losses must be recognised even before an obligation becomes a balance sheet asset if the bank is exposed to credit risk.

Bank Guarantees & Letters of Credit (Unfunded Credit Risk):

Nature of Exposure:

- A **bank guarantee** is a promise by the bank to pay a beneficiary if a counterparty fails to perform a contractual obligation.

- A **letter of credit** is an undertaking to make payment upon presentation of stipulated documents, exposing the bank to credit risk if the applicant defaults.

Both instruments are contingent credit exposures: they do not appear on the balance sheet initially, but can convert into actual credit loss events under certain conditions.

ECL Provisioning Approach:

- **Recognition Trigger:** A bank should recognise an ECL allowance at the point of irrevocable commitment, typically when the guarantee or LC facility is issued or the forward contract or derivative enters into force.

- **Measurement:** For guarantees and LCs, the Exposure at Default (EAD) is based on the potential amount payable under the guarantee/LC considering probable utilisation. ECL = PD × LGD × EAD (where PD = Probability of Default; LGD = Loss Given Default). Firms often use structured models to derive these parameters, incorporating forward-looking macroeconomic scenarios.

- **Credit Conversion Factors (CCFs):** For off-balance sheet credit exposures, banks typically apply a Credit Conversion Factor (CCF) to reflect the likelihood of undrawn commitments becoming drawn. Although regulatory CCFs (e.g., Basel norms) provide standard factors (like 20–50 % depending on maturity), banks may calibrate internal CCFs based on historical usage and risk experience for ECL.

Example: A guarantee of ₹ 100 million with a CCF of 80 % implies an EAD of ₹80 million for ECL modelling.

- **Stage Migration:** If the credit risk of the underlying obligor deteriorates significantly, the exposure migrates from Stage 1 to Stage 2, requiring lifetime ECL measurement. If the counterparty defaults or is near default, Stage 3 applies with full loss expectations.

Example – Bank Guarantee:

- Suppose Bank A issues a guarantee of ₹ 50 million for a corporate. Based on data, PD = 2%, LGD = 60 %, and CCF = 80 %.

- ECL = 50 million×0.80×250 million × 0.80 × 2 % × 60 %50million×0.80×2 = ₹ 480,000 expected loss allowance.

- If the counterparty's credit risk significantly deteriorates due to weak financials or macro weakness (e.g., industry downturn), the PD could rise, pushing the exposure into Stage 2, requiring ECL over the entire life.

Forward Contracts & Derivative Contracts:

- **Nature of Exposure:** Forward contracts and derivatives (e.g., interest rate swaps, currency forwards) are typically traded at fair value, and gains or losses due to market movements are recognised through profit or loss. But derivatives can also harbour credit risk, the risk that a counterparty fails to meet its obligations resulting in a credit loss to the bank.

IFRS 9 Boundary Conditions:

- Derivatives are normally measured at Fair Value Through Profit or Loss (FVTPL); such contracts do not attract an ECL provision because their credit risk is embedded in fair value, and impairment does not apply under IFRS 9 impairment requirements for FVTPL instruments.

- However, unsettled forward contracts that embed credit exposures or forward commitments to extend credit could attract ECL provisioning if they meet the definition of a financial instrument under impairment scope.

Practical ECL Approach for Derivatives:

- **Counterparty Credit Risk (CCR) Assessment:** For derivatives, banks often compute Expected Credit Exposure (ECE) and Potential Future Exposure (PFE) as part of risk measurement. These feed into credit risk models that align with ECL, capturing the expected loss due to counterparty default over the life of the derivative. Standard practice under regulatory and accounting guidance is to evaluate the credit risk component separate from market risk.

- **Credit Value Adjustment (CVA):** Many banks use CVA methodology, a pricing and valuation framework that adjusts the fair value of a derivative for counterparty credit risk. The CVA itself can be seen as an analogue to the ECL provision for derivatives exposures, representing discounted expected losses due to counterparty default over future exposure profiles.

- **Stage Classification and Probability Weighting:** If a derivative contract can feasibly be derecognised as a credit exposure under the ECL model, banks classify it into stages like other ECL assets. PD, EAD (often modelled from PFE), and LGD feed into the ECL computation.

Example-Derivative ECL Estimation:

Bank B enters a 2-year interest rate swap with a corporate counterparty. The current MtM (mark-to-market) is zero, but future exposure arises if rates move. Based on simulation, the expected positive exposure over time may average ₹ 10 million. With PD = 1 % and LGD = 60%, approximate ECL = 10 million×110 million × 1 % × 60 %10 million×1 = ₹ 60,000 as a loss allowance, discounting back to present value. Emerging credit risk or downgrades may shift this to lifetime ECL recognition. This approach aligns credit loss modelling principles for off-balance sheet exposures.

Governance, Documentation & Disclosures:

- **Robust Risk Management & Models:** Given the complexity of off-balance sheet ECL, especially for derivatives and forward exposures, banks should establish strong **model governance**, including:
  - Board-approved policies on ECL measurement.
  - Segmentation of exposures and data collection processes.
  - Regular validation of PD, LGD, EAD and CCF assumptions, incorporating forward-looking macro scenarios.
- **Disclosure Requirements**: Banks should provide detailed disclosures in financial statements explaining:
  - The methodology for measuring ECL for off-balance sheet exposures.
  - Major assumptions and macroeconomic scenarios used.
  - Reconciliations of opening and closing ECL allowances by risk stage and exposure class (in line with global best practice).

Conclusion:

Under the ECL framework effective from April 1, 2027, Indian banks must extend forward-looking credit loss provisioning beyond traditional loans to include **off-balance sheet exposures such as bank guarantees, letters of credit, forward contracts and derivatives**. In practical terms:

- **Bank guarantees and LCs require** explicit ECL allowances based on potential drawdowns, using CCFs to estimate EAD and structured models for PD and LGD.
- **Forward and derivative contracts**, when exposed to credit risk beyond fair-value measurement, must be assessed for expected future exposures and appropriate loss allowances using techniques such as CVA and credit exposure simulations.
- **Strong governance, scenario analysis and disclosure**s are essential for credible and transparent ECL provisioning that aligns with both regulatory expectations and global accounting practice.

This holistic provisioning approach fosters a more resilient banking system that recognises credit risks timely, enhances transparency, and strengthens stakeholders' confidence as Indian banks adopt world-class credit risk methodologies.

WEBINARS ORGANIZED BY THE BFSIB

Webinar on From Policy to Profit: How Recent RBI's Regulatory Ripples Reach MSMEs"

27th October 2025

CMA Pankaj Jain, Global MSME & Realty Strategist

The webinar **"From Policy to Profit: How Recent RBI's Regulatory Ripples Reach MSMEs"** was organised by the BFSI Board to examine how recent RBI regulatory reforms are reshaping the MSME credit ecosystem and translating policy intent into business outcomes.

The webinar was conducted on the auspicious occasion of **Chhatt Puja** and commenced with the Institute Anthem. The session was formally welcomed by **CMA Dibbendu Roy**, Head of Department, BFSI Board, who set the context by underscoring the growing relevance of regulatory literacy for MSMEs amid evolving RBI frameworks. He highlighted the pivotal role of finance professionals, particularly CMAs, in translating regulatory intent into enterprise-level financial outcomes.

The Chief Guest and Speaker, **CMA Pankaj Jain**, Global MSME & Realty Strategist and Founder, Jain Venture, delivered an in-depth and data-driven address on how recent **RBI regulatory reforms are reshaping MSME credit access, cost of finance, and growth potential.** Drawing from over three decades of global corporate and advisory experience, he positioned MSMEs as the backbone of **India's economic transformation,** employing nearly **23 crore people**, contributing **~30% to GDP and ~40% to exports**, with more than 8 crore **MSMEs** operating across the country.

The speaker elaborated on India's long-term macroeconomic vision of **Viksit Bharat @2047,** linking MSME growth to milestones of a **USD 5 trillion economy by 2026–27 and USD 10 trillion GDP by 2035**. He provided clarity on the **revised MSME classification norms,** based on composite investment and turnover thresholds, and explained how these changes expand eligibility for schemes and institutional credit.

A significant portion of the session focused on **RBI's 2025 regulatory reforms**, including the revised Priority Sector Lending (PSL) framework, on-lending through NBFCs and HFCs, unified MSME lending directions, single-window composite loans, and rehabilitation frameworks for viable MSMEs. The speaker highlighted that these measures are designed to **reduce credit friction, enhance capital efficiency for lenders, improve speed of disbursement, and stabilise MSME balance sheets**. He also presented a balanced assessment of risks such as uneven credit transmission, pass-through challenges, and the continued

exclusion of unregistered micro enterprises.

The webinar provided a nuanced impact assessment, distinguishing between **short-term gains in credit flow and restructuring support and medium-term benefits arising from capital norm rationalisation and stronger NBFC oversight through Self-Regulatory Organisations (SROs).** Data-backed insights revealed declining MSME NPAs, faster growth in NBFC-led MSME lending, and a persistent **credit gap of ₹25–30 lakh crore**, underscoring the need for execution-focused reforms.

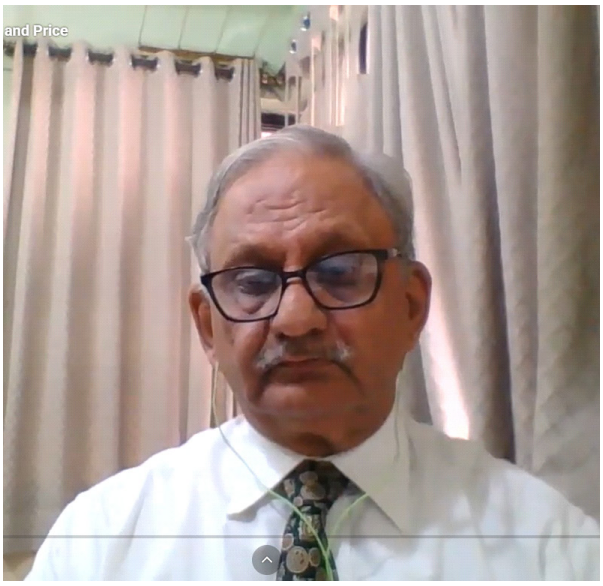
The session repeatedly emphasised that **Cost and Management Accountants are uniquely positioned** to bridge policy and profitability for MSMEs through regulatory interpretation, financial structuring, credit advisory, cash-flow optimisation, compliance alignment, and sustainability-focused growth strategies. CMAs were encouraged to act as trusted advisors enabling MSMEs to fully leverage RBI reforms.

The Q&A segment addressed practical concerns relating to rehabilitation frameworks, NBFC-led lending, and invoice discounting platforms, digital lending ecosystems, and cost transmission issues..

The webinar concluded with closing remarks and a formal **vote of thanks by CMA Dibbendu Roy**, who expressed appreciation to the Chief Guest, participants, and organising team. He noted that the session successfully demystified RBI's regulatory reforms and translated them into actionable insights for MSMEs and professionals alike.

Webinar on "Capital Markets: Value and Price"

7th November 2025



Shri Mahesh Bhatt, Vice President, KIRTICORP

CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board, ICMAI

The webinar on **"Capital Markets: Value and Price"** was organised by **the Banking, Financial Services and Insurance Board (BFSIB) of the Institute of Cost Accountants of India** with the objective of deepening professional understanding of valuation, price discovery, and behavioural dynamics in modern capital markets. The session brought together conceptual clarity, market realism, and ethical perspectives relevant to finance professionals and practitioners.

The proceedings commenced with a formal welcome and contextual introduction by **CMA Chittaranjan Chattopadhyay, Chairman, BFSIB**, who highlighted the relevance of the topic in the backdrop of India's expanding capital markets, heightened retail participation, and increasing divergence between market price and intrinsic value. He emphasised the need for professionals to distinguish noise from fundamentals in an era driven by sentiment, liquidity, and rapid information flow.

In his **inaugural address, CMA Chittaranjan Chattopadhyay, Chairman, BFSIB,** set the intellectual tone of the webinar by underscoring that capital markets are the confluence of valuation discipline and human behaviour. He noted that while India's market capitalisation has crossed multi-trillion-dollar levels, sustainable value creation depends on **governance, earnings quality, transparency, and cash-flow credibility.** Drawing from regulatory and macroeconomic indicators, he observed that strong bank balance sheets, low GNPA levels, and stable credit flow provide a structural foundation for intrinsic value, while short-term prices continue to be influenced by liquidity cycles and investor sentiment. He highlighted the unique role of CMAs in bridging price movements with balance-sheet strength, risk assessment, and valuation integrity.

The **technical session on "Value and Price" by chief speaker Shri Mahesh Bhatt, VP-Kirticorp** provided a distinctive philosophical and practical framework for understanding capital markets. The speaker explained value creation as an evolutionary process—from information to knowledge, from repeated application to financial intelligence, culminating in intellect and intuition. Price, it was noted, is often driven by perception, emotion, competition, and market cycles, whereas value emanates from fundamentals, ethics, accountability, and long-term sustainability. Concepts such as the Iceberg Principle were used to demonstrate that a significant portion of risk and value drivers remain invisible, requiring deep analysis beyond surface-level data. The session also emphasised emotional intelligence, ethical conduct, clarity of purpose, and integrity as critical determinants of long-term success in markets.

A key takeaway was the distinction between **price as a momentary expression of sentiment** and **value as a**

durable outcome of governance, performance, and trust. The discussion reinforced that failures in markets often arise not from lack of information, but from **misjudgement, overconfidence, and ethical dilution.**

The webinar strongly reinforced the value-adding role of Cost and Management Accountants in capital markets. CMAs are uniquely positioned to assess **intrinsic value through earnings quality analysis, cash-flow sustainability, cost structures, and risk-adjusted valuation models.** Their expertise supports investors, boards, and regulators in aligning market price with economic reality through robust reporting, governance assurance, and strategic financial insight.

The session concluded with reflective Q&A and appreciation, followed by a **formal vote of thanks by CMA Chittaranjan Chattopadhyay, Chairman - BFSIB,** who acknowledged the speaker's integrative approach combining finance, psychology, ethics, and Indian value systems. He reiterated BFSIB's commitment to delivering thought leadership that strengthens professional competence and market confidence.

Webinar on "From Policy to Practice: Building Stronger Governance and Control Frameworks"

12th November 2025

Shri Swakshar Basu, FCPA Australia and RIMS-CRMP, Senior Manager, Risk and Compliance, Telecommunications Company

CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board, ICMAI

The webinar **"From Policy to Practice: Building Stronger Governance and Control Frameworks"** examined the growing imperative of translating governance policies into effective, operating control mechanisms amid heightened regulatory scrutiny and digital risk exposure. The webinar was hosted by **CMA Dibbendu Roy, Additional Director, BFSI Board,** who formally welcomed the Chief Guest, Chairman, dignitaries, professionals, and participants. In his opening remarks, he underscored the growing relevance of governance and control frameworks in an increasingly complex regulatory, digital, and risk-intensive environment, setting the context for the deliberations.

The session commenced with the Institute anthem and a welcome address **by CMA Chittaranjan Chattopadhyay, Chairman, BFSI Board**, who contextualised the discussion within India's resilient yet risk-sensitive financial environment, citing a low **GNPA of 2.3% (March 2025) alongside escalating operational, cyber and conduct risks**. He emphasised that governance, rather than standalone controls, must anchor assurance frameworks, supported by continuous monitoring, zero-trust principles and board-level dashboards.

The Chairman highlighted that modern governance has expanded beyond financial prudence to encompass IT and data governance, third-party risk, product governance and ethical oversight. With cyber incidents and phishing attempts rising sharply and average data breach costs touching **₹195 million in 2024**, he underscored that technical controls without governance oversight are ineffective. He reaffirmed BFSI Board's role in enabling practitioners through regulatory-aligned toolkits, capacity building and practical guidance to convert compliance into competitive resilience.

The Chief Guest, Shri Swakshar Basu, FCPA and RIMS-CRMP, an international risk and governance professional with over 15 years of experience across Australia, Singapore, India and the Middle East, delivered the core technical session. He articulated governance as a value enabler built on four principles—**accountability, transparency, alignment and fairness**—and cautioned against governance frameworks that exist only on paper. Drawing from global surveys and Asian regulatory practices, he highlighted persistent governance pain points such as lack of strategic board focus, weak risk leadership visibility, misaligned incentives and ineffective GRC systems.

The session provided practical clarity on **board versus**

management roles, stressing that boards must retain strategic oversight while management executes controls without role dilution. Shri Basu explained the evolution of the **COSO framework,** detailing its five pillars and the balanced use of **preventive, detective and corrective controls**, reinforced through risk-based design and continuous testing. He illustrated governance failures through case studies of **Silicon Valley Bank and Wells Fargo,** demonstrating how weak risk oversight, incentive misalignment and ignored whistle-blowers can precipitate systemic collapse.

The webinar concluded with comparative insights into **India's rule-based regulatory regime versus Singapore's principle-based approach**, highlighting the need to move from checklist compliance to outcome-driven governance. The overarching message was clear: effective governance is a continuous, adaptive process that integrates culture, strategy, risk and controls. Participants were urged to embed governance into daily decision-making, leverage technology for real-time assurance, and ensure that policies are not merely documented, but demonstrably practised.

One-Day Seminar on "Financial Risk Frontiers: Strategies for Resilient Futures"

24th October 2025

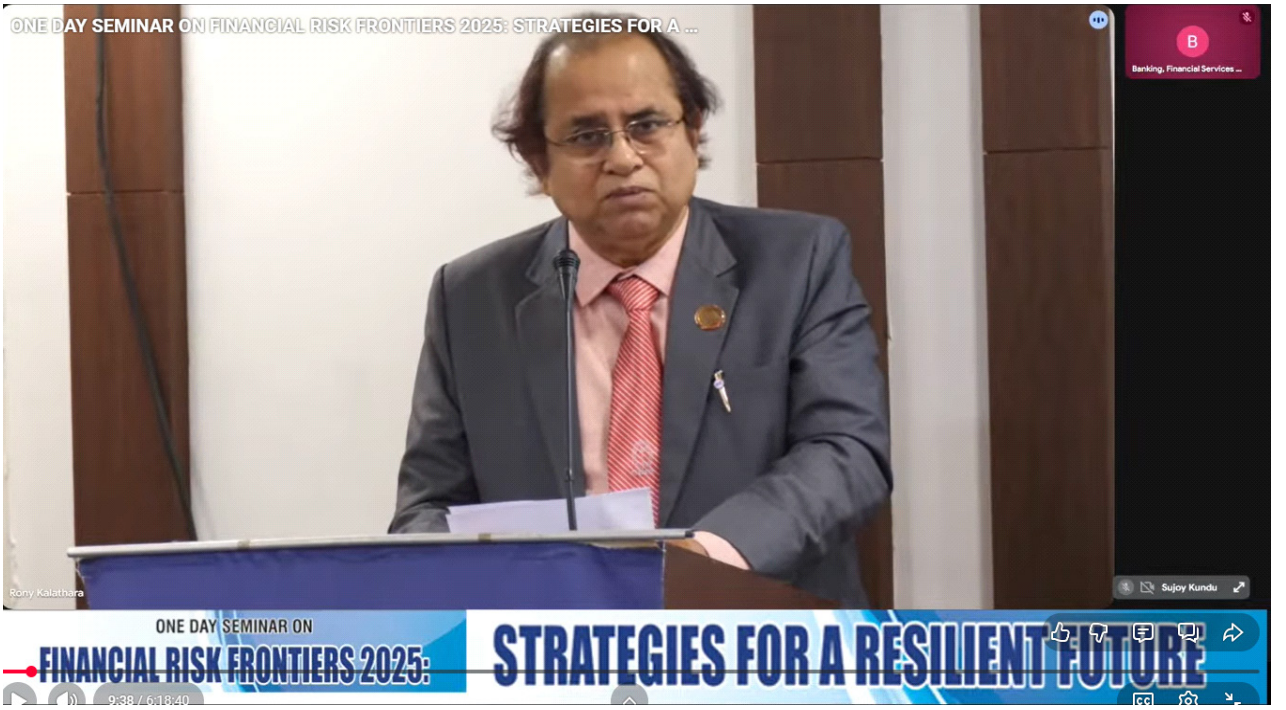
Lighting of the Lamp CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI (4th from right), CMA George P Mathew, Vice Chairman, Cochin Chapter of ICMAI (3rd from right), CMA Renjini R, Chairperson, Cochin Chapter, ICMAI (4th from left), Smt. Devi A J, Vice President, State Head-Medium Enterprises Group, Axis Bank (extreme left), Shri Damodaran C, Chief Risk Officer, Federal Bank (3rd from left), CMA Venkateswaran Ramakrishnan, General Manager, SEBI (extreme right) and other Members, Cochin Chapter of ICMAI were also present One day Seminar on 24th October, 2025.

The one-day seminar brought together regulators, senior bankers and domain experts to deliberate on **emerging financial risks and practical strategies for building institutional resilience**. The programme underscored that **risk management has evolved from a compliance function to a strategic enabler of sustainable growt**h across the BFSI ecosystem.

In his inaugural address, **CMA Chittaranjan Chattopadhyay, Chairman, BFSIB**, highlighted the **BFSI Board's** extensive thought leadership, including landmark publications on infrastructure financing, **MSME lending, climate finance, CBDC,** and risk-based internal audit. Emphasising capacity building, he underlined the Institute's certification programmes in credit management, treasury, concurrent audit, FinTech, and security audit, noting that **CMAs** are increasingly recognised by **banks, regulators, and boards** for their ability to translate regulation into governance. He made a strong case for the **CMA profession's** preparedness for the **IFRS 9 Expected Credit Loss (ECL) regime**, concluding with a strategic call to move **"from awareness to assurance, from compliance to confidence and resilience."**

The Chief Guest, Smt. Mini George, drew on her leadership experience in agriculture insurance to reframe **risk as an opportunity**, demonstrating how **technology-driven solutions and parametric products enhance resilience at scale**. She stressed the importance of **risk heat maps, risk velocity and proactive controls**, particularly in high-impact areas such as climate and cyber risk.

The first technical session by **Ms. Devi A. J., State Head – Medium Enterprises Group, Axis Bank**, provided a practitioner's framework for **MSME debt management** and **project bankability.** She emphasized credit adjudication pivots on repayment history, promoter credibility, and sustainable cash flows over financials alone. Key insights included **RBI's revised 'Project Finance' definition** (≥51% repayment from project cash flows), the necessity of accurate costing and scope clarity to avoid overrun constraints, and staged disbursement tied to promoter margin. She underscored the regulatory shift toward higher provisioning for delays and advocated for t**ransparency, rigorous due diligence,** and strong CIBIL, framing lending as a partnership



CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI addressing of the Seminar on 24th October 2025.

where openness preserves **long-term viability.**

In the second technical session, **CMA Venkateswaran Ramakrishnan, General Manager, SEBI,** presented a sharply focused and data-backed perspective on **Green and Sustainable Finance**, situating India's climate ambition—**Net Zero by 2070, 50% non-fossil electricity capacity and 45% reduction in emission intensity by 2030**—within measurable progress, noting that **47.4% non-fossil capacity had already been achieved by February 2025.** He highlighted **the sheer scale of capital required**, estimating **USD 250 billion annually for energy transition till 2047 and USD 648.5 billion for climate adaptation by 2030**, underscoring why **private and market-based finance is indispensable**. The session examined the evolving sustainable finance architecture, including **Sovereign Green Bonds, Green Deposits, ESG and thematic debt instruments (Blue and Yellow Bonds), ESG mutual funds and Social Stock Exchange instruments, while cautioning against greenwashing, weak project pipelines and inadequate disclosure discipline**. He emphasised that **CMAs play a critical value-adding role by enabling credible ESG assurance, verification of use-of-proceeds, climate-linked valuation, risk-adjusted financial modelling and governance-aligned financing structures,** thereby strengthening investor confidence and ensuring that sustainable finance transitions from policy intent to economically viable and verifiable practice.

The risk governance perspective was deepened by **Mr. Damodaran C., CRO – Federal Bank,** who presented a concise framework covering **credit, market, liquidity, operational and cyber risks. Usi**ng global case studies, he reinforced that **weak governance, concentration risk and cyber vulnerabilities can rapidly erode value, making tone at the top, risk culture and continuous stress testing indispensable.**

Concluding the technical deliberations, by **Ms. Geeta Nair, Chief Business Manager, Thiruvananthapuram Business Office**, offered a structured overview of **General Insurance as a strategic risk-transfer tool.** She explained core concepts of **peril, hazard, premium, and underwriting,** and covered key policy classes including property, liability, professional indemnity, business interruption, cyber, D&O, and employee covers. A critical takeaway was the emphasis on **reinstatement value over book value** to ensure true indemnity. She demonstrated how strong internal controls, compliance, fire safety, and disaster recovery planning directly translate into l**ower premiums and better insurance terms**, positioning insurance as a balance-sheet stabiliser and credit enabler.

Key Takeaways:

- **Risk is a strategic lever,** not merely a threat.
- **Governance, technology and data** are central to resilience.
- **Sustainable finance and cyber risk** are defining frontiers for BFSI.
- **CMAs add value** through risk quantification, assurance, valuation and policy-to-practice translation.

The seminar underscored that financial resilience is built through **integrated risk governance, ethical conduct, technology adoption, and professional judgement.** Across banking, insurance, capital markets, and sustainability finance, the discussions reaffirmed that CMAs play a pivotal role in **risk quantification, governance assurance, valuation discipline, and strategic decision-making**, enabling institutions to navigate uncertainty and build durable, future-ready financial systems.


MOU

Report on MOU Exchange Ceremony between SSIM & ICMAI held on 21st January 2026 at SSIM Campus.

On 21st January 2026, Siva Sivani Institute of Management (SSIM), and the Institute of Cost Accountants of India (ICMAI), Hyderabad Chapter, formally entered a strategic partnership through a Memorandum of Understanding (MOU) Exchange Ceremony. Siva Sivani Institute of Management is a Premier Autonomous B-School, started in 1992, approved by AICTE, NAAC, NBA & SAQs accredited Institution offering three PGDM Programs namely PGDM, PGDM-Banking, Insurance and Financial Services (BIFS) & PGDM-Business Analytics and Fellow Program in Management (FPM) Program. This MOU signified a pivotal step toward strengthening academic and professional collaboration. The MoU emphasizes on collaborative initiatives which include curriculum development, guest lectures by ICMAI professionals, Workshops, seminars, and certification programs for SSIM students. Distinguished dignitaries from both institutions graced the occasion, delivering insightful addresses on the evolving interface of finance. The Chairman, BFSI Board CMA. Chittaranjan Chattopadhyay was the Chief Guest for the event. CMA (Dr.) K Ch A V S N Murthy, Central Council Member, ICMAI, CMA (Dr.) P. Siva Rama Prasad were amongst the invitees. CMA Chittaranjan Chattopadhyay, delivered an address, outlining the future pathways and opportunities for students in the banking and financial services sector. CMA (Dr.) P. Siva Rama Prasad delivered an insightful address, on Demystifying FinTech, simplifying complex FinTech concepts and discussing their profound impact on the future of finance and accounting. CMA (Dr.) K Ch A V S N Murthy, provided a national-level perspective, reaffirming ICMAI's commitment to fostering such educational collaborations. As a token of gratitude and respect, the distinguished guests were honored with mementoes by the SSIM leadership. CMA Khaja Jalal Uddin emphasized the growing synergy between management education and professional cost accounting, underscoring the MOU's potential to create skilled professionals for the modern economy.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Brochures – Courses Offered By The BFSI Board


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Advance Certificate Course on FinTech | The Institute of Cost Accountants of India

About The Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

International Affiliation

The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

Institute's Network

Institute's headquarters is situated at New Delhi with another office at Kolkata. The Institute operates through four Regional Councils at Kolkata, Chennai, Delhi and Mumbai as well as through 117 Chapters situated in India, 11 Overseas Centres abroad, 2 Centres of Excellence, 61 CMA Support Centres and 401 Recognized Oral Coaching Centres.

Institute's Strength

The Institute is the largest Cost & Management Accounting body in the World, having a large base of about 1,00,000 CMAs either in practice or in employment and around 5,00,000 students pursuing the CMA Course.

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Course Objective

The Banking, Financial Services and Insurance Board is pleased to offer **"Advance Certificate Course on FinTech".** It is pertinent to mention that there is a significant demand for FinTech-qualified individuals in GIFT City, Gandhinagar, and Ahmedabad. India's inaugural International Financial Services Centre (IFSC) at GIFT City offers Indian corporates expanded access to Global Financial Markets. Entities Established within the IFSC also enjoy numerous Tax Benefits. IFSCs play a Crucial Role in Fostering the development of "Fintech Hubs". Given the substantial number of Indian Professionals Working in "FinTech Abroad", India has the Potential to Emerge as a Prominent "Fintech Hub".

This Advanced Certificate Course on **FinTech** covers the following Learning Objectives:

- Foundations of Fintech.
- Deep Dive into Blockchain.
- Fintech Innovation in Banking.
- Fintech Transforming Wealth Management.
- Fintech Revolutionising Insurance.
- Exploring New Frontiers of Fintech.

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

CPE Credit: 10 hours
for members of The Institute of Cost Accountants of India

Course Eligibility

CMAs, Bankers (including Payment Banks, Small Finance Banks, Regional Rural Banks, Co-operative Banks, NBFCs., Scheduled Commercial Banks (Private Sectors, Public Sector and Foreign Banks), CMA Final Students, Graduates, IT Professionals.

Course Duration

a. Classroom Learning of 2 hours per day in the Weekend through online mode
b. 50 hours online Coaching
c. 3 months' course
d. Online Examination for 100 marks

Course Fees

Course Fees (including learning kit) of Rs. 10,000/- plus GST of 18%

Examination

Rs. 750 plus GST per attempt

2 **Behind every successful business decision, there is always a CMA**

Detailed Course Content

1: Introduction to Fintech

- Cloud Computing and APIs.
- Opensource Architecture.
- Blockchain Technology and DApps.
- Business Intelligence: AI & ML.
- Cyber Security.
- Generative AI.

2: Technology Innovation & Fintech Evolution

- Understanding Financial Crisis.
- The building blocks of Blockchain.
- Public versus private blockchain.
- Understanding Smart Contracts.
- Web 2.0 versus Web.
- Decentralized finance.

3: Blockchain

- Fintech and Disruption in Banking.
- Banking as a Service Model.
- Loan Apps and P-2-P lending.
- Open Banking Architecture.
- Case Study.

4: Fintech and Banking

- Robo-advising: The Digital Financial advisor
- Goal Based Investing
- Disintermediation of Asset Management
- Digital transformation of Wealth Management
- Case Study

5: Fintech and Asset Management

- Usage based Insurance and Microinsurance
- Machine Underwriting and Smart Contracts
- Probabilistic to Deterministic Models
- Insuring the uninsured
- Case Study

6: Fintech and Insurance

- Global Payment Ecosystem
- Payment and Digital Wallets
- Programmable Payments
- B2B and B2C Payment services
- Case Study

7: Fintech and Payments

- iCOs, Bitcoin, and beyond
- Cyrpto as an asset class
- Crypto Trading Strategies
- Non-Fungible Tokens
- Case Study

Behind every successful business decision, there is always a CMA 3

Contact for further queries

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Banking, Financial Services & Insurance Board

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CERTIFICATE COURSE ON CREDIT MANAGEMENT IN BANKS

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Certificate Course on Credit Management in Banks

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International Affiliation

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Institute's Strength

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Course Objective

The world is increasingly getting inter-connected and complex. Bank Credit mechanism has also undergone phenomenal changes in recent years. Few years ago, Credit meant only Cash Credit, Overdraft and Term Loan. Today quasi credit facilities like Letters of Credit, Bank Guarantees, Co-acceptances, Buyer's Credit and Supplier's Credit etc. are gaining predominance. Keeping in view of importance of Credit Management by banks, The Institute of Cost Accountants of India offers the **Certificate Course** on **Credit Management (CCCM).**

Professionals dealing with Finance or Financial Institutions in one way or other need to possess knowledge of 'Credit Management' guidelines of Financial Institutions like Banks, so that they can provide Value Additive Services to their clients like recommending to the banks the business proposals of entrepreneurs, performing preliminary credit appraisal on behalf of the banks and collate additional supporting information required by the banks/credit institutions etc.

In addition to the above, this course is also useful to the professionals who are dealing with:

- ✓ Various assignments like Forensic Audit, Stock and Book Debts Auditor (As recognized by IBA)
- ✓ Issuance of Compliance Certificate for Banks by practicing professionals in areas like Consortium and Multiple Lending by Banks (RBI Guidelines)
- ✓ Acting as Agencies for Specialized Monitoring (As recognized by IBA)
- ✓ Assignments like 'Concurrent Audit' of Banks and 'Credit Audit' of the Banks.

The Course provides a holistic insight into the various dimensions in Bank Credit Management.

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

CPE Credit: 10 hours
for members of The Institute of Cost Accountants of India

Course Eligibility

FCMA/ACMA/those who have qualified Final CMA examination, Final year Students of the CMA Course/Any Graduate.

Course Duration

a) Classroom Learning of 3 hours per day in the Weekend through online mode
b) 50 Hours on-line Coaching.
c) 2 months course
d) Online Examination for 100 marks

Course Fees

Course Fees (including learning kit) of Rs. 6,000/- plus GST of 18%. Final year Students of the CMA course for an amount of Rs. 4,500 plus GST of 18%.

Special Discount for Corporates
For number of employees 5-10, discount is 15%. For number of employees more than 10, discount is 20%

Examination

Rs. 750 plus GST per attempt.

Certificate Course on Credit Management in Banks

Detailed Course Content (Syllabus-2024)

1. Introduction & Overview of Credit (Module 1)

a. **Principles of Lending:** Safety, Liquidity, Profitability, Purpose of the Loan, Diversification Risk.
b. **Credit. Policy:** Importance, Contents, Exposure Norms.
c. **Types of Borrowers:** Individuals, Proprietorship Firms, Partnership Firms, Private & Pubic Limited Companies, Limited
Liability Partnerships (LLP).
d. **Types of Credit Facilities:** Various Types of Credit Facilities-Cash Credit, Overdrafts, Demand Loan, Term Loans,
Bills Discounting.
e. **Credit Delivery:** Sole Banking Arrangement, Multiple Banking Arrangement, Consortium Lending, Syndication.
f. Environmental Appraisal:
Physical Risks: Flood Risk – Drought / Water Scarcity Risk – Storms Risk – Extreme Heat Risk – Wildfires Risk – Other Risks.
Transition Risks: Emissions / Intensity Risk (Scope 1 & 2) - Emission / Intensity Risk (Scope 3) – ESG – Indicators / Rating (Third Party).
g. **Credit Appraisal:** Validation of proposal, Dimensions of Credit Appraisals, Credit Risk, Credit Worthiness of Borrower, Purpose of Loan, Source of Repayment, Cash Flow, Collaterals, Guidelines on CERSAI.
h. **Project / Term Loan Appraisal:** Technical Appraisal, Commercial / Market Appraisal, Managerial Appraisal, Financial Appraisal, Economic Appraisal, Project Cost & Means of Finance, Cost of Production & Profitability, Sensitivity Analysis, Break-even Analysis, Capital Budgeting-Pay Back Period Method, Time Value Money, Net Present Value, Internal Rate of Return, Life of the Project.
i. **Credit Rating:** Objective of Rating, Internal & External Rating, Model Credit Rating, Measurement of Risk, Methodology of Rating, Internal & External Comparison, Model Rating Formats.
j. **Documentation:** Meaning, Importance, Types of documents, Requisites of documentation, stamping of different documents, Mode and time of Stamping, Remedy for un-stamped / under stamped documents, Documents of which registration is compulsory, Time limit of registration, Consequence of non-registration, Execution, Mode of Execution by different executants, Period of Limitation, Law of Limitation to Guarantor, Extension of period of limitation.
k. **Types of Charges:** Purpose, Various types of charges, Types of Security, Mode of charge, Lien, Negative Lien, Set Off, Assignment, Pledge, Right of Banker as a Pledgee, Duties as a Pledgee, Mode of Charges, Hypothecation, Mortgage - different types of mortgages, Difference between Simple and Equitable Mortgage.

2. Analysis of Financial Statements (Module 2)

a. **Analysis of Financial Statements:** Classification of Assets & Liabilities, Current Assets, Fixed Assets, Non-current Assets, Intangible & Fictitious Assets, Liabilities-Current Liabilities, Medium & Term Liabilities, Capital & Reserve.
b. Analysis of Profit & Loss Account, Auditor's Note.
c. **Ratio Analysis:** Classification of Ratios, Liquidity Ratios, Leverage Ratios, Activity Ratios, Profitability Ratios, Interpretation of important Financial Ratios, Fund Flow Statements and Cash Flow Statements.

Certificate Course on Credit Management in Banks

3. Working Capital Management (Module 3)

a. **Working Capital Assessment:** Concept of Working Capital, Gross Working Capital, Net Working Capital, Working Capital Gap, Components of Working Capital, Source of Working Capital, Operating / Working Cycle, Various Methods of Assessment of Working Capital, Computation of Working Capital - Turnover Method, MPBF Method, Cash Budget System, Analysis of CMA Data.
b. **Quasi Credit Facilities:** Advantages of Non-Fund Facilities, Various types of NFB Facilities, Various types Letter of Credits, Assessment of LC limits, Bills Purchase / Discounting under LC.
c. **Various types of Bank Guarantees:** Performance Guarantee, Financial Guarantees, Deferred Payment Guarantees, Types of Performance and Financial Guarantees, Assessment of Bank Guarantees Limit, Period of Claim under Guarantee.

4. Other Credits (Module 4)

a. **Export Finance:** Pre-Shipment Finance-Export Packing Credit in Rupees, Pre-Shipment Credit in Foreign Currency (PCFC), Post Shipment Rupee Export Finance, Purchase / Discount of Export Bills, Negotiation of Export Bills, ECGC Coverage in Export / Import Finance.

5. Monitoring, Supervision, Follow-up & Management of Impaired Assets (Module 5)

a. **Credit Monitoring, Supervision, Follow-Up:** Credit Monitoring-Check-list, Monitoring by using Various Statements, QIS Formats / Guidelines, Supervision & Follow Up Loans.
b. **Expected Credit Loss (ECL):** Introduction & Evolution of Provisioning of Banks in India- Incurred Loss Approach Vs. Expected Credit Loss Approach- "Loan Loss Provisioning based on ECL -IFRS 9-Calculation of ECL on Retail / Commercial Advances Examples.
c. **Management of Impaired Assets:** Income Recognition and Assets Classification, Guidelines, Provisioning Norms for NPA, Wilful Defaulters, Compromise, Legal Action, Lok Adalat, Debt Recovery Tribunal, SARFAESI Act, 2002, IBC-2016, Loans Write-Off.

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CERTIFICATE COURSE ON CONCURRENT AUDIT OF BANKS

BROCHURE

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Mission Statement

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Course Objective

The Banking, Financial Services and Insurance Board is pleased to offer **Certificate Course** on **"Concurrent Audit of Banks"** to enable participants to understand the intricacies of Concurrent Audit of Banks.

This course aims to impart in-depth knowledge on concurrent audit of banks and to help the participants to acquire with the knowledge/skills to undertake related assignments/Special Audits of the Banks like:

- Income Leakage Audit
- KYC/AML Audit
- Treasury Department Audit
- Staff Accountability Exercise in respect of Failed/NPA Advances at incipient Stage
- To supplement the effort of the Banks in carrying out Internal Audit of the Transactions and other Verifications and Compliance with the Systems and Procedures laid down by the Banks and RBI

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

CPE Credit: 10 hours
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Course Eligibility

FCMA/ACMA/those who have qualified Final CMA examination, Bank Officer or Ex-Bank Officer.

Course Duration

a) Classroom Learning of 3 hours per day in the Weekend through online mode
b) 30 Hours on-line Coaching
c) 2 months course
d) Online Examination for 100 marks

Course Fees

Course Fees (including learning kit) of Rs. 5,000/- plus GST of 18 %.

Special Discount for Corporates
For number of employees 5-10, discount is 15%. For number of employees more than 10, discount is 20%

Examination

Rs. 750 plus GST per attempt.

Certificate Course on Concurrent Audit of Banks

Detailed Course Content (Syllabus-2024)

1. Types of Audits in Banks Sector.
- 1.1 Risk Focused Internal Audit (RFIA).
- 1.2 Credit Audit / Stock & Book Debts Audit /Statutory Audit.
- 1.3 Concurrent Audit / e-Concurrent Audit etc.

2. Role of Concurrent Auditor.
- 2.1 Verification of Deposit, Advance Accounts.
- 2.2 Verification of Locker System, Cash Department Procedures, Alternative Delivery Channels etc.
- 2.3 Unit Inspection, End-use of Funds, Staff Accounts etc.

3. Credit, Market and Operational Risks.
- 3.1 Credit Risk Areas.
- 3.2 Market Risk Areas.
- 3.3 Operational Risk Areas.

4. Loans and Advances.
- 4.1 Demand Loans.
- 4.2 Term Loans.
- 4.3 Overdrafts, Working Capital Loans and Working Capital Term Loans.
- 4.4 Home Loans, Car Loans, Personal Loans, Mortgage Loans, Education Loans etc.

5. Credit Process: Pre-sanction, Sanction & Post-sanction.
- 5.1 KYC, Verification of Application / Project Report, CIBIL, CIC Reports.
- 5.2 Appraisal, Projections etc.
- 5.3 Verification of Proposal, Sanction and Submission of Control Forms.
- 5.4 Documentation, Types of Charges, Equitable Mortgage, Disbursement, etc.

6. Pre-shipment and Post-shipment Finance.
- 6.1 UCPDC Guidelines – FEDAI Guidelines – FEMA Guidelines.
- 6.2 Pre-shipment packing credit Advance.
- 6.3 Discounting of Export Bills / Import Bills payment etc.

7. Common Serious Lapses in Sanction, Follow-up & Documentation.
- 7.1 Delegation of Powers.
- 7.2 Take-over Norms.
- 7.3 Wrong Documentation.
- 7.4 Stock Statements, Insurance for both Primary and Collateral Security, Monitoring of SMA-0 to SMA-2 Accounts.

8. Legal and Regulatory Frame.
- 8.1 RBI Act and Banking Regulation Act.
- 8.2 Limitation Act.
- 8.3 Registration Act.
- 8.4 Indian Stamp Act.
- 8.5 Limitation Act.
- 8.6 SARFEASI Act and CERSAI etc.
- 8.7 KYC/AML Guidelines.

9. IRAC Provisioning Norms.
- 9.1 Classification of Advances.
- 9.2 Provision requirements.

10. Non-fund-based Business
- 10.1 Types of Bank Guarantees.
- 10.2 Types of Letters of Credits.
- 10.3 Margins, Collateral Security, Standard formats of BGs / LCs, Commission on BGs / LCs.

11. Operational Risk Management – ORM-I
- 11.1 Job Rotation–Staff Attendance-Branch Documents–Security Forms.
- 11.2 Security Systems (Fir-Extinguisher, Smoke Detectors, Gun Licences etc.), Currency Chest Fitness Certificate–Disaster Recovery Management– Business Continuity Plan etc.
- 11.3 Safe Deposit Lockers, Safe Deposit Articles, Deceased Claims Settlement etc.

12. Operational Risk Management – ORM-II
- 12.1 Complaints–Banking Ombudsman–Customer Forums.
- 12.2 Branch Duplicate Keys–Reconciliation of Office Accounts–Parking Accounts–Recovery of Service Charges–Income Leakages etc.
- 12.3 Display of Import Notice Boards–Cheque Truncation System–Complaints and Suggestion Box–Police Beat–ATM Cash Replenishment Outsourcing Agencies (Service Level Agreements).

13. Forex Transactions.
- 13.1 Opening of NRE / NRO / FCNR / RFC accounts.
- 13.2 Purchase & Sale of Foreign Currency Cheques / Currency / Export & Import Bills–Forex Rates.
- 13.3 Submission of R-Returns to RBI.
- 13.4 Verification of SWIFT Message Inward / Outward Remittances.
- 13.5 Nostro, Vostro and Loro Accounts etc.

14. Detection, Classification & Reporting of Frauds
- 14.1 Classification of Frauds–Internal & External Frauds.
- 14.2 Provisions / Recovery Efforts of Frauds.
- 14.3 Disciplinary action initiation / Reporting of Frauds to RBI through On-line.

15. Tools for Concurrent Audit of Banks
- 15.1 Bank Systems and Procedures / Standard Operating Procedures.
- 15.2 Current Chest Guidelines of RBI.
- 15.3 Delegation of Financial Powers.
- 15.4 Service Charges etc.

16. Audit in CBS Environment.
- 16.1 Core Banking System-Major functionalities.
- 16.2 Reports Generated by CBS like Exceptional Reports, Suspicious Transactions Reports etc.
- 16.3 Treasury Management Solutions-Front, Mid and Back-office Reports etc.

17. ESG Lending Audit.
- 17.1 Overview of Sustainability-linked Loans.
- 17.2 Principles of Sustainability-linked Loans.
- 17.3 Value Statements of Social and Environment Audit.

18. Expected Credit Loss Provisions.
- 18.1 Expected Credit Loss (ECL) Framework.
- 18.2 Verification of Stage-1, Stage-2 and Stage-3 Loan Portfolio by Auditors.
- 18.3 Implementation of Regulatory Guidelines on ECL.

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CERTIFICATE COURSE ON

TREASURY AND INTERNATIONAL BANKING

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Certificate Course on Treasury and International Banking

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Course Objectives

Treasury Management is an essential function of a Bank or any Entity dealing with Large volume of funds. With the increased Globalization of Markets, it has become essential to have an in-depth knowledge of the functioning of the Domestic Money and Debt Markets as also the Foreign Exchange Markets for effective management of funds. On account of several Policy measures undertaken by Reserve Bank of India (RBI) and other Regulatory Authorities, different segment of financial markets (Money, Securities, Foreign Exchange and Derivatives Markets) have witnessed significant growth and development in terms of new financial instruments, number of players, volume of business, etc.

In the light of such developments, treasury functions in Banks, FIs and Corporates have grown manifold and therefore have become challenging to manage. Therefore, it has become indispensable for Banks, Financial Institutions and Corporates to make their newly inducted treasury officers well versed with various segment of the financial market, different products and operations, so that they not only serve their clients better, but also manage the risks inherent in Treasury.

Practicing CMAs who dealing with their Clients are in one way or other linked to Finance and Financial related Issues. Hence, they should possess Good knowledge of 'Treasury Operations', so that they can provide Value Addition Services to their Clients. Treasury Operations of Banks and Commercial Organizations are more are less with difference of Regulatory Compliance. Even in small business entities, Treasury Operations helps a lot to minimize the Cost of Borrowings and Maximize the Yield on Investments etc.

In addition to the above, this course is also useful to CMAs who are: -

- Empanelled with Banks for Treasury Audit and Forex Audit.
- For Forensic Audit of Treasury Operations / Forex Operations in Banking Industry
- In Credit Audit, if the Bank Sanctions Loans to Clients like Pre-shipment and Post Shipment Packing Credit Advance, this course is also useful.
- And also, useful to take up the Assignments like 'Concurrent Audit in Treasury Department' of Banks, Commercial entities etc.

The Course provides a holistic insight into the various dimensions in Bank Treasury and Forex Operations.

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https://eicmai.in/advscc/DelegatesApplicationForm.aspx

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Syllabus

SECTION - 1

a. Introduction to the Money Market:

- ✓ Economic Function-Definition-Classification of Intermediaries
- ✓ Types of Markets-Participants-Nature of Domestic Market
- ✓ Repurchase Agreements

b. Capital Markets:

- ✓ Economic Function
- ✓ Classification of Instruments-by Issuer and Types
- ✓ Principles of Valuation

c. Foreign Exchange Markets:

- ✓ Introduction-Definitions-Direct and Indirect Quotations: Cross Rates, Factors affecting Exchange Rates
- ✓ Relationship with Market Operations-Financing Spot Operations Interest Arbitrage-Forward-Forward Business
- ✓ Forward Transactions-Factors affecting / influencing forward rates
- ✓ Premiums: Discounts, Forward Cross Rates
- ✓ Swap Transactions
- ✓ Outright Deals

d. External Markets:

- ✓ External Commercial Borrowings
- ✓ GDRs / ADRs

e. Derivatives Markets:

- ✓ Introduction – Definition and Characteristics of FUTURES, SWAPS and OPTIONS
- ✓ Elementary Hedge Applications

SECTION - 2

a. Scope and Function of Treasury Management:

- ✓ Objectives of Treasury
- ✓ Structure and Organisation
- ✓ Responsibilities of Treasury Manager

b. Cost Centre / Profit Centre:

- ✓ Financial Planning and Control
- ✓ Capital Budgeting
- ✓ Risk Analysis

c. Liquidity Management:

- ✓ Objectives
- ✓ Sources of Liquidity
- ✓ Maturity Concerns: Projected Cash Flow and Core Sources Contingency Plans
- ✓ Short term and Long-term Liquidity
- ✓ Maturity Ladder Limits
- ✓ Internal Control – The Need and Importance – Financial and Operational risks – Internal vs External Control Segregation of Duties among Front and Back Offices – Management Information – Netting

d. Treasury's Role in International Banking:

- ✓ Changing Global Scenario and Treasury Functions
- ✓ Treasury Structure- Front and Back Office
- ✓ Control of Dealing Operations – Trading Limits – Trading and Operational Policy – Moral and Ethical aspects
- ✓ Confirmations

e. Revaluation Mark to Market and Profit Calculations:

- ✓ Supervision and Exchange Control Departments
- ✓ RBI requirements
- ✓ Recent Developments in the Central Bank's Policy Framework

f. ESG Investments Trading:

- ✓ What is ESG Investing?
- ✓ How does ESG investing work?
- ✓ Why it is important to consider the environment while investing?
- ✓ How important it is to consider socially aware companies while investing?
- ✓ How important role does a company's corporate governance place for investors?
- ✓ Issuance requirements of Green Bonds.

SECTION - 3

a. Introduction:

- ✓ Meaning of Risk in Banking Operations-Financial and Non-Financial Risks
- ✓ Risk Process
- ✓ Key Risks in Relation to Treasury Management – Interest Rate Risk, Currency Risk, Liquidity Risk, Credit Risk and Operational Risk

Certificate Course on Treasury and International Banking

Syllabus

b. Measurement and Control of Risk:

- ✓ Identifying Measures and Controlling Risk – Statistical Methods
- ✓ Risk Exposure Analysis
- ✓ Risk Management Policies
- ✓ Fixation and Delegation of Limits
- ✓ Different Limits- Open Position / Asset Position Limits/ Deal Size/Individual Dealers/Stop Loss Limits

c. Assets Liability Management:

- ✓ Components of Assets and Liabilities – History of AL Management
- ✓ Organisational and Functions of ALCO
- ✓ Management and Interest rate Exposure / Liquidity
- ✓ Risk Adjusted Return on Capital
- ✓ Capital Adequacy Concerns

d. Hedging the Risk:

- ✓ Forward, Futures and Options Market
- ✓ Mechanics of Futures
- ✓ Foreign Currency Futures Market
- ✓ Options Market- Options Strategies
- ✓ Hedging Strategies and Arbitrage
- ✓ Call Options and Put Options

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(Under the jurisdiction of Ministry of Corporate Affairs)
BANK
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Brochure
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About The Institute

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as ***"The Institute of Cost Accountants of India"*** from ***"The Institute of Cost and Works Accountants of India"***. This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of transnational Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as ***"Cost and Management Accountants (CMAs)"***. The Institute is the largest Cost & Management Accounting body in the world, having approximately 5,00,000 students and 1,00,000 members all over the globe. The Institution headquartered at New Delhi operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 112 Chapters situated at important cities in the country as well as 11 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

Mission Statement

"The CMA professionals would ethically drive enterprise globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprise globally."

Course Objective:

The Banking, Financial Services and Insurance Board of ICMAI offers the ***Certificate Course on Project Financing*** in recognition of the increasing scale, complexity and strategic importance of infrastructure and project-led development in India. Project financing today extends well beyond conventional lending, encompassing specialised appraisal techniques, risk allocation structures, legal and regulatory frameworks, and long-gestation funding models unique to infrastructure sectors.

This course provides a focused and practical understanding of project finance, with emphasis on

- *infrastructure projects,*
- *covering credit appraisal,*
- *risk assessment,*
- *funding mechanisms,*
- *contractual structures and project management principles.*

Designed by experienced practitioners, it integrates conceptual foundations with real-life case studies and interactive learning to ensure strong application orientation.

With infrastructure development central to national priorities, the programme equips professionals with the skills required to evaluate, structure and manage large-scale projects effectively. Through this initiative, ICMAI continues its commitment to strengthening sector-specific capabilities and enabling professionals to contribute meaningfully to sustainable economic growth.

Course Eligibility:

CMAs, Bankers (all categories), NBFCs, AIFIs, CMA Final Students, Graduates, Infrastructure professionals, Developers and all other stakeholders.

Course Duration:

a. Classroom Learning of 2 hours per day in the Weekend through online mode
b. 30 hours online Coaching
c. 2 months course
d. Online Examination for 100 marks

Course Fees:

Course Fees (including learning kit) of Rs. 5,000/- plus GST of 18%

Examination Fees:

Rs. 750/- plus GST per attempt

CPE Credit: 10 hours
for members of The Institute of Cost Accountants of India

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

Detailed Course Content:

- Fundamentals of Infrastructure Financing
- Infrastructure Project Models
- Credit Appraisal Process and Feasibility Studies
- Financial Appraisal
- Key Performance Indicators
- Risk Management Framework in Infrastructure Financing
- Regulatory norms and various regulations that govern Infrastructure Financing
- Documentation, Monitoring and Performance audit of infra projects
- Case Studies on various sub-Sectors
- Alternate sources of Finance
- ESG and Sustainable Finance
- Professional opportunities and interlinkages with other areas viability, project planning and implementation
- Financial Closure, Preventive Vigilance and Documentation

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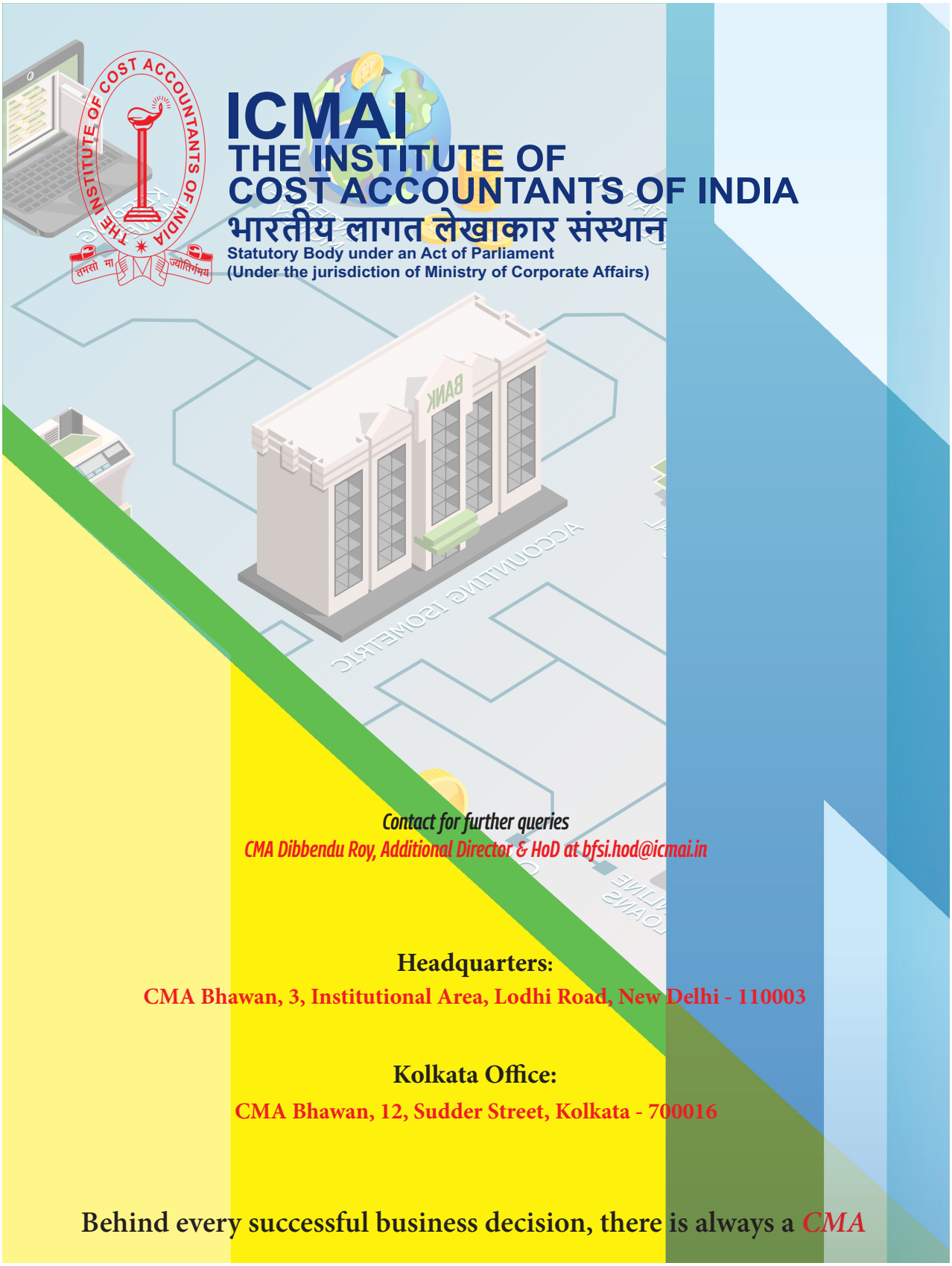
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Contact for further queries
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Kolkata Office:
CMA Bhawan, 12, Sudder Street, Kolkata - 700016
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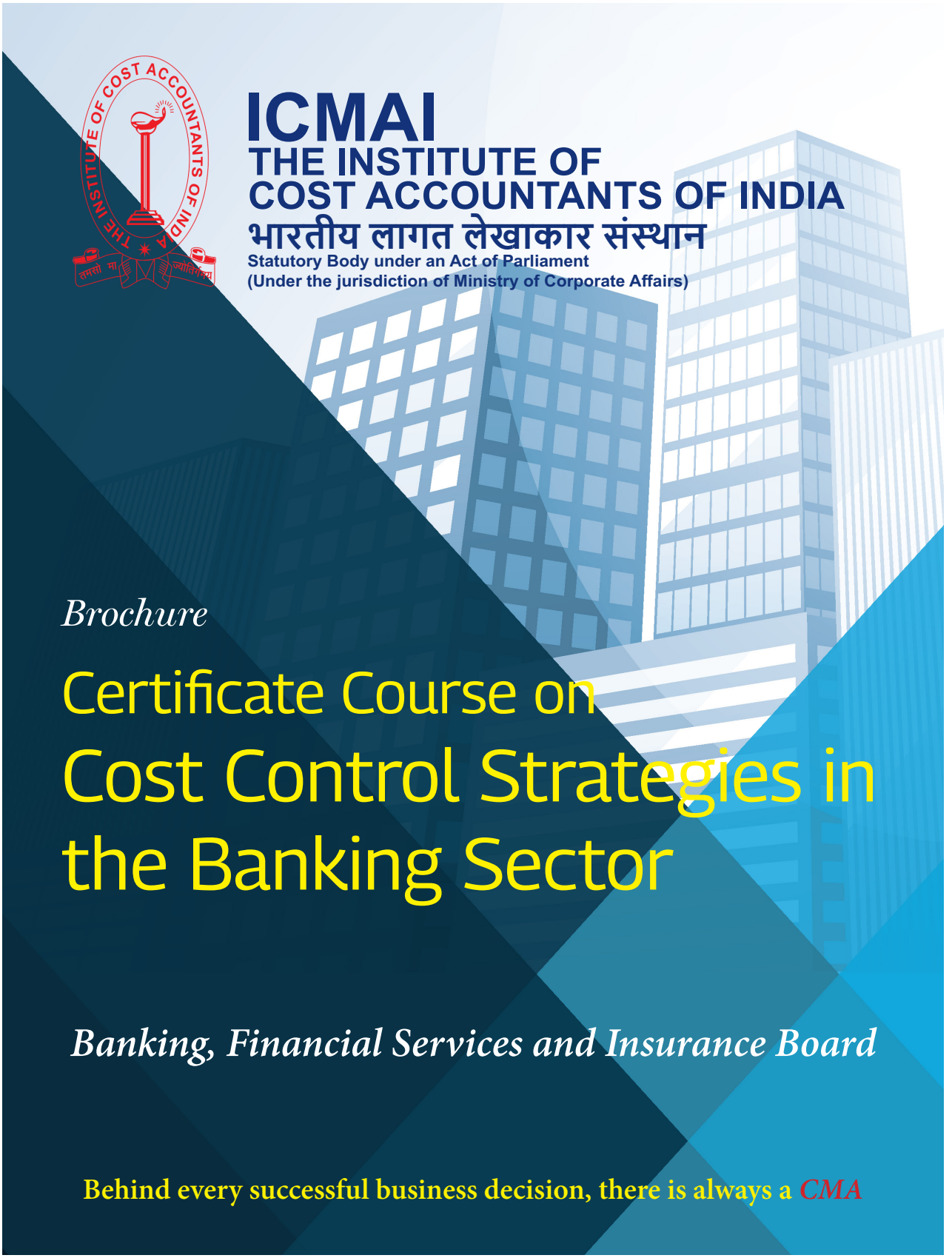
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Brochure
Certificate Course on
Cost Control Strategies in
the Banking Sector
Banking, Financial Services and Insurance Board
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Course Objective:

The Banking, Financial Services and Insurance Board is pleased to offer ***"Certificate Course on Cost Control Strategies in the Banking Sector"***. The BFSI Board has developed a structured 30 hours Certificate Course covering major cost drivers, cost allocation, activity-based costing, transfer pricing, digital vs. branch cost comparison, regulatory cost (CRR/SLR/PSL/ECL), branch profitability, workforce optimisation, and RBI-aligned cost transformation strategies. The Course is designed for CMAs with the objective of strengthening analytical capability, cost diagnostics, and profitability enhancement across the banking sector.

This Certificate Course on Cost Control Strategies in the Banking Sector covers the following Learning Objectives:

- Understand major Cost Drivers in Commercial Banks.
- Develop Analytical Tools for measuring and Controlling Costs.
- Implement Cost Allocation, ABC, Marginal Costing, Transfer Pricing.
- RBI-Aligned Cost Analysis for Banking Operations.
- Build Strategies to Improve Profitability, Reduce Inefficiencies, and Optimise Resources / Productivity.

Course Eligibility:

CMAs

Course Duration:

Classroom Learning of 2 hours per day in the Weekend through online mode

30 hours online Coaching

2 months course

Online Examination for 100 marks

Course Fees:

Course Fees (including learning kit) of Rs. 3,000/- plus GST of 18%

Examination Fees:

Rs. 750/- plus GST per attempt

CPE Credit: 10 hours
for members of The Institute of Cost Accountants of India

Online Admission Link:
https://eicmai.in/advscc/DelegatesApplicationForm.aspx

Detailed Course Content:

Day-1 :

- Overview of Indian Commercial Banking System (PSBs, Private Banks, SFBs).
- Introduction & Cost Structure of Indian Banks.
- Major Cost Heads: Interest Cost, Personnel, Operating Expenses, Credit Cost.
- Distinction: Controllable vs Non-controllable Costs.

Day-2 :

- Understanding Bank Financial Statements from a Cost Lens.
- Cost Elements in P&L, Balance Sheet Analytics.
- Cost of Funds, Operating Cost, Credit Provisioning
- Understanding CIR (Cost-to-Income Ratio), NIM, ROA, ROE

Day-3 :

- RBI Compliance Cost: CRR, SLR, Priority Sector Lending, Regulatory Reporting.
- Cost of NPA/ Stressed Asset Management.
- Impact of Compliance with ECL, IRACP Norms.
- Competitive Cost Challenges for PSBs vs Private Banks

Day-4 :

- Direct / Indirect Costs in Banks.
- Fixed vs Variable Costs.
- Treasury-related Costs, Branch Operation Costs, Technology Cost (Including Alternate Delivery Channels Cost).
- Overhead Absorption in Banking Context.

Day-5 :

- Activity Based Costing (ABC) Principles Applied to Banking Operations.
- Identifying Activities: Cash, ATM, NEFT/RTGS/IMPS, Loan Processing, CASA, Digital channels.
- Cost Drivers & Cost Pools.
- Case Study: ABC Model for Loan Processing

Day-6 :

- Multilevel Cost Allocation.
- Branch-level Profitability.
- Transfer Pricing (FTP) Basics.
- Shared Service Centre Costing.
- Allocate Overhead to Branches using Templates.

Day-7 :

- Costing of Products: Term Loans, Working Capital, CASA, Debit / Credit Cards, Digital Products.
- Return on Risk-Adjusted Capital (RAROC) vs Traditional Profitability
- Customer Lifetime Value (CLV)
- Case Study: Profitability Analysis of a Hypothetical Branch.

Day-8 :

- Digital Transactions vs Branch Transactions: Comparative Cost.
- ATM vs Branch vs Digital Delivery Cost.
- FinTech Partnerships.
- Enterprise IT Cost Control Strategies.
- Practical: Compute Cost Savings through Migration to Digital Channels.

Day-9 :

- Staff Cost Optimization.
- Productivity Metrics: Business Per Employee, Profit Per Employee / Branch.
- Workforce Planning & Automation.
- Performance-Linked Cost Management.

Day-10 :

- Marginal Costing in Credit Pricing.
- Break-even Analysis for Branches / Products.
- Pricing of Loans / Retail Products on Marginal Cost Basis.
- Exercise: Compute Break-Even for a Small Branch.

Day-11 :

- Internal Pricing of Funds; Liquidity Premium.
- FTP impact on NIM, Profitability of Branches.
- FTP in PSBs vs Private Banks.
- Practice: FTP-Based Profitability Computation.

Day-12 :

- ECL vs Incurred Loss: Cost Impact.
- Credit Risk Cost Modelling.
- Pricing Loans Considering PD/LGD/EAD.
- Case study: Credit Risk Cost on SME Lending.

Day-13 :

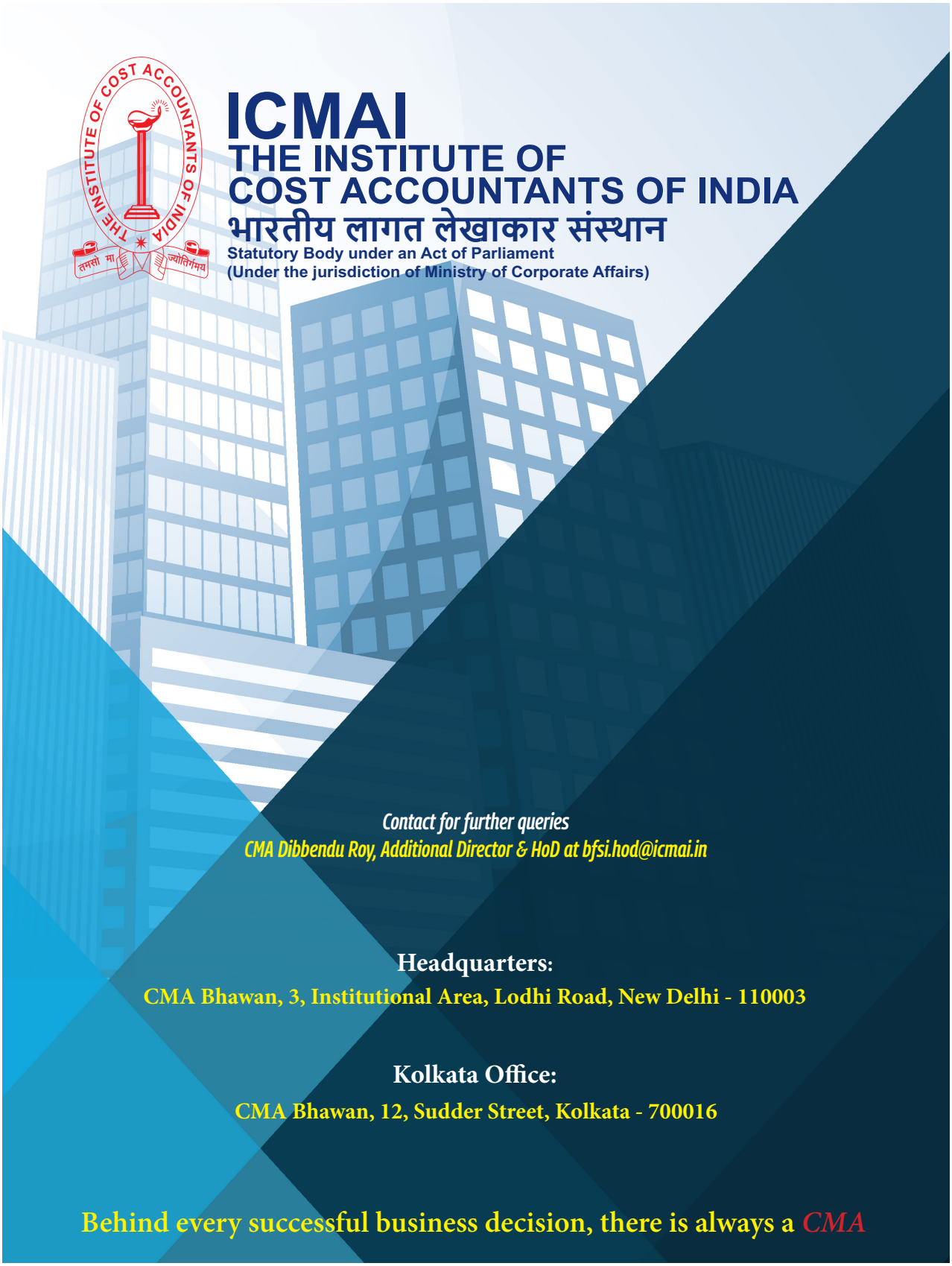
- ALM Implications for Cost Control.
- Fraud-related Cost Exposures.
- Audit Findings impacting Cost Efficiency.
- Cost Leakages in Procurement, Outsourcing, Branch Ops.

Day-14 :

- Vendor Evaluation.
- Outsourcing: Cost Analysis, Risk, RBI Outsourcing Guidelines.
- Technology Procurement Lifecycle
- Branch Rationalisation.
- CASA Enhancement for Cost Reduction.

Day-15 :

- Capital Productivity & ROA Improvement.
- Digital-First Cost Transformation Strategy
- Branch Budgeting.
- Efficiency Metrics: Cost Per Account, Cost Per Transaction.
- Cost Control SOPs.
- Energy & Resource Cost Management
- Predictive Analytics for Cost Forecasting.
- KPI Design.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Behind every successful business decision, there is always a CMA

Snapshots

CMA Venkateswaran Ramakrishnan, General Manager, SEBI (centre) is being welcomed by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI (2nd from left) along with CMA (Dr.) Latha Chari, Board Member, BFSIB of ICMAI (extreme left), CMA (Dr.) Sunder R Korivi, Board Member, BFSIB of ICMAI (2nd from right) and Ms. Ritwika Roy, Founder's Office, Finlabs (extreme right) at the BFSI Business Standard Summit at BKC Mumbai on 29th October, 2025.

CMA Mohan Vasant Tanksale, Former Chief Executive, IBA (extreme right) and CMA (Dr.) Rajkumar Adukia (2nd from left) is being greeted by CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI (2nd from right) along with Ms. Ritwika Roy, Founder's Office, Finlabs (extreme left) at the BFSI Business Standard Summit at BKC Mumbai on 29th October, 2025

Interview with CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI and BFSI Board Members to Business Standard Summit at BKC Mumbai on 29th October, 2025.

Shri Inderjeet Singh, Secretary General, Non-Life Insurance Council (centre) is being welcomed by CMA Dibbendu Roy, Additional Director & HoD, BFSIB of ICMAI (extreme left) along with CMA (Dr.) Latha Chari, Board Member, BFSIB of ICMAI (extreme right) at the BFSI Business Standard Summit at BKC Mumbai on 30th October, 2025.

CMA Sanchit Goyal, Assistant General Manager, SEBI (extreme right) is being welcomed by CMA Dibbendu Roy, Additional Director & HoD, BFSIB of ICMAI (centre) along with CMA (Dr.) Latha Chari, Board Member, BFSIB of ICMAI (extreme left) at the BFSI Business Standard Summit at BKC Mumbai on 30th October, 2025.

Shri Jagannathan, ISRO Scientist (extreme left) is being welcomed by CMA Dibbendu Roy, Additional Director & HoD, BFSIB of ICMAI (centre) along with CMA (Dr.) Sunder R Korivi, Board Member, BFSIB of ICMAI (extreme right) at the BFSI Business Standard Summit at BKC Mumbai on 30th October, 2025.

Shri Sivasubramanian Ramann, Chairperson, PFRDA (extreme left) is being welcomed by CMA (Dr.) Sunder R Korivi, Board Member, BFSIB of ICMAI (extreme right) at the BFSI Business Standard Summit at BKC Mumbai on 30th October, 2025.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI addressing in the Decoding the New Labour Codes & Opportunities for CMA Professionals on 11th December 2025.

A delegation from ICMAI comprising CMA Navneet Kumar Jain (Chairman, Cooperative Development Board, ICMAI), CMA Chittaranjan Chattopadhyay (Chairman, BFSIB and ACMB of ICMAI), CMA Abhijit Dutta (Secretary, EIRC of ICMAI) and CMA Sorabh Sethi met with Shri Samit Neogi, General Manager (Credit) and Shri Anjan Chattopadhyay, General Manager (Operations & Banking), West Bengal State Co-operative Bank Ltd. The discussions focused on various professional areas where CMAs can meaningfully contribute to the cooperative banking sector.

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and ACMB of ICMAI (extreme right) presented a copy of BFSI Chronicle to Shri Challa Sreenivasulu Setty, Chairman, State Bank of India (centre) along with CMA (Dr.) K Ch A V S N Murthy, Central Council Member, ICMAI (extreme left) on 16th December, 2025.

Release of "Handbook on Central Bank Digital Currency (CBDC), Monograph on Climate Risk and Green Finance-Banking Sector-International Practices and Indian Perspective (2nd Series) and Guidance Note on Cost Control Strategies in the Banking Sector " on 11th January, 2026 at 63rd National Cost & Management Accountants' Convention (NCMAC), Coimbatore, Tamil Nadu at the hands of CMA TCA Srinivasa Prasad, President, ICMAI (centre), CMA Neeraj Dhananjay Joshi, Vice President, ICMAI (left of President, ICMAI) and other Council Members, ICMAI and Speakers were also present.

Activities of the BFSI Board

The Banking, Financial Services & Insurance Board (BFSIB), The Institute of Cost Accountants activities for the last three months are as follows-

A. Webinars

- Webinar Synopsis From Policy to Profit How Recent RBI's Regulatory Ripples Reach MSMEs, was conducted on 27th October 2025, the Speaker was CMA Pankaj Jain, Global MSME & Realty Strategist and Founder - Jain Venture.
- Capital Markets: Value and Price —The webinar was conducted on 7th November 2025 from 11:00 a.m. to 12:15 p.m., The speaker was Shri Mahesh Bhatt, Vice President, KIRTICORP.
- From Policy to Practice: Building Stronger Governance and Control Frameworks" — The webinar was conductd on 12th November 2025 from 5:30 p.m. to 7:30 p.m., Shri Swakshar Basu, FCPA Australia and RIMS-CRMP, or Manager, Risk and Compliance Telecommunications Company was the speaker.

B. Joint Seminar with ICMAI, Cochin Chapter

"Financial Risk Frontiers: Strategies for Resilient Futures" held on 24th October 2025 at CMA Bhavan, Poonurunni, Vytilla, Cochin.

The seminar featured four high-impact technical sessions delivered by eminent domain experts, offering practical and forward-looking perspectives on risk management across the BFSI ecosystem:

- **Session I: Strategic Debt Management for Project Bankability**
  Ms. Devi Ajai, Vice President & State Head – Medium Enterprises, Axis Bank. The session highlighted prudent debt structuring, lender expectations and cash-flow alignment as critical enablers of project bankability and long-term financial sustainability.

- **Session II: Green & Climate Finance – Driving Sustainable Growth**
  CMA (Shri) Venkateswaran Ramakrishnan, General Manager, SEBI. The deliberation provided regulatory and market insights into green finance, climate risk integration and the role of sustainable finance in supporting India's transition objectives.

- **Session III: Banking Risk Management**
  Mr. Damodaran C., Chief Risk Officer, Federal Bank. This session offered deep insights into contemporary banking risks, enterprise risk frameworks and the importance of proactive risk governance in an evolving financial environment.

- **Session IV: Business Risk Mitigation through General Insurance**
  Mrs. Geeta Nair, Chief Business Manager, Trivandrum Business Office. The presentation underscored the strategic role of general insurance in mitigating operational and business risks, enhancing resilience and protecting enterprise value.

  Collectively, the technical sessions reinforced the evolving role of risk management as a strategic driver of resilience, sustainability and informed decision-making in the BFSI sector.

C. Career Opportunities for CMAs

- i.Eligible to apply for **Officer Grade A (Assistant Manager), SEBI — 2025.**
- ii.Eligible to apply for **Probationary Officer, South Indian Bank Ltd.**

D. Publications — BFSIB Releases

- Aide-Mémoire on Infrastructure Financing (3rd revised & enlarged edition)

  The Board released the Aide Mémoire on Infrastructure Financing (3rd Enlarged and Revised Edition), formally launched by the Chairman of State Bank of India, who also graciously contributed the foreword. This publication has emerged as a ready reference and practical guidance note for bankers across the sector.

The following three publications were released in the 63rd NCMAC held at Coimbatore from 9th to 11th January, 2026.

- Handbook on Central Bank Digital Currency (CBDC)
- Monograph on Climate Risk & Green Finance — Banking Sector (2nd series)
- Guidance Note on Cost Control Strategies in the Banking Sector

Financial Snippets

- ***Financial Service***

- ***Largest FDI in Financial Services: Japan's MUFG Bank will acquire a 20% stake in Shriram Finance for 39,618 crore via a preferential issue, marking the largest FDI in an Indian financial services company.***
- ***SEBI Overhauls Mutual Fund Rules: SEBI approved a comprehensive overhaul of mutual fund regulations to improve cost transparency. This includes excluding statutory levies like STT and GST from the Total Expense Ratio (TER) and capping brokerage/ distribution commissions.***
- ***New Securities Code Introduced: The Finance Minister introduced the Securities Markets Code, 2025 to unify fragmented laws (SCRA, SEBI Act, Depositories Act) into a single framework and decriminalize minor technical violations.***
- ***Unified Regulator for MSMEs Proposed: FISME has proposed a "unified financial sector regulator" covering banking, insurance, and fintech to better address MSME credit needs, suggesting banking regulation be carved out from the RBI.***
- ***SEBI Eases IPO Norms: SEBI approved amendments to IPO regulations, allowing a technology-enabled mechanism for locking in pledged pre-issue shares and replacing the abridged prospectus with a concise "Offer Document Summary".***
- ***New Tax Treaty with France: Halved dividend tax (5% for >10% equity) and removed the threshold for India to tax capital gains on all equity transfers.***
- ***India Joins Crypto Elite: Ranked 9th globally in transactional crypto use, driven by stablecoin adoption and a strong retail base.***
- ***Silver Price Milestone: Prices crossed 2 lakh per kg for the first time, seeing 100% growth in 2025 due to industrial and clean energy demand.***
- ***Sberbank's Rupee-to-Nifty Corridor: Sberbank launched a mutual fund allowing Russian investors to invest "stranded" rupees from oil trade directly into Nifty50 equities.***
- ***UPI Global Leadership: The IMF recognized India's UPI as the world's largest retail fast-payment system, accounting for nearly 49% of global real-time transactions.***
- ***New Trade Negotiator: Darpan Jain was appointed as the Chief Negotiator for the critical India-US trade deal negotiations***

- ***Banking***

- ***Risk-Based Deposit Insurance: The RBI Board approved a "risk-based deposit insurance framework," allowing sounder banks to pay lower premiums, effective from the next financial year.***

- ***RRB Consolidation & IPOs: The Finance Ministry consolidated 26 Regional Rural Banks (RRBs) across 11 states into a single brand identity effective May 2025. Additionally, three RRBs (Haryana, Kerala, Tamil Nadu) have been asked to submit IPO blueprints by March 2025.***

- ***Japanese Banks Expansion: Japanese mega-banks (MUFG, Mizuho, and Sumitomo Mitsui) are aggressively expanding in India due to saturated home markets, with significant investments in the financial sector.***

- ***IndusInd Bank Probe: The Ministry of Corporate Affairs ordered an SFIO probe into IndusInd Bank citing public interest and serious accounting discrepancies flagged by auditors.***

- ***Major IOB Stake Sale: The government is divesting up to a 3% stake in Indian Overseas Bank via an Offer for Sale (OFS) starting December 18.***

- ***Liquidity Infusion: RBI announced the second tranche of Open Market Operation (OMO) purchases worth 50,000 crore to inject liquidity into the system.***

- ***Agentic AI Adoption: Banks are increasingly deploying agentic AI systems to transform frontline sales and boost revenue productivity.***

- ***MPC Rate Cut: The Reserve Bank of India (RBI) reduced the Repo Rate by 25 basis points to 5.25% while maintaining a "neutral" stance.***

- ***New Benchmark Yield High: The 10-year benchmark bond yield surged to 6.63%, the highest in the current financial year, due to foreign investor sell-offs.***

- ***3. Insurance***

- ***100% FDI in Insurance Passed: Parliament passed the Sabka Bima Sabki Raksha Bill, 2025, raising the FDI limit in the insurance sector to 100% (up from 74%) to boost penetration and job creation.***

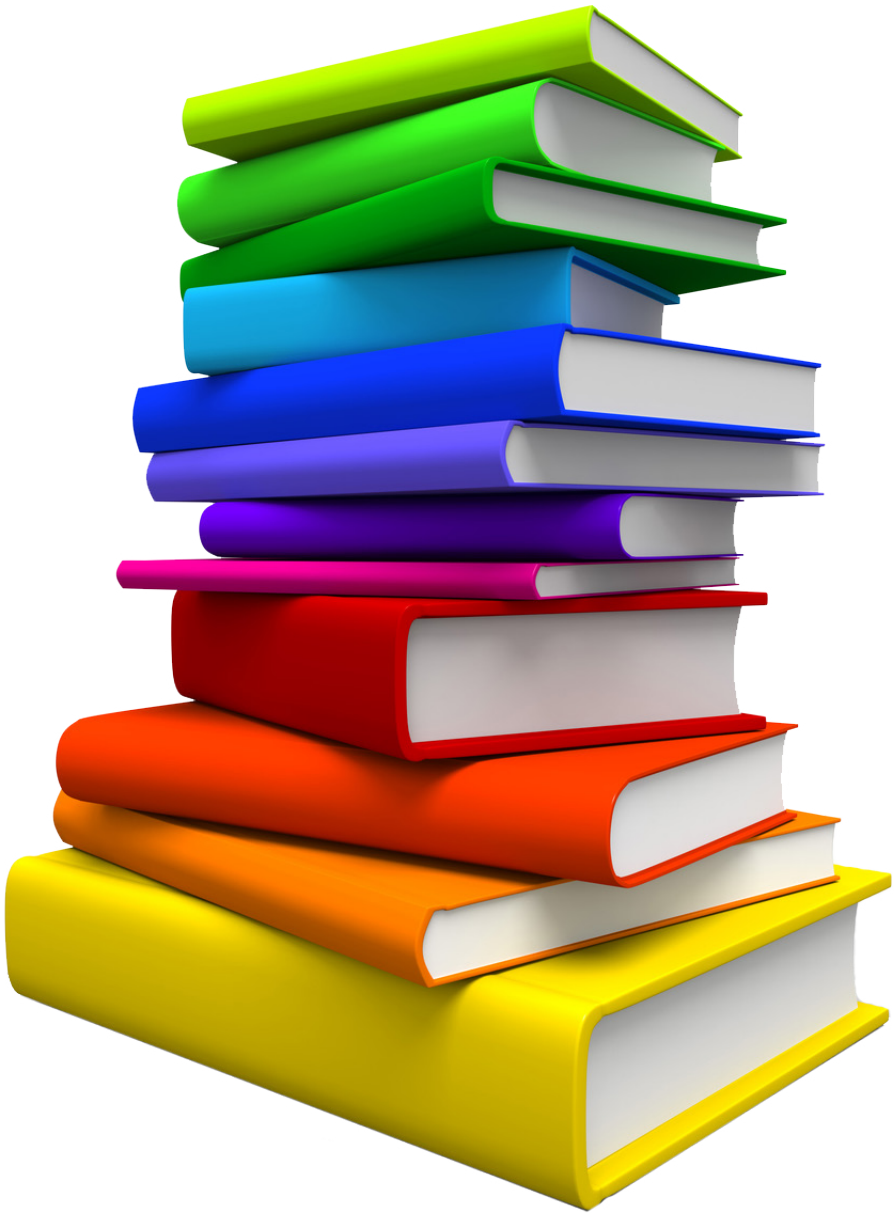
- ***Investments in Infra SPVs: IRDAI proposed allowing insurers to invest up to 20% of their funds in debt instruments of infrastructure Special Purpose Vehicles (SPVs), provided they have a minimum credit rating of AA.***

- ***Seminal Bill Passed: The Lok Sabha passed a landmark Insurance Bill (full details on 100% FDI and composite licensing are contained within the December 20+ digests previously summarized).***
- ***Revised Audit Guidelines: New guidance notes issued for the internal audit of General Insurance companies to enhance transparency and compliance.***
- ***Audit Transparency: New guidance notes were issued for the internal audit of General Insurance companies to standardize compliance and risk reporting.***
- ***Regulatory Sandbox Expansion: IRDAI has extended the regulatory sandbox duration to allow more time for testing innovative "pay-as-you-go" and telematics-based insurance models.***

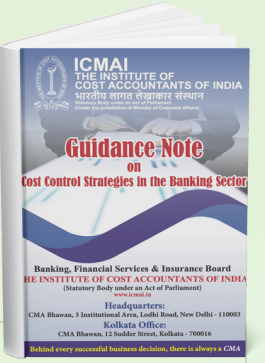
- ***Economy***

- ***Inflation Base Year Revision: The Ministry of Statistics announced that the base year for Consumer Price Index (CPI) inflation will be revised to 2024 (from 2012), with the first new dataset releasing in February 2026.***
- ***FDI Doubling: Net Foreign Direct Investment (FDI) into India nearly doubled to $6.2 billion during April-October compared to the previous year.***
- ***India-Oman: Signed a CEPA providing zero-duty access to 99% of Indian exports.***
- ***India-New Zealand: Concluded FTA negotiations in record time, offering zero-duty access for all Indian goods.***
- ***Forex Reserves Jump: India's foreign exchange reserves rose by $1.68 billion to nearly $689 billion, supported by increased gold holdings.***
- ***Historic Rupee Low: The INR closed at a record low of 91.03 against the USD on December 16, making it Asia's worst-performing currency year-to-date.***
- ***Inflation Trends: Retail inflation (CPI) edged up to 0.7% in November , while Wholesale inflation (WPI) slipped further to -0.32%.***
- ***Trade Dynamics: India-Oman signed a duty-free trade deal, while Mexico imposed up to 50% tariffs on Indian imports like automobiles.***
- ***Blockbuster GDP Growth: India's GDP grew at a six-quarter high of 8.2% in Q2, driven by a 9% surge in manufacturing.***
- ***GST Slowdown: GST collections hit a 12-month low of 1.7 lakh crore in November, growing at only 0.7%.***
- ***Growth Forecast Upgrade: The Asian Development Bank (ADB) raised India's FY26 growth forecast by 70 basis points to 7.2%.***

New Arivals



GUIDANCE NOTE ON COST CONTROL STRATEGIES IN THE BANKING SECTOR



This handbook offers a focused, practitioner-ready exposition on cost control and efficiency enhancement in the Indian banking sector. Drawing on authoritative datasets from the Indian Banks' Association (IBA), bank annual reports and expert consultations, it distils core cost structures, prevailing inefficiencies and contemporary cost-management approaches. The volume combines analytical clarity with actionable guidance to help banks, NBFCs and financial institutions strengthen profitability, optimise resource deployment and align operations with emerging regulatory expectations.

It concisely maps controllable and non-controllable cost drivers, benchmarks trends across public and private banks, and underscores the need for dedicated costing functions. With targeted emphasis on digital enablement, automation, energy efficiency, branch-rationalisation strategies and advanced costing tools, the handbook provides a coherent blueprint for improving cost competitiveness and informed strategic decision-making across the banking ecosystem.

Salient Features

- **Authoritative synthesis** of Indian and international practices in bank cost management.
- **Practical tools and analytical models,** including CBA frameworks, EOQ for cash, CIR improvement strategies, ALM-based cost optimisation and treasury efficiency levers.
- **Case-based insights** drawn from field visits, interactions with bank officials and real-world examples from PSBs, private banks and global institutions.
- **Comprehensive sector-wide analysis** of cost structures across branches, ATMs, lockers, call centres, training units, and outsourcing channels.
- **Forward-looking guidance** on digital transformation, energy optimisation and emerging models like centralised lockers, digital branches and automated audit systems.

Scope & Coverage (Selected Themes)

The book's comprehensive structure spans 28 chapters, covering—among others—the following core themes:

- **Role of Banks and Sector-wide Performance Trends:** Contribution of banks to India's economic architecture; comparative performance of public and private sector banks across FY 2021–2025.
- **Costing Frameworks and Policies:** Need for a formal costing policy; importance of cost-to-income ratio (CIR); budgeting discipline; role of CMAs in institutionalising cost culture.
- **Cost Audit & Transparency:** Rationale for cost audit, departmental costing structures, and frameworks for strengthening pricing transparency.
- **Operational Cost Drivers:**
  - Rent, taxes, lighting ("third cost").
  - Electricity, branch infrastructure and digital branch models.
  - ATM cost effectiveness, rural deployment strategies, and emerging "robo-advisory" concepts.
  - Cash handling costs at branches and ATMs, EOQ models and logistics optimisation.
  - Safe-deposit locker operations and technology-driven optimisation.
- **Income & Audit-Related Controls:** Audit cost rationalisation, automation of income-leakage controls, CBS-driven daily exception reporting.
- **Cost of Third-Party Product Sales:** Commission analysis, cost-benefit evaluation, and strategic focus on core banking services.
- **Outsourcing & Training Costs:** Governance of outsourced functions, creation of specialised subsidiaries, TNA-based training strategies.
- **Productivity Enhancement:** Use of RPA, BREs, job family structuring, inter/intra-firm productivity comparisons, and gold-loan processing efficiency.
- **NPA Resolution & Recovery Costs:** Cost-benefit comparison of SARFAESI, DRT, IBC, use of BCs and DRAs, and optimised recovery-unit functioning.
- **ALM & Treasury Cost Control:** FTP models, derivative tools, refinance options (NABARD, SIDBI, NHB), and reducing cost of capital in line with Basel III norms.
- **Mergers & Structural Efficiency:** Synergies from branch consolidation, IT integration, and economies of scale.
- **Role of Cost Accountants:** Activity-based costing (ABC), cost-control departments, and the growing need for Chief Cost Controllers in banks.

Why This Handbook is Essential

- Addresses the sector's urgent need to contain controllable costs amid rising compliance expenditure, digital infrastructure costs and heightened competition.
- Provides bank-ready frameworks to strengthen CIR performance, conduct cost-benefit analysis, optimise cash, branch, ATM and energy usage, and streamline audit processes.
- Equips banks to make data-driven decisions on rental, outsourcing, locker operations, training expenditure and NPA recovery models.
- Offers empirical insights using verified banking data (FY 2023–2025) to benchmark efficiency and guide strategic cost restructuring.
- Supports capacity-building for banking professionals—particularly CMAs—in integrating costing methodologies with risk management and profitability improvement.

Target Readers / Beneficiaries

- Senior bankers, cost controllers, treasury and ALM professionals, operational heads, auditors, risk managers, CMAs, consultants, NBFC/SFB executives, academic institutions and students of banking, finance and costing.
- This handbook serves as a strategic reference for integrating cost management with operational efficiency, profitability enhancement and long-term competitiveness across India's banking ecosystem.

Book purchase link
https://eicmai.in/booksale_bfsi/Home.aspx

Warm Regards,
CMA Chittaranjan Chattopadhyay
Chairman
Banking, Financial Services and Insurance Board

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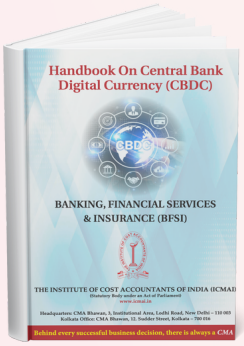
Behind every successful business decision, there is always a CMA.

HANDBOOK ON CENTRAL BANK DIGITAL CURRENCY (CBDC)



This authoritative handbook presents a concise, practice-oriented exposition of Central Bank Digital Currency (CBDC), addressing its design, technology, policy and operational implications with particular reference to banking systems and financial reporting. Bridging international precedents and India-specific regulatory considerations, the volume equips practitioners, regulators and policy-makers with actionable guidance for CBDC design choices, implementation architectures, risk management, legal and accounting treatment, and the broader macro-financial impacts.

Salient Features

- Comparative analyses of global CBDC models and country case studies.
- Technology decision framework (scalability, security, interoperability).
- Practical policy notes on liquidity, balance-sheet and governance implications.
- Accounting treatment, tax considerations and illustrative ledger approaches.
- Role-specific guidance for central banks, commercial banks, custodians and cost accountants.
- Annotated bibliography and statutory annexures for reference.

Scope & Coverage

- Principles of public trust and currency integrity amid digital-asset proliferation.
- CBDC design considerations: types (retail/wholesale), direct/indirect/hybrid models, interest-bearing options and international design features (Bahamas, Sweden, Canada, ECCU, Uruguay).
- Technology architecture: platform selection, DLT vs non-DLT trade-offs, scalability, security, interoperability (domestic and cross-border) and analytics.
- Operational resilience: continuity planning, resource usage, consumer protection and grievance redressal.
- Policy implications: effects on monetary policy, liquidity management, financial stability, legal and balance-sheet ramifications,
- AML/CFT, privacy and data-protection.
- Institutional roles and liabilities: distribution models, custodial arrangements, and accountability of central banks, intermediaries and commercial banks.
- Accounting and reporting: classification under IFRS, triple-entry accounting, taxation, and practical guidance for financial records.
- Sectoral perspectives: cost-of-credit implications and the role of Cost Accountants in managing CBDC-related financial stability concerns.
- Annexures: relevant statutes (e.g., Digital Personal Data Protection Act, 2023) and comprehensive references.

Target Readers

Central bankers, senior bankers, treasury & payments heads, risk and compliance officers, policy makers, auditors, CMAs, financial accountants, fintech architects, legal counsel, regulators, academic researchers and postgraduate students in finance and financial technology.

To serve as a succinct, operational compendium that enables informed decision-making, rigorous risk management and compliant implementation of CBDC initiatives, thereby preserving monetary integrity while fostering innovation in the payments ecosystem.

Book purchase link
https://eicmai.in/booksale_bfsi/Home.aspx

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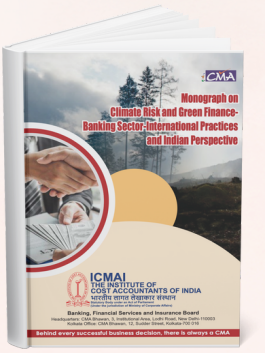
MONOGRAPH ON CLIMATE RISK & GREEN FINANCE



This authoritative monograph presents a comprehensive, practice-oriented treatment of climate risk and green finance with special reference to the banking sector. Drawing together international best practices, global taxonomies and India-specific regulatory developments, the volume examines physical and transition risks, net-zero strategies, financing instruments, disclosure frameworks and practical implementation pathways for banks, NBFCs and financial intermediaries.

Salient Features

- Authoritative synthesis of international best practices and Indian regulatory updates.
- Practical chapters on financing instruments, transition pathways, and business-impact analysis.
- Templates for ESG disclosures, green deposit verification and sustainability reporting.
- Illustrative case studies and sectoral exposure snapshots.
- Bibliography and references for further research.

Scope & Coverage

The book comprises a substantive Table of Contents of 54 chapters, covering — inter alia — the following themes:

- Sustainability & UN SDG linkages; Five Pillars of Sustainability.
- Global environmental risk scenarios and climate-risk fundamentals.
- Climate change as a physical risk for the BFSI sector and practical climate-risk assessment frameworks.
- Net-Zero strategy: identification of risks & opportunities; pathway development; current landscape and leading transition examples.
- Net-zero financing & investment — international best practices, EBA guidelines and principles.
- Mitigation and adaptation areas; blended finance and transition financing models for India.
- RBI, SEBI and other Indian regulatory interventions — disclosure frameworks, taxonomy, green deposit verification and third-party certification requirements.
- Role of Banks, NBFCs and Small Finance Banks; green deposit policies; green bonds, carbon markets and biodiversity credits.
- Practical templates for qualitative disclosures on E, S and G; sustainability KRIs and ESG reporting pack for banks.
- Case studies: sustainability reports and ESG highlights of leading Indian banks (FY 2023–24) and exposure snapshots.

Why this Monograph is Essential

- Integrates international frameworks with RBI's evolving regulatory architecture, including the Disclosure Framework on
- Climate-related Financial Risks and Green Deposit Verification norms.
- Enables CMAs to lead climate-project appraisal, transition-finance structuring, cost–impact analysis and taxonomy-aligned reporting across the BFSI sector.
- Equips banks and financial institutions to design bankable climate projects, stress testing and credible ESG disclosures demanded by regulators and investors.
- Offers practical templates, checklists and KRI frameworks to accelerate operationalisation of green finance practices.

Target Readers

Senior bankers, risk and treasury officers, sustainability & compliance heads, regulators, policy-makers, credit analysts, NBFC/SFB executives, CMAs, Research analysts, consultants, and academic/post-graduate students of finance and sustainability.

This monograph is intended as a practical reference to assist the Indian banking and financial community in aligning risk management, financing strategies and disclosures with global climate objectives and national policy imperatives.

Book purchase link
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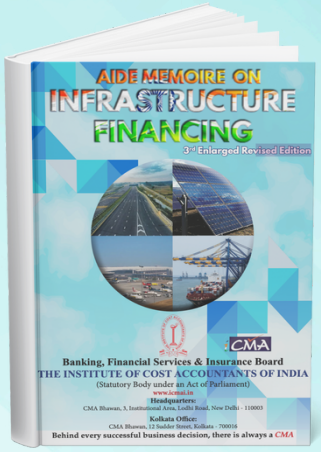
Aide Memoire On INFRASTRUCTURE FINANCING
(3rd Enlarged Revised Edition)



Infrastructure sector continues to play its significant role in the long term sustainable development of the country. Its contributions with multiplier effect for the entire economy are well recognised. A properly structured robust 'Infrastructure Financing ' mechanism is critical for the holistic development.

Enthused by the overwhelming response and positive feedback about our previous two editions of the book, we have now launched the third Enlarged and Revised edition for the benefit of all members and students of the Institute, bankers and other professionals & stakeholders in the infrastructure domain.

This edition contains additional chapters on the government perspective, new illustrative project case studies with added coverage on ESG and sustainable finance, besides updation of material on alternate sources of finance along with the need for further reforms and the way forward.

Synopsis - Salient Features of the Book

- **A single reference point and guide for the niche area of Infrastructure Financing.**
- **The book covers basic theoretical concepts as also the real nitty-gritty and finer nuances involved in Infrastructure Financing, with all the relevant and contemporary topics which include the following :-**

  - Definition of Infrastructure sector - updated Harmonized List of Infrastructure sub-sectors.
  - RBI Guidelines on Infrastructure Financing - Project Finance Directions (2025)
  - Various models of Public Private Partnership for undertaking an infrastructure project.
  - Project structure for financing - formation of Special purpose Vehicle - key project documents.
  - Financing mechanism - consortium/ syndication
  - Credit Appraisal Process covering management, technical, economic, marketing and financial appraisal.
  - In-depth analysis of cost of project and means of finance, cost over-run, time over- run and mitigation.
  - Key Performance Indicators like DSCR ,IRR ,BEP
  - Assessment of various risks involved in Infrastructure Financing like construction risk, market risk, financial risk etc.
  - Detailed case studies on appraisal of the following projects..
    - Road sector - Hybrid Annuity Model (HAM)
    - Road Sector - Toll Operate Transfer (TOT) model
    - Solar Energy Project
    - Airport Project
    - Port Project
  - Case studies on credit risk mitigation..
    - Waste to energy project
    - Water supply management project
    - Railway station redevelopment project.
  - Project monitoring ,supervision and follow-up and Performance Audit of Infrastructure projects.
  - Management of weak accounts and restructuring along with a case study of an infrastructure project restructuring.
  - Alternate sources of funding including InvITs, IDFs, securitisation and Credit Enhancement etc.
  - Infrastructure Thrust by Government of India with updated details of National Infrastructure Pipeline, National Monetization Pipeline, Gati Shakti, budgetary allocations and role of IIFCL NaBFID ,IREDA.
  - ESG and Sustainable Finance..
  - Atmanirbhar Bharat and Urban Infrastructure
  - Preventive Vigilance
  - Infrastructure Reforms -Need for a forward looking approach.

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