RBI circular dated June 07, 2019 on "Prudential Framework for Resolution of Stressed Assets" to provide a framework for early recognition, reporting, and time-bound resolution of stressed assets, is economic policy decision, and cannot be interfered by writ court

The **Bombay High Court** in the case of **S.E. Transstadia Pvt Ltd vs Reserve Bank of India [Writ Petition No. 3865 of 2022] dated March 17, 2026**, has held that the impugned RBI circular dated June 07, 2019 on "Prudential Framework for Resolution of Stressed Assets" was a policy decision taken by an expert body in larger public interest and, in the absence of mala fides, arbitrariness, or manifest unreasonableness, the Court would not interfere with such economic and regulatory policy. The Court found no arbitrariness in the scheme merely because it repealed the earlier circulars, including those relating to flexible structuring for infrastructure projects, and accordingly upheld the circular.

The Court noted that the purpose of the impugned circular was to provide a framework for early recognition, reporting, and time-bound resolution of stressed assets. It emphasized early identification of stress through SMA classification and reporting to CRILC, and required lenders to undertake a prima facie review within thirty days of default, with liberty to decide the resolution strategy or initiate insolvency or recovery proceedings.

The Court noted that the framework required all lenders, in cases involving multiple lenders, to enter into an inter-creditor agreement during the review period, and that a decision approved by 75% by value and 60% by number would bind all lenders. The framework also contemplated resolution plans involving regularisation of overdue, sale of exposure, change in ownership, and restructuring, and defined restructuring to include modification of terms, alteration of payment period, rollover of facilities, and sanction of additional finance for curing default.

The Court accepted the RBI's submission that the June 07, 2019 circular was intended to address stress before default and to avoid "evergreening" of loans, where fresh lending masks defaults instead of reporting them. The Court observed that the new framework involved restructuring with supervisory review and stringent supervisory/enforcement action, while also carving out exceptions for projects under implementation, MSME revival and rehabilitation, and natural calamities.

Although restructuring could result in classification consequences, the circular provided a mechanism for upgradation upon satisfactory performance during the monitoring period, and further provided for treatment of additional finance and interim finance as standard assets subject to the conditions set out in clauses 13 and 14. This showed that the framework itself contained safeguards for both lenders and borrowers, added the Court.