

Insights

The Implementation Reality Check

Eleven Months to ECL



EXECUTIVE SUMMARY

The Reserve Bank of India issued the final Reserve Bank of India (Commercial Banks – Asset Classification, Provisioning and Income Recognition) Directions, 2026 on 27 April 2026. The framework will replace the existing Income Recognition, Asset Classification and Provisioning regime from 1 April 2027. Alongside the principal Directions, RBI issued 13 amendment directions to consequentially modify the broader prudential architecture and one repeal direction to formally retire the IRACP master circular.

Industry feedback received during the consultation window of October 2025 to April 2026 has been incorporated in the final Directions, with RBI publishing a separate annexure detailing how each major comment was addressed. The final Directions retain the draft's prudential architecture substantially intact; bank requests for lower floors and softer Stage 2 thresholds were not accepted.

Four design choices in the final framework will define implementation more than the three-stage architecture itself. They are summarized below.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Day-1 fair valuation of the loan book (Para 19)

Why It Will Define Implementation

Banks must fair-value the entire loan portfolio on transition. The delta versus carrying amount flows directly to opening retained earnings, bypassing the P&L. This is the largest single accounting consequence and the area where dry-run preparedness is weakest.

Stage 2 prudential floor of 5%

Why It Will Define Implementation

Most banks today provision around 0.40% on standard assets. Under the final norms, loans 30 to 90 days overdue migrate to Stage 2 and attract a 5% minimum provision, which represents a step change of more than 12 times for the affected segment.

SICR governance and the rebuttal regime

Why It Will Define Implementation

The 30 DPD trigger for term loans and 60-day continuous out-of-order rule for revolving facilities are rebuttable, but the rebuttal must be Board-approved, evidence-based, and consistently applied. Regulators and statutory auditors will potentially focus most attention here.

Model Risk Management framework (Chapter V)

Why It Will Define Implementation

Banks must operate a three-tier model risk structure across business, risk, and audit. Independent model validation reporting outside the development chain is established at the top private banks and large foreign branches, but remains thin or absent at most public sector and mid-tier private banks. Closing this gap is one of the larger organizational lifts the framework demands.

The Bottom Line

Banks have had ten years of preparation since the June 2016 proforma Ind AS reporting mandate. The 1 April 2027 effective date is therefore not a sudden shock but the end of a long runway. The institutions that succeed in transition will be those that treat the next 11 months as an integrated risk, finance, technology and governance programme, not as a finance project.



Sandip Khetan
Co-Founder, Global
Head of Accounting &
Reporting Consulting



Sagar Lakhani
Partner, Accounting &
Reporting Consulting



Suresh Wadhvani
Partner, Accounting &
Reporting Consulting



Shyam Gupta
Associate Partner,
Accounting & Reporting
Consulting

THE ECL JOURNEY: A DECADE IN THE MAKING

Regulatory Milestones

The 27 April 2026 Master Direction represents the culmination of a **10-year regulatory evolution** toward aligning Indian banks with global IFRS 9 / Ind AS 109 standards. What appears as a single regulatory issuance is in reality the final step of a deliberate, phased convergence strategy. Understanding that arc matters, because it explains why RBI held firm on the 1 April 2027 date despite extension requests, and why banks that treat this as a 11-month project rather than a 10-year inevitability are starting from the wrong baseline.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

- **2014 to 2018**
IFRS 9 introduced globally; India adopts converged Ind AS 109 for corporates
- **Oct 2015**
Advisory report submitted by an RBI Working Group set up to guide Indian banks on implementing Ind AS; first detailed technical guidance issued by RBI on how ECL under Ind AS 109 would apply to Indian banks
- **Feb 2016**
Ind AS planned for banks from 1 April 2018
- **23 Jun 2016**
RBI mandates proforma Ind AS financial submission by banks (parallel reporting begins)
- **5 Apr 2018**
Ind AS for banks deferred by 1 year
- **22 Mar 2019**
Ind AS for banks deferred indefinitely
- **2019 to 2023**
Silent preparation: RBI working groups continue ECL design; banks maintain proforma reporting
- **12 Sep 2023**
First IFRS 9 alignment: Investment Classification and Valuation Directions (Ind AS 109 for investments)
- **Apr 2024**
Investment norms become effective
- **1 Oct 2025**
RBI announces intent to move to ECL framework (Monetary Policy Statement)
- **7 Oct 2025**
Draft ECL Directions issued for consultation
- **Oct 2025 to Apr 2026**
Consultation phase. Industry seeks floor reductions and timeline extensions; RBI rejects all material asks.
- **27 Apr 2026**
Final ECL Directions issued (RBI/DOR/2026-27/398). Materially unchanged from draft. 13 amendment directions plus 1 repeal direction issued same day.

- **1 Apr 2027**
ECL Framework go-live. Day-1 fair valuation plus transitional adjustment.
- **31 Mar 2030**
Existing loan book must migrate to EIR-based income recognition
- **FY 2027 to 28 to FY 2030 to 31**
4-year CET1 add-back taper: 4/5 to 3/5 to 2/5 to 1/5
- **FY 2031 to 32**
Fully loaded. Transition complete.

The Three-Phase Strategy

RBI's path to ECL has unfolded in three deliberate phases. Each phase built capability and tested industry readiness before the next began.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Phase 1: Silent Preparation (2016 to 2022)

- **June 2016:** RBI mandated proforma Ind AS financial submission by banks; parallel reporting begins.
- **2018 to 2019:** Ind AS implementation deferred twice (April 2018, then indefinitely in March 2019).
- **Strategic insight:** Despite the indefinite deferral, banks continued parallel reporting throughout. RBI was building ECL capability inside the system without forcing a public commitment to a date.

Phase 2: Partial Convergence (2023 to 2024)

- **12 September 2023:** Investment Classification and Valuation Directions adopted Ind AS 109 concepts (amortized cost, FVOCI, FVTPL).
- **April 2024:** Investment norms became effective.
- **Strategic insight:** First concrete IFRS 9 alignment, applied to the simpler asset class (investments) before tackling loan books. The investment book transition served as a successful test of the change-management approach.

Phase 3: Core Shift on Loans and Provisioning (2025 to 2027)

- **7 October 2025:** Draft ECL Directions issued for consultation.
- **27 April 2026:** Final Directions issued, materially unchanged from the draft. 13 amendment directions plus one repeal direction issued same day.
- **1 April 2027:** ECL framework go-live.
- **FY 2028 to 2032:** Four-year capital add-back taper. Fully loaded by FY32.

What RBI Actually Did

The critical insight: RBI has **not** fully implemented Ind AS for banks. Instead, it has executed *functional convergence* with IFRS 9, adopting the economic substance (forward-looking ECL provisioning, EIR income recognition, three-stage classification) without the full accounting framework switch. The result is a prudential framework that converges with IFRS 9 on substance but retains Indian regulatory overlays on calibration.

Banks have had 10 years of notice since the June 2016 proforma reporting mandate. The April 2027 deadline is therefore not a surprise; it is the end of the grace period. The institutions that have used the parallel-reporting decade to build PD, LGD and EAD infrastructure are positioned very differently from those that treated parallel reporting as a compliance exercise.

THE FRAMEWORK ARCHITECTURE

Scope

The ECL framework applies to loans, debt securities other than those at FVTPL, trade receivables, lease receivables, loan commitments (including undrawn), off-balance-sheet credit exposures, and any other financial asset with a contractual right to receive cash. Investments in subsidiaries, associates, and joint ventures are explicitly excluded (Para 17). Applicability is to scheduled commercial banks excluding Small Finance Banks, Payment Banks, Local Area Banks, and Regional Rural Banks.

ECL is **not** required to be maintained on Stage 1 for: SLR-eligible investments; direct claims on the central government; central-government-guaranteed exposures; and zero-risk-weight exposures to Foreign Sovereigns, Foreign Central Banks, MDBs, BIS, and IMF (Paras 37 to 38). These exposures are also exempt from SICR testing.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

The Three-Stage Architecture



What Is Genuinely New Versus the IRACP Regime

1

Forward-looking provisioning

Stage 1 provisioning will exist on standard, performing exposures from Day 1 onwards, computed using PD, LGD and EAD adjusted for forward-looking macro information.

2

Lifetime ECL on Stage 2

A new bucket between performing and NPA. SICR triggers will be the dominant driver of P&L volatility under the new regime.

3

Effective Interest Rate (EIR) method

All new originations from 1 April 2027 must recognize interest income via EIR. The existing book has until 31 March 2030 to migrate (Paras 113 to 114).

4

Day-1 fair valuation of the loan book

Banks must fair-value the entire loan portfolio on transition. The difference versus carrying amount flows directly to opening retained earnings.

5

Borrower-level Stage 3, facility-level Stage 2

Para 76 hardcodes that any single Stage 3 exposure pulls all facilities of that borrower into Stage 3. Stage 2 operates at facility level.

What Was Retained from IRACP

The 90-day overdue norm for NPA classification is preserved (Chapter II, Para 8). So is the special-cases architecture covering agricultural advances, government-guaranteed exposures, restructured accounts, consortium and co-lending arrangements, and term-deposit-secured advances. The most consequential carry-over: NPAs as on 31 March 2027 do not auto-upgrade upon transition (Paras 103 to 104). Their classification persists until the underlying irregularities are resolved. The hybrid model preserves IRACP discipline alongside ECL provisioning.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

FROM DRAFT TO FINAL: WHAT CHANGED AND WHAT DID NOT

RBI published a feedback annexure alongside the final Directions on 27 April 2026, addressing 16 numbered items of industry feedback on the October 2025 draft. The framework architecture is unchanged, but the annexure documents a wider set of operational concessions than the same-day analyst commentary captured: of the 16 items, six were accepted in full, eight were partially accepted, and two were not accepted. The core calibrations i.e. Stage 2 floor architecture, 30 DPD SICR trigger, IRACP NPA backstop, 1 April 2027 effective date, are all retained. Section 3.1 sets out the item-level detail.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

What the Industry Asked For

RBI published a separate annexure alongside the press release on 27 April 2026, documenting 16 numbered items of industry feedback and its response to each. The table below summarizes the most material items, sourced directly from the annexure and grouped by theme. RBI's verdict on each item is shown in column 2; paragraph references in parentheses are to the final Directions.

Industry Ask	RBI Response	What It Means
Defer 1 April 2027 effective date (Para 2)	Not accepted	One-year preparation timeline retained. RBI cites the calibrated transition framework, the four-year CET1 add-back schedule and the three-year EIR window as adequate relief.
Make 'credit-impaired' definition more objective and merge with NPA; define 'corporate loans' for prudential floors (Para 6 (3))	Not accepted	NPA classification retained as the objective anchor for credit-impaired status; omitting NPA reference held not feasible. Prudential-floor asset classes kept broad; narrower definitions declined as overly rigid for a principles-based framework.
Provide a uniform, granular implementation framework for ECL (Chapter III)	Not accepted	Framework remains principle-based. Banks differ on portfolio mix, business model and data maturity, so granular prescription was held inappropriate.
Apply fair valuation prospectively; clarify Day-1 mechanics (Para 19)	Partially accepted	Day-1 fair-value delta routes to retained earnings, not P&L. To ease implementation, carrying cost is presumed best evidence of fair value unless facts indicate otherwise.
Treat POCI as a separate category, not Stage 1 (Para 24)	Accepted	POCI now a separate category with lifetime ECL recognition, aligning with global practice.

Industry Ask	RBI Response	What It Means
Apply EIR prospectively from 1 April 2027 (Para 113 & 114)	Partially accepted	Prospective application not allowed. Three-year transition window provided for the legacy book to move to EIR-based income recognition.
Raise ₹5 crore Stage 3 collateral revaluation threshold; extend two-year frequency (Para 55)	Partially accepted	Threshold raised to ₹7.5 crore. Two-year revaluation frequency retained as aligned with forward-looking LGD requirements.
Clarify whether Stage 2 is borrower-level or facility-level (Para 76)	Accepted	Stage 2 explicitly facility-level; Stage 3 explicitly borrower-level. Removes a key ambiguity for multi-facility relationships.
Reduce or dispense with six-month cooling period for Stage 2 to Stage 1 upgrade (Para 77-81)	Accepted	Mandatory six-month cooling period dispensed with. Banks may upgrade based on their own assessment of sustainability of rectification.
Adjust prudential floors for housing, NSC/LIC/KVP, State Govt and Trust-guaranteed exposures (Para 82)	Mostly accepted	Individual housing loan Stage 1 floor cut to 0.25%. NSC/LIC/KVP Stage 2 floor cut to 0.4%. Separate State Govt category created with 2.5% Stage 2 floor. Trust-scheme guaranteed accounts get 0.25% Stage 1/2 floor. Real-estate definitions broadly aligned with revised Basel.
Lower 45% regulatory LGD (Para 97 & 98)	Partially accepted	Lower LGD of 30% available for loans secured by cash, gold and Central/State Government securities. The 45% default holds for other eligible collateral.
Provide methodology and CCF guidance for EAD (Para 100)	Partially accepted	CCF backstop introduced for banks unable to estimate EAD internally. Granular methodology declined as inconsistent with a principle-based framework.
Treat FVTPL exposures, country risk, step-down subsidiary credit and UFCE additional provisions consistently (Para 125-128)	Accepted	FVTPL transactions confirmed outside ECL scope. Explicit additional provisions for country risk, overseas step-down subsidiaries and UFCE dispensed with; banks to absorb these risks via PD/LGD instead.
Confirm Day-1 transitional adjustment does not pass through P&L (Para 107)	Accepted	Transitional ECL-IRACP delta goes directly to general reserves; no P&L impact at transition. CET1 add-back available through 31 March 2031.
Continue Stage 3 interest recognition on cash basis (Para 113-115)	Accepted	Stage 3 interest recognized on cash basis only. No P&L accrual followed by ECL provision; addresses the tax concern raised.
Clarify governance for management overlays and PMAs (Para 131)	Partially accepted	PMAs to be managed by the Board or a designated Board sub-committee. Documentation, justification, calculation criteria and validation triggers remain mandatory; further granular criteria declined.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

What Is Now Clearer in the Final

Three operational clarifications in the final framework deserve attention because they remove ambiguity that would otherwise have created audit risk during transition.

1. Day-1 fair valuation has been made explicit (Para19). Beyond the mechanics summarized in §3.1, the final norms confirm that RBI has not prescribed a specific valuation methodology, leaving banks to design within their internal valuation framework. The annexure also clarifies that carrying cost may be presumed best evidence of fair value unless facts indicate otherwise, a meaningful concession on operational burden, though one that shifts the audit conversation onto the rebuttal threshold.
2. EIR migration timeline for the existing book is now codified. All new originations from 1 April 2027 must use EIR-based income recognition; the legacy book has until 31 March 2030 to migrate. Without this clarification, banks would have faced uncertainty on whether legacy loans needed simultaneous conversion, the three-year window removes the cliff edge.
3. Two-tier SICR backstop has been confirmed. 30 days past due is the rebuttable presumption for term loans. For revolving facilities, the presumption is 60 days of continuous out-of-order status (balance continuously above the lower of sanctioned limit or drawing power). The 60-day window for revolving facilities is more lenient on the calendar but tighter operationally, since 'continuous' requires daily monitoring rather than month-end snapshots.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

What Did Not Change

The provisions that the industry pushed hardest to modify were retained without dilution. These are the items that will dominate the run-rate impact on bank earnings.

- The 5% Stage 2 floor is unchanged. Banks today provision around 40 basis points on standard assets. When the rebuttable 30 DPD presumption pulls overdue accounts into Stage 2, the loss allowance jumps by more than 12 times for the affected segment.
- The 1 April 2027 effective date stands. RBI's reasoning in the annexure cites the calibrated transition framework, the four-year CET1 add-back schedule and the three-year EIR window collectively as adequate relief, so any further submissions on transition timing would have to argue against the package, not against any single element.
- The 90 DPD NPA classification is retained. Stage 3 remains regulator-controlled, not model-driven. Hybrid model preserved.
- The borrower-level/facility-level asymmetry is now hardcoded (Para 76). Any single Stage 3 exposure pulls all facilities of that borrower into Stage 3, while Stage 2 operates at facility level. The operational consequence is a hard requirement for cross-product borrower MIS, banks running siloed product systems will need a borrower-level overlay before go-live.

The Indian Adaptation of IFRS 9

The cumulative effect of what RBI accepted and what it held firm on is a framework that converges with IFRS 9 on substance but retains Indian prudential overlays on calibration. The following table contrasts the two.

Aspect	Pure IFRS 9 (Global)	RBI ECL Framework (Indian)
Asset Classification	Three-stage model is the sole basis for impairment	Hybrid: ECL staging operates alongside the 90 DPD NPA backstop
Provisioning Quantum	Internally modeled outputs	Internally modeled outputs subject to product-wise prudential floors
Stage 3 Logic	Facility-level impairment	Borrower-level: any single Stage 3 exposure pulls all facilities of that borrower
Income Recognition	EIR method across all stages	EIR on Stage 1 and 2; cash basis on Stage 3
SICR Backstop	Bank-defined, with 30 DPD as a rebuttable presumption	30 DPD for term loans; 60-day continuous out-of-order for revolving facilities
Governance	Principles-based, audited under accounting standards	Three-tier framework hardcoded in Chapter V with supervisory enforcement
Day-1 Impact	Routed through P&L on transition	Routed directly to opening retained earnings; CET1 add-back over four years

This adaptation reflects a regulator that has studied a decade of post-IFRS 9 experience in Europe and a half-decade of post-CECL implementation in the United States. Product-wise prudential floors, IRACP-NPA continuity, and three-tier governance are each direct responses to issues that surfaced in those jurisdictions.



THE FOUR BINDING CONSTRAINTS

The three-stage architecture has dominated commentary on the framework. The actual binding constraints, however, sit in operational and capital provisions that are easy to miss on a first reading. Four constraints will define the difference between banks that transition smoothly and banks that face audit qualifications and earnings volatility from FY28 onwards.

Day-1 Fair Valuation of the Loan Book

Paragraph 19 of the Directions requires banks to fair-value the entire loan portfolio, including all outstanding advances, on 1 April 2027. The difference between fair value and the immediately preceding carrying amount is adjusted directly against the opening balance of retained earnings. This is not routed through the P&L. Where facts indicate that fair value is not materially different from carrying cost, that may be presumed to be the best evidence of fair value. RBI has not prescribed a specific valuation methodology, leaving banks to design within their internal valuation framework.

This is the single most consequential accounting event in the transition. It is also the area of weakest preparedness across the industry. IRAC provisioning is floor-based, not value-based. For many legacy NPA accounts, particularly in infrastructure, power, telecom, and older CRE exposures, the IRAC carrying amount (gross less regulatory provisions) may still exceed the economic fair value once realistic collateral realization haircuts are considered, prolonged IBC/DRT resolution timelines, and legal costs. Most banks have focused dry-run effort on PD, LGD and EAD modeling, not on portfolio-wide fair valuation. Independent valuation expertise, audit evidence trail and methodology documentation must be in place by Q3 FY27 at the latest. Audit committees should expect quantification of the Day-1 fair-valuation adjustment by December 2026 and not at year-end.

The Stage 2 Floor: Where the P&L Reset Will Sit

The Stage 2 floor of 5% is the operational provision that will most directly affect bank earnings. Three numbers are worth holding together to see why.

- Banks today provision around 40 basis points on standard assets, which include the entire performing book.
- Under the final norms, exposures that breach the 30 DPD rebuttable presumption migrate to Stage 2 and attract a minimum 5% provision.
- This represents a step change of more than 12 times for the affected exposure.

The product-wise Stage 1 and Stage 2 floors are summarized below. The full schedule is contained in Annex N of the Directions.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Loan Product Category	Stage 1 Floor	Stage 2 Floor
Corporate loans	0.40%	5.00%
Loans to small and micro enterprises	0.25%	5.00%
Loans to medium enterprises	0.40%	5.00%
Secured retail loans (100% primary security)	0.40%	5.00%
Unsecured retail loans	1.00%	5.00%
Housing loans to individuals	0.25%	1.50%
Loans secured by commercial real estate	0.40%	2.50%
Farm credit	0.25%	5.00%
Loans to banks, NBFCs and other regulated FIs	0.40%	5.00%
Gold loans	0.40%	1.50%
Loans against term deposits, LIC policy, KVP	0.40%	0.40%
CGTMSE / CRGFTLIH / NCGTC guaranteed exposures	0.25%	0.25%
Restructured advances classified as standard	5.00%	10.00%
Residual category (any product not specified)	0.40%	5.00%

Stage 3 floors escalate by duration of default. The unsecured floor reaches 100% by year 2 of default. The schedule for the residual category (Para 82(2)(xv)) is set out below; different schedules apply for housing loans, residential CRE, and CGTMSE-guaranteed exposures.

Duration in Stage 3	Secured Portion	Unsecured Portion
0 to 1 year	25%	40%
1 to 2 years	40%	100%
2 to 3 years	55%	100%
3 to 4 years	75%	100%
More than 4 years	100%	100%

SICR Governance: The Real Audit Battleground

Stage migration drives the dominant share of P&L volatility in every IFRS 9 jurisdiction. The Indian framework will not be different. Stage 1 to Stage 2 migration multiplies the loss allowance by an order of magnitude, and getting the SICR framework defensible matters more than getting any single PD or LGD point estimate exactly right.

- **Backstops are calibrated by product.** 30 DPD is the rebuttable presumption for term loans. For revolving facilities, the presumption is 60 days of continuous out-of-order status. Both are rebuttable, but rebuttal requires reasonable, supportable, non-mechanical evidence.
- **Rebuttal must be Board-approved and consistently applied (Paras 107 to 112).** The rebuttal policy must be approved by the Board or a Board committee. Inadequate evidence requires the bank to cease the rebuttal. Statutory auditors will focus heavily on this area, since rebuttal patterns are easy to test for consistency.

- **Indicative SICR parameters are illustrated in Para 30.** Internal or external rating downgrade, increase in loan pricing, and deterioration in macroeconomic outlook are named as examples. Quantitative thresholds (number of notches, quantum of pricing increase, magnitude of macro deterioration) must be documented in policy.

Three judgments will receive disproportionate audit attention.

1. Quantitative thresholds for relative change in lifetime PD, with backtest evidence supporting the threshold.
2. Cure period for Stage 2 to Stage 1 reclassification, where the Directions are silent and the design is the bank's own.
3. Treatment of restructured exposures, payment moratoria, fee waivers and tenor extensions, where SICR implications are not obvious.

Model Risk Management: The Organizational Redesign

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Chapter V of the Directions is the most internationally aligned section of the framework. It is also the area requiring the largest organizational redesign for most Indian banks. The framework prescribes a three-tier model of accountability across business, risk and audit functions, codified in 11 principles.

- First line: Front-line operations and model owners are responsible for development, implementation, use, and accountability for performance.
- Second line: Risk management identifies and monitors risks from the ECL model ecosystem, oversees independent validation, enforces model risk limits, and ensures remedial actions.
- Third line: Internal audit provides objective assurance on the effectiveness of the first two lines and reports to the Board or Audit Committee.

Two principles in Chapter V deserve particular attention. First, the requirement to integrate country risk, unhedged FX exposure risk, and risks on credit facilities to overseas subsidiaries of Indian corporates into PD and LGD computation (Paras 125 to 129). This opens a modeling and overlay workstream that did not exist under IRACP. Second, the formal codification of expectations around third-party models (Paras 135 to 140), where contractual arrangements must allow supervisory evaluation by RBI or its appointed experts, and external validation is now treated as an operational expectation rather than a recommendation.

Where Governance Gaps Will Surface

If the independent validation team currently reports through the same chain as model development, that is the first governance gap auditors and supervisors will write up. Resolving the reporting line before go-live is the cheapest fix in the entire programme.

Model inventories that are incomplete are the second most common gap. Prepayment models, behavioral scorecards on revolving facilities, macro overlay models, and segment-level overlays are all routinely missing from model registers. Inventory completeness is the foundation of the entire MRM programme.

Overlays documented as memos rather than as formal management adjustments (with quantification, justification, calculation criteria, and validation triggers per Para 131) are the third gap. Most Indian banks need to formalize overlay governance before parallel run begins in Q2 FY27.

ECL Methodology: The Modeling Choices That Will Shape Outcomes

The Directions name PD, LGD and EAD as the three components of ECL but leave methodology to the bank. Five design choices will drive most of the variance in ECL output across institutions and deserve early Board-level visibility.

Point-in-time versus through-the-cycle PD

IFRS 9 and the Indian framework require point-in-time PD, conditioned on current and forward-looking information. Banks with Basel IRB infrastructure typically operate through-the-cycle PD for capital and must build a separate PIT layer or a documented PIT-to-TTC scaling factor. The scaling approach is acceptable to auditors only with explicit backtest evidence; banks defaulting to TTC will see ECL understate procyclicality and face validator challenge.

Lifetime PD term structure

Stage 2 requires lifetime ECL, which in turn requires a PD curve over the residual contractual life of the facility. Banks routinely underestimate the modeling effort here: survival-analysis or Markov transition approaches need at least one full credit cycle of internal default data, and prepayment behavior materially shortens effective life on retail and MSME exposures.

LGD segmentation and recovery curves

LGD is the component where Indian banks are weakest, because recovery data is fragmented across legal, restructured and written-off pools. Workout LGD requires recovery cash flows discounted at the original EIR over the full resolution horizon, which for corporate exposures routinely exceeds five years. Banks should expect to use proxy curves and external benchmarks for the first one to two reporting cycles, with documented bridging plans to internal data.

EAD on revolving and committed facilities

Credit Conversion Factors on undrawn limits and behavioral drawdown patterns on cash credit and overdraft accounts will be a recurring audit topic. Static CCFs from Basel Standardized will not satisfy the framework; behavioral modeling against three to five years of drawdown history is the expected baseline.

Macro scenario architecture and overlay calibration.

The Directions require probability-weighted multiple scenarios but do not prescribe count, weights, or transmission mechanics. Three scenarios (base, downside, severe downside) is the prevailing IFRS 9 norm; weights are the bank's design choice but must be defensible. The transmission from scenario variables (GDP, unemployment, sectoral indices, oil, FX) to PD and LGD is the most sensitive modeling layer and overlay calibration to bridge model output and management view requires the documentation discipline set out in Para 131.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

DAY-1 CAPITAL MECHANICS

Three distinct adjustments stack up on 1 April 2027. The Audit Committee should ensure all three are walked through with management before the Q1 FY28 close.

Three Adjustments to Opening Balance Sheet



Fair valuation adjustment (Para 19)

Difference between fair value and carrying amount of the entire loan portfolio, routed to opening retained earnings.



ECL Transitional Adjustment (Para 107-112)

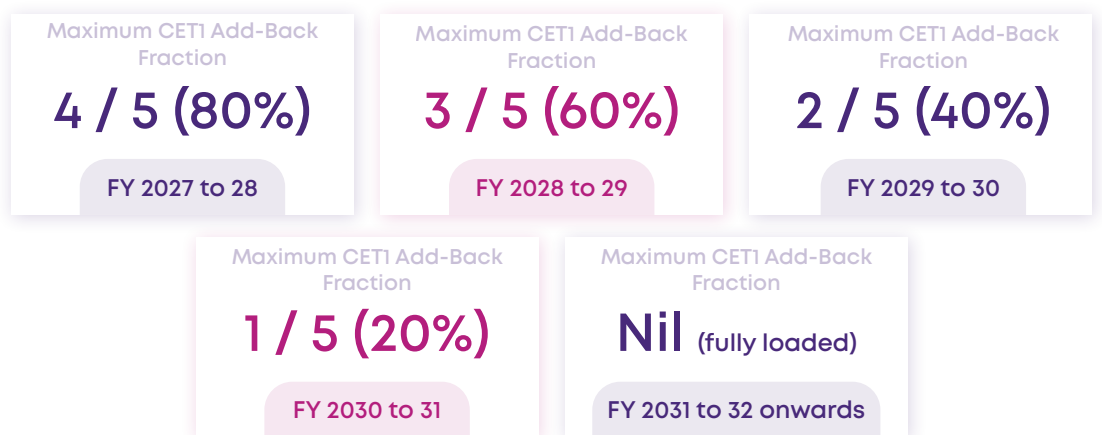
Equal to max (0, ECL on 1 April 2027 minus IRACP provisions on 31 March 2027). Where ECL exceeds IRACP, the excess is adjusted against retained earnings. Where ECL is lower, the difference is also recorded in retained earnings. In neither case does it flow through P&L.



CET1 add-back election (Para 108)

Banks may add back a fraction of the transitional adjustment to CET1, net of applicable taxes, over a four-year transition window ending 31 March 2031. The schedule is set out below.

The CET1 Add-Back Schedule



Three nuances about the add-back are worth flagging for capital planning.

- The add-back flows through to Tier 1 and total capital, and consequently to leverage ratio and large-exposure limits.
- It does not flow through to Tier 2 capital, is not used to reduce exposure amounts under the Standardized Approach and is not used to reduce the leverage ratio exposure measure.
- Banks may complete the transition over a shorter period but cannot stretch it longer than four years.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Capital Classification of ECL Allowances

- Stage 3 ECL is treated as specific provisions (Para 75).
- Stage 1 and Stage 2 ECL are eligible for Tier 2 capital as general provisions, subject to prescribed Tier 2 limits.
- Management overlays are treated as general provisions, not specific. This is a meaningful concession, since overlays often respond to identified sector-specific risks.
- Existing floating and countercyclical provisioning buffers may be utilized towards ECL provisioning (Para 89), giving banks an additional dial to manage Day-1 capital impact.

Reporting and Disclosure: The Parallel Design Problem

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

Annex 4 of the Directions sets out the credit-risk disclosure schedule that accompanies the ECL framework. It is a parallel design problem with its own data, governance and IT demands, and is the area most often deferred during planning.

Disclosure architecture

Annex 4 requires stage-wise gross carrying amounts, ECL allowances, and movements (including transfers between stages) by product, geography and rating grade. The reconciliation of opening to closing ECL by stage, with separate disclosure of the impact of model and methodology changes, is the most operationally demanding requirement and needs source data that most existing MIS layers cannot produce without remediation.

Interaction with Pillar 3

ECL allowances feed Pillar 3 credit-risk disclosures, and the Stage 1 / Stage 2 general-provision treatment under Tier 2 affects the capital tables. Banks should map the Annex 4 line items to the existing Pillar 3 templates early to avoid late-stage reconciliation issues with the supervisory data submission.

Mock-up cadence

Disclosure mock-up should begin in Q3 FY27 alongside the Day-1 fair valuation dry-run, not after go-live. Auditor walkthrough of the disclosure tables in Q4 FY27 is the practical deadline; banks that arrive at the FY28 Q1 close without a tested disclosure pipeline will face restatement risk.

THE 11-MONTH ROADMAP

Eleven months separate the final Directions (27 April 2026) from the commencement of the first full ECL reporting year (31 March 2028). The table below sets out the punch list of decisions that banks routinely underestimate during planning. The first five rows (Q1 FY27 through FY28 Q1) cover the build to go-live; the last three (FY28 Q2 through Q4) cover the first live reporting year and the first annual close under the new framework.

Phase / Window	Critical Workstreams	Governance Milestone
Foundations Q1 FY27 (May to Jun 2026)	Detailed gap assessment versus final Directions; model inventory and risk-based tiering; SICR policy lock including the 60-day revolving backstop; macro scenario architecture; overlay governance protocol	Board sign-off on framework approach and three-tier governance design
Build Q2 FY27 (Jul to Sep 2026)	PD, LGD and EAD model build or recalibration; country risk and FX overlay integration; loan-level data quality remediation; monthly ECL run IT systems; three-tier role redesign; independent validator selection	Risk Committee review of model methodology and data adequacy
Test Q3 FY27 (Oct to Dec 2026)	Parallel run on at least one quarter; independent validation cycle 1; internal controls walkthroughs; disclosure mock-up under Annex 4; Day-1 fair valuation and transitional adjustment dry-run	Audit Committee independent readiness assessment
Stabilize Q4 FY27 (Jan to Mar 2027)	Final parallel run; auditor walkthroughs; Day-1 fair valuation and transitional adjustment quantification; CET1 add-back election; investor and analyst communication preparation; embedding of willful defaulter, DCCO, and restructured exposure rules	Board approval of Day-1 transition entries and capital impact
Live FY28 Q1 (Apr to Jun 2027)	First live ECL run under EIR for new originations; first-quarter Audit Committee review; initial Annex 4 disclosure; parallel computation continued for IRACP-NPA-derived provisioning where required	Go-live retrospective and recalibration plan for FY28 Q2

Embed FY28 Q2 (Jul to Sep 2027)	First Annex 4 stage-movement disclosures published; overlay reassessment cycle 1; SICR threshold backtest against first live quarter; statutory auditor review of Q1 ECL run; investor and analyst engagement on procyclicality of ECL versus IRACP run-rate	Audit Committee review of overlay performance and disclosure quality
Refine FY28 Q3 (Oct to Dec 2027)	Independent validation cycle 2; macro scenario refresh against six months of live data; CET1 add-back true-up against Day-1 quantification; first half-year close under ECL; PD/LGD calibration adjustments based on observed SICR migration patterns	Risk Committee endorsement of model recalibration and validation findings
First Annual Close FY28 Q4 (Jan to Mar 2028)	First full annual ECL close under the new framework; statutory audit of Day-1 transition entries and FY28 P&L impact; full Annex 4 disclosure with comparatives; Pillar 3 alignment; Board review of through-cycle provisioning behavior against initial impact estimates	Board sign-off on first annual ECL close and FY29 governance plan

Data and Systems Architecture: The Foundation Layer

The ECL framework cannot be operated on a spreadsheet. Banks need an integrated data and systems architecture that produces reproducible ECL outputs at month-end with full lineage, and the IT design choices made in Q1 to Q2 FY27 will constrain ECL governance for the next decade.

01

Data lineage and golden source

Each ECL input (exposure, days past due, rating, collateral, recovery cash flow, scenario variable) needs a single authoritative source, a documented transformation path, and reconciliation back to the general ledger. Most Indian banks operate fragmented core banking, treasury, and credit-risk platforms; a golden-source layer or data lake is the prerequisite for any defensible ECL run. Vintage histories, recovery curves, and behavioral data on revolving facilities are the three datasets most commonly missing or incomplete and should be remediated first.

02

ECL calculation engine

Banks face a build-versus-buy choice between extending an existing risk-engine vendor (typical IRB-bank route), implementing a packaged IFRS 9 ECL solution, or in-house development. The non-functional requirements that drive this choice are scenario re-runs at month-end (an ECL engine that cannot run three scenarios over a full portfolio in 24 hours will not survive parallel run), full audit trail on every model execution, and version control on PD, LGD and EAD models with parallel-run capability for model changes.

03

GL and sub-ledger integration

ECL allowances must post to the general ledger by stage, by product, and by entity for consolidation. The sub-ledger design that feeds these postings is rarely in place at the start of an ECL programme and is the most common source of month-end close delays in the first year of operation. Designing the chart of accounts and the sub-ledger posting model before parallel run is significantly cheaper than retrofitting them after go-live.

04

Scenario engine and overlay platform

Probability-weighted scenarios require an engine that can ingest macro variables, transmit them to PD and LGD via documented transformation logic, and produce auditable outputs per scenario. Overlays need a workflow platform with approval routing, documentation against the Para 131 template, and quarterly reassessment triggers. Spreadsheet-based overlay governance will not survive the first supervisory inspection.

05

Integration with risk and finance systems

The ECL engine sits between the risk data warehouse (upstream) and the finance close systems (downstream). Reconciliation between ECL output, IRACP provisions during the parallel period, and the GL posting must be automated and run daily during parallel run, not monthly. Banks that defer this integration discover during go-live that the close timetable is not achievable.

Three Traps to Avoid

Trap 1: Treating This as a Finance Project

ECL implementation is a risk, finance, technology, governance and disclosure programme that requires an executive owner with cross-functional authority. Programmes lodged inside Finance alone consistently underdeliver.

Trap 2: Underbudgeting Data Remediation

Most banks discover during parallel run that loan-level data quality is the single largest source of ECL noise. Origination dates, collateral revaluation cadence (Para 55 mandates two-yearly revaluation for Stage 3 exposures above ₹7.5 crore), and drawdown patterns on revolving facilities are the most common gaps. Data remediation should start no later than Q2 FY27.

Trap 3: Postponing Day-1 Fair Valuation

The fair valuation of the entire loan portfolio under Para 19 is the most consequential and most under-prepared accounting event in the transition. Methodology, valuation inputs, audit evidence trail, and independent valuation expertise must all be in place by Q3 FY27. Banks that begin this work in Q1 FY27 will face difficult conversations with their statutory auditors.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

The Geopolitical and Macro Risk Dimension

The RBI's ECL framework mandates probability-weighted multiple macroeconomic scenarios as a non-negotiable input to provisioning. The timing of the April 2027 implementation deadline is therefore significant. Indian banks must build and validate their ECL models against one of the most complex and uncertain macro backdrops in recent memory. The India-Pakistan conflict, sustained Middle East tensions, US tariff-driven trade fragmentation, and commodity price volatility are not tail risks sitting at the edge of the scenario distribution; they are live, concurrent stressors that directly feed into every material input of the ECL computation: PD, LGD, EAD, and collateral valuations.

This creates both a risk and an opportunity. For banks still building their ECL frameworks, the current environment exposes the inadequacy of models calibrated on benign historical data. For banks that already have models in place, it offers an invaluable and unrepeatable live stress test before the regulatory deadline makes every gap a formal finding.

Why the Current Macro Environment Strains ECL Models

- ECL requires point-in-time PD which is highly sensitive to prevailing conditions. Rapid macro deterioration spikes PIT PD even for performing borrowers, driving simultaneous Stage 1 to Stage 2 migrations and direct P&L and capital volatility.
- Historical scenario precedents provide inadequate templates for the current combination of stressors; banks relying on standard base-downside-upside constructs without an explicit geopolitical stress scenario will find ECL outputs challenged by validators and RBI examiners.
- Transmission channels are broad: GDP slowdown raises corporate and MSME PD; oil price spikes accelerate SICR triggers; FX depreciation raises EAD and LGD on unhedged exposures; collateral values weaken faster than the RBI's two-year revaluation cycle can capture.
- Overlays will inevitably be large in this environment and the RBI has explicitly flagged that overlay governance will be a primary supervisory scrutiny area, requiring full documentation, justification, and independent validation.

The Strategic Window for Banks with Models Already in Place

- Validate models under geopolitical stress scenarios: surface blind spots that benign-period validation cannot reveal and recalibrate against emerging loss experience before gaps become regulatory findings.
- Backtest SICR thresholds against the IL&FS (2018), COVID (2020), and MFI stress (2023–24) cycles: tighten triggers where evidence shows they fired too late and document the rationale formally.
- Stress-test the scenario framework: add an explicit geopolitical scenario with documented probability weights and verify that shifting probability mass from base to downside produces credible, not mechanical, ECL outcomes.
- Conduct a governance dry run: simulate a full quarterly ECL cycle through CFO, CRO, and Board sub-committee sign-off; commission independent external model validation now rather than post go-live.
- Formalize parallel runs under current stressed conditions: the transitional provisioning gap quantified today will be materially more realistic than estimates produced under benign assumptions.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

The C-Suite Agenda

For the CFO and Controller

- Quantify the Day-1 fair valuation adjustment and ECL transitional adjustment by Q3 FY27. Auditor walkthroughs cannot wait until Q4.
- Build the multi-year CET1 trajectory under both the four-year and shorter transition options. The election is permissive, not mandatory.
- Begin Annex 4 disclosure mock-up in Q3 FY27. The credit-risk disclosure schedule is a parallel design problem with its own data demands.
- For banks with US-listed parents or SOX-relevant ICFR scopes, begin internal controls design in Q1 FY27.
- Prepare investor and analyst communication for the procyclical nature of ECL: when macro deteriorates, ECL rises faster than NPAs, and IR teams need to articulate the difference between credit cost and credit risk.

Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

For the CRO and Chief Credit Officer

- Catalogue every model touching ECL and tier each by risk and materiality (Para 121). High-tier models require rigorous validation cycles.
- Document quantitative SICR thresholds with backtest evidence, lock the cure-period policy, and codify the rebuttal policy under Board approval.
- If the independent validation function reports through the same chain as model development, restructure that reporting line first. It is the cheapest governance fix in the programme.
- Build the overlay governance protocol before it is needed: approval authority, documentation template per Para 131, quarterly reassessment cadence, and Board reporting.
- For banks with corporate, trade finance or overseas subsidiary exposure, integrate country risk and FX risk into PD and LGD per Paras 125 to 129.

For the Audit Committee and Board

- Articulate the cadence of ECL governance reporting, materiality thresholds for Board escalation, and oversight protocol over key model assumptions before Q2 FY27.
- Commission an independent readiness assessment by Q3 FY27 covering model governance, data, three-tier operating model, internal controls, and disclosures.
- From Q2 FY27 onwards, parallel-run results should come to the Audit Committee monthly. Material divergences between parallel ECL and IRACP provisions are warning lights for go-live readiness.
- Engage statutory auditors early. Auditor expectations on SICR thresholds, scenario weights, and overlay governance are not yet uniform across India and need to be aligned well before the FY28 Q1 close.

CLOSING THOUGHT

Across every IFRS 9 jurisdiction studied, one observation has held. The real test of an ECL framework is not the first quarter of go-live but the first credit downturn after go-live.

In a benign credit environment, ECL frameworks look orderly. Stage 1 is large, Stage 2 is small, overlays are modest, and model output looks like the management view. In a downturn, all three break down. Stage migration accelerates faster than NPAs. In downturns, Stage 2 migration accelerates exactly when bank revenues are under stress from lower credit growth and rising funding costs, compressing ROE from both sides simultaneously. Macroeconomic forecasts diverge sharply. Overlays balloon. Model output diverges from intuition, and the question becomes whether the bank trusts the model or adjusts.

The Indian framework has been calibrated by a regulator that watched IFRS 9 implementations in Europe in 2018 and CECL in the United States from 2020. Product-wise prudential floors, IRACP-NPA continuity, three-tier governance, codified third-party validation, and explicit country and FX risk integration are each responses to issues that surfaced in those jurisdictions. The Indian framework is likely to be more disciplined out of the gate than most peers were.

That discipline still demands judgment around SICR thresholds, scenario weights, overlay justifications, cure periods and Day-1 fair-value methodology.

11 months remain. The arithmetic of what needs to happen in that window is unforgiving. The banks that begin the model, governance, controls and disclosure work in parallel from Q1 FY27 will be ready. The banks that begin in Q3 FY27 will be in difficult conversations with their statutory auditors a year later.



Executive Summary

The ECL Journey: A Decade in the Making

The Framework Architecture

From Draft to Final: What Changed and What Did Not

The Four Binding Constraints

Day-1 Capital Mechanics

The 11-Month Roadmap

Closing Thought

About Uniquis Consultech:

Uniquis Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate, Tech Consulting, and Valuations. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST.

Uniquis has a global team of 800+ professionals led by 100+ Partners & Directors across eleven offices in the USA, the Middle East, and India. The company serves more than 300 clients, including marquee names in each of the markets it operates in.

Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Accounting & Reporting Consulting Services:

In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

A Team That You Can Trust To Deliver



Jamil Khatri
Co-Founder & CEO



Sandip Khetan
Co-founder & Global Head of Accounting & Reporting Consulting



Sagar Lakhani
Partner, Accounting & Reporting Consulting



Suresh Wadhwani
Partner, Accounting & Reporting Consulting



Shyam Gupta
Associate Partner, Accounting & Reporting Consulting

Aditya Goyal, Associate Director, Accounting & Reporting Consulting

Anish Gandhi, Associate Director, Accounting & Reporting Consulting

Manjunath Kattamani, Associate Director, Accounting & Reporting Consulting

Sarrah Bahrainwala, Manager, Accounting & Reporting Consulting

Scan this code to find
more content like this



Visit us at www.uniquis.com

or follow us on

