

Corporate debt restructuring assignment

[Business](#)



Corporate Debt Restructuring Ashish Makhija B. Com (Hons.), LL. B. , AICWA, MICA, FCA 17/05/2008 1 Meaning of Corporate Debt Restructuring (CDR) ???

A method ??? ??? ??? ??? used by companies with outstanding debt obligations to alter the terms of the debt agreements in order to achieve some advantage Companies use debt restructuring to avoid default on existing debt or to take advantage of a lower interest rate. 17/05/2008 2

Methods of CDR The existing debt is called and then replaced with new debt at a lower interest rate Companies can also restructure their debt by altering the terms and provisions of the existing debt issue 17/05/2008 3

Objectives of CDR ??? To support continuing economic recovery ??? Enabling viable debtors to continue business operations ??? Promoting fair and equitable debt repayment to creditors 17/05/2008 4 Objectives of CDR ???

Revival of viable Corporates (genuine cases) ??? Ensuring safety of money lent by Banks & FI's 17/05/2008 5 RBI Guidelines on CDR ??? Corporate Debt Restructuring System was evolved for the first time in 2001 ??? Working Group was setup in 2003 ??? Guidelines for CDR revised in February, 2003

17/05/2008 6 RBI Guidelines on CDR CDR system in the country has a three tier structure ??? CDR Standing Forum and its Core Group ??? CDR

Empowered Group ??? CDR Cell 17/05/2008 7 RBI Guidelines on CDR ??? CDR Standing Forum ??? Representative general body of all financial institutions and banks participating in CDR system ??? To lay down policies and guidelines ??? To monitor the progress of corporate debt restructuring

17/05/2008 8 RBI Guidelines on CDR ??? CDR Empowered Group ??? To decide individual cases of corporate debt restructuring ??? Consisting of ED level representatives of IDBI, ICICI Bank Ltd. and SBI as standing members, in

addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company 17/05/2008 9 RBI Guidelines on CDR ??? CDR Cell ??? To make the initial scrutiny of the proposals received from borrowers / lenders ??? If found feasible, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of lenders and, if necessary, experts to be engaged from outside ??? If not found prima facie feasible, the lenders may start action for recovery of their dues 17/05/2008 10

RBI Guidelines on CDR ??? CDR is a non-statutory mechanism based on Debtor-Creditor Agreement (DCA) and InterCreditor Agreement (ICA) ??? Agreement by 75% of creditors in value ??? No CDR for wilful defaulters, fraud or misfeasance cases 17/05/2008 11 RBI Guidelines on CDR ??? CDR does not apply to accounts involving only one financial institution or one bank ??? The CDR mechanism will cover only multiple banking accounts / syndication / consortium accounts with outstanding exposure of Rs. 20 crore and above by banks and institutions 17/05/2008 12 RBI Guidelines on CDR Category 1 ??? Accounts classified as Standard and sub-standard ??? Category 2 ??? Accounts classified as doubtful 17/05/2008 13 RBI Guidelines on CDR ??? Disclosure Balance Sheets, under “ Notes on Accounts”, the following information in respect of corporate debt restructuring undertaken during the year: ??? Total amount of loan assets subjected to restructuring under CDR. ??? The amount of standard assets subjected to CDR. ??? The amount of sub-standard assets subjected to CDR. ??? The amount of doubtful assets subjected to CDR 17/05/2008 14 Proposed RBI Guidelines on CDR Extension of scheme to corporate entities on whom banks and institutions

have an outstanding exposure of Rs. 10 crore or more ??? Requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making process more equitable 17/05/2008 15 Proposed RBI Guidelines on CDR ??? Linking the restoration of asset classification prevailing on the date of reference to CDR Cell to implementation of package within three months from the date of approval of the package 17/05/2008 16

Proposed RBI Guidelines on CDR ??? Convergence in the methodology for computation of economic sacrifice among banks and FIs Regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments 17 ??? 17/05/2008 Proposed RBI Guidelines on CDR ??? Limiting RBI's role to providing broad guidelines for the CDR System ??? Enhancing balance sheet disclosures ??? Pro-rata sharing of additional finance requirement 17/05/2008 18

Proposed RBI Guidelines on CDR ??? Including OTS as a part of the CDR Scheme to make the exit option more flexible ??? Discretion to the core group in dealing with wilful defaulters in certain cases 17/05/2008 19

Proposed RBI Guidelines on CDR ??? Restricting the regulatory concession in asset classification and provisioning requirement to the first restructuring where the package also has to meet certain norms relating to turnaround period and minimum sacrifice and funds infusion by promoters 20
17/05/2008