

Corporate Debt Restructuring (CDR)

BP.BC. 15 /21.04.114/2000-01

August 23, 2001

All commercial banks
(excluding RRBs & LABs)

Dear Sir,

Corporate Debt Restructuring (CDR)

As you are aware, the need for evolving an appropriate mechanism for corporate debt restructuring in the country, on the lines of similar mechanism prevalent in countries like the U.K., Thailand, Korea, Malaysia, etc. was engaging the attention of the Government of India, Reserve Bank of India, banks and financial institutions. Based on the extensive discussions the Government of India and RBI had with banks and financial institutions, the scheme of Corporate Debt Restructuring has been finalised and the same is enclosed, for implementation by banks.

2. The objective of the CDR framework is to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. CDR will apply only to multiple banking accounts/syndicates/consortium accounts with outstanding exposure of Rs.20 crore and above with the banks and financial institutions.

3. It would be observed that the CDR Empowered Group would examine the viability and rehabilitation potential of the corporate and approve the restructuring package. It is advised that banks should ensure that their representatives in the Empowered Group are at a sufficiently senior level, preferably Executive Director level, with necessary authorisations from their Boards to make commitments including sacrifices, on behalf of their banks towards debt restructuring.

4. A reference is also invited to paragraph 4.2 of the Annexure indicating the legal basis for the CDR system. Since the debtor corporates will have to accede to the Debtor-Creditor Agreement, either at the time of original loan documentation (for future cases) or at the time of reference to CDR Cell, banks may ensure proper documentation for the purpose.

5. All standard and sub-standard accounts subjected to CDR process, would continue to be eligible for fresh financing of funding requirements, by the lenders as per their normal policy parameters and eligibility criteria.

6. This circular may please be put up before your Board of Directors at its next meeting.

7. Please acknowledge receipt.

Yours faithfully,

(M.R. Srinivasan)
Chief General Manager-in-Charge

Annexure

RESERVE BANK OF INDIA (RBI)

DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT

Corporate Debt Restructuring (CDR) System

1. Background

1.1. In spite of their best efforts and intentions, sometimes corporates find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the corporates as well as for the safety of the money lent by the banks and FIs, timely support through restructuring in genuine cases is called for. However, delay in agreement amongst different lending institutions often comes in the way of such endeavours.

1.2 Based on the experience in other countries like the U.K., Thailand, Korea, etc. of putting in place institutional mechanism for restructuring of corporate debt and need for a similar mechanism in India, a Corporate Debt Restructuring System has been evolved, as under :

2. Objective

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring of the corporate debts of **viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned.** In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

3. Structure

CDR system in the country will have a three tier structure :

- CDR Standing Forum
- CDR Empowered Group
- CDR Cell

3.1 CDR Standing Forum :

3.1.1 The CDR Standing Forum would be the representative general body of all financial institutions and banks participating in CDR system. All financial institutions

and banks should participate in the system in their own interest. CDR Standing Forum will be a self empowered body, which will lay down policies and guidelines, guide and monitor the progress of corporate debt restructuring.

3.1.2 The Forum will also provide an official platform for both the creditors and borrowers (by consultation) to amicably and collectively evolve policies and guidelines for working out debt restructuring plans in the interests of all concerned.

3.1.3 The CDR Standing Forum shall comprise Chairman & Managing Director, Industrial Development Bank of India; Managing Director, Industrial Credit & Investment Corporation of India Limited; Chairman, State Bank of India; Chairman, Indian Banks Association and Executive Director, Reserve Bank of India as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. The Forum will elect its Chairman for a period of one year and the principle of rotation will be followed in the subsequent years. However, the Forum may decide to have a Working Chairman as a whole-time officer to guide and carry out the decisions of the CDR Standing Forum.

3.1.4 A CDR Core Group will be carved out of the CDR Standing Forum to assist the Standing Forum in convening the meetings and taking decisions relating to policy, on behalf of the Standing Forum. The Core Group will consist of Chief Executives of IDBI, ICICI, SBI, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks Association and a representative of Reserve Bank of India.

3.1.5 The CDR Standing Forum shall meet at least once every six months and would review and monitor the progress of corporate debt restructuring system. The Forum would also lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and would ensure their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It can also review any individual decisions of the CDR Empowered Group and CDR Cell.

3.1.6 The CDR Standing Forum, the CDR Empowered Group and CDR Cell (described in following paragraphs) shall be housed in IDBI. The administrative and other costs shall be shared by all financial institutions and banks. The sharing pattern shall be as determined by the Standing Forum.

3.2 CDR Empowered Group and CDR Cell

3.2.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of IDBI, ICICI Limited and SBI as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that each financial institution and bank, as participants of the CDR system, nominates a panel of two or three EDs, one of whom will participate in a specific meeting of the Empowered Group dealing with individual restructuring cases. Where, however, a bank / financial institution has only one Executive Director, the panel may consist of senior officials, duly authorized by its Board. The level of representation of banks/ financial institutions on the CDR Empowered Group should be at a sufficiently senior level to ensure that concerned

bank / FI abides by the necessary commitments including sacrifices, made towards debt restructuring.

3.2.2 The Empowered Group will consider the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package will be worked out by the CDR Cell in conjunction with the Lead Institution.

3.2.3 The CDR Empowered Group would be mandated to look into each case of debt restructuring, **examine the viability and rehabilitation potential of the Company** and approve the restructuring package within a **specified time frame of 90 days**, or at best 180 days of reference to the Empowered Group.

3.2.4 There should be a general authorisation by the respective Boards of the participating institutions / banks in favour of their representatives on the CDR Empowered Group, authorising them to take decisions on behalf of their organization, regarding restructuring of debts of individual corporates.

3.2.5 The decisions of the CDR Empowered Group shall be final and action-reference point. If restructuring of debt is found viable and feasible and accepted by the Empowered Group, the company would be put on the restructuring mode. If, however, restructuring is not found viable, the creditors would then be free to take necessary steps for immediate recovery of dues and / or liquidation or winding up of the company, collectively or individually.

3.3 **CDR Cell**

3.3.1 The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers / lenders, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible, if so, 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.

3.3.2 To begin with, CDR Cell will be constituted in IDBI, Mumbai and adequate members of staff for the Cell will be deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The initial cost in operating the CDR mechanism including CDR Cell will be met by IDBI initially for one year and then from contribution from the financial institutions and banks in the Core Group at the rate of Rs.50 lakh each and contribution from other institutions and banks at the rate of Rs.5 lakh each.

3.3.3 **All references for corporate debt restructuring by lenders or borrowers will be made to the CDR Cell.** It shall be the **responsibility of the lead institution / major stakeholder** to the corporate, to work out a preliminary restructuring plan in consultation with other stakeholders and submit to the CDR Cell within one month.

The CDR Cell will prepare the restructuring plan in terms of the general policies and guidelines approved by the CDR Standing Forum and place for the consideration of the Empowered Group within **30 days for decision**. The Empowered Group can approve or suggest modifications, so, however, that a final decision must be taken within a total period of 90 days. However, for sufficient reasons the period can be extended maximum upto 180 days from the date of reference to the CDR Cell.

4. Other features:

4.1 CDR will be a Non-statutory mechanism

4.1.1 CDR mechanism will be a voluntary system based on debtor-creditor agreement and inter-creditor agreement.

4.1.2 The scheme will 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.

4.1.3 The CDR system will be applicable only to standard and sub-standard accounts. There would be **no requirement of the account / company being sick, NPA or being in default for a specified** period before reference to the CDR Group. However, **potentially viable cases of NPAs will get priority**. This approach would provide the necessary flexibility and facilitate timely intervention for debt restructuring. Prescribing any milestone(s) may not be necessary, since the debt restructuring exercise is being triggered by banks and financial institutions or with their consent. In no case, the requests of any corporate indulging in wilful default or misfeasance will be considered for restructuring under CDR.

4.1.4 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the secured creditor who have minimum 20% share in either working capital or term finance, or (ii) by the concerned corporate, if supported by a bank or financial institution having stake as in (i) above.

4.2 **Legal Basis**

The legal basis to the CDR mechanism shall be provided by the **Debtor-Creditor Agreement (DCA)** and the **Inter-Creditor Agreement**. The debtors shall have to accede to the DCA, either at the time of original loan documentation (for future cases) or at the time of reference to Corporate Debt Restructuring Cell. Similarly, all participants in the CDR mechanism through their membership of the Standing Forum shall have to enter into a legally binding agreement, with necessary enforcement and penal clauses, to operate the System through laid-down policies and guidelines.

4.3 **Stand-Still Clause**

4.3.1 One of the most important elements of Debtor-Creditor Agreement would be **'stand still' agreement binding for 90 days**, or 180 days by both sides. Under this clause, both the debtor and creditor(s) shall **agree to a legally binding 'stand-still' whereby both the parties commit themselves not to taking recourse to any other**

legal action during the 'stand-still' period, this would be necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention judicial or otherwise.

4.3.2 The Inter-Creditors Agreement would be a legally binding agreement amongst the secured creditors, with necessary enforcement and penal clauses, wherein the creditors would commit themselves to abide by the various elements of CDR system. Further, the creditors shall agree that if **75% of secured creditors by value**, agree to a debt restructuring package, the same would be binding on the remaining secured creditors.

5. Accounting treatment for restructured accounts

The accounting treatment of accounts restructured under CDR would be governed by the prudential norms indicated in circular DBOD. BP. BC. 98 / 21.04.048 / 2000-01 dated March 30, 2001. Restructuring of corporate debts under CDR could take place in the following stages:

- (a) before commencement of commercial production;
- (b) after commencement of commercial production but before the asset has been classified as sub-standard;
- (c) after commencement of commercial production and the asset has been classified as sub-standard.

6. The prudential treatment of the accounts, subjected to restructuring under CDR, would be governed by the following norms:

6.1 Treatment of standard accounts restructured under CDR:

- a) A rescheduling of the instalments of principal alone, at any of the aforesaid first two stages [paragraph 5(a) and (b) above] would not cause a standard asset to be classified in the sub-standard category, provided the loan / credit facility is fully secured.
- b) A rescheduling of interest element at any of the foregoing first two stages would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e. current PLR + the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.
- c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

6.2 Treatment of sub-standard accounts restructured under CDR:

- a) A rescheduling of the instalments of principal alone, would render a sub-standard asset eligible to be continued in the sub-standard category for the specified period, provided the loan / credit facility is fully secured.
- b) A rescheduling of interest element would render a sub-standard asset eligible to be continued to be classified in sub-standard category for the specified period subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e., current PLR + the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.
- c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved. Even in cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as sub-standard.

The sub-standard accounts at 6.2 (a), (b) and (c) above, which have been subjected to restructuring, etc. whether in respect of principal instalment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category **only after the specified period, i.e., a period of one year** after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms as aforesaid, could also be reversed after the one-year period.

6.3 During this one-year period, the sub-standard asset will not deteriorate in its classification if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

6.4 The asset classification under CDR would continue to be bank-specific based on record of recovery of each bank, as per the existing prudential norms applicable to banks.

7. Disclosure

Banks should also disclose in their published Annual Accounts, under the “Notes on Accounts”, the following information in respect of CDR 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.