

## **Annex**

### **Revised Guidelines on Corporate Debt Restructuring (CDR) Mechanism**

#### **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 endeavors.

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 was evolved, and detailed guidelines were issued vide circular DBOD No. BP.BC. 15/21.04.114/2000-01 dated August 23, 2001 for implementation by banks. Subsequently based on the recommendations made by the Working Group to make the operations of the CDR mechanism more efficient (Chairman: Shri Vepa Kamesam, Deputy Governor, RBI. The group was constituted pursuant to the announcement made by the Finance Minister in the Union Budget 2002-2003), and consultations with the Government, the guidelines on Corporate Debt Restructuring system were revised in terms of our circular DBOD No. BP.BC. 68/21.04.114/2002-03 dated February 5, 2003.

1.3. A Special Group was constituted in September 2004 with Smt.S.Gopinath, Deputy Governor, RBI, as the Chairperson to review and suggest changes / improvements, if any, in the CDR mechanism. Based on the suggestions of the Special Group, and the feedback received on the draft guidelines, the CDR Guidelines have been further revised. The revised guidelines are in supersession of the extant guidelines outlined in the aforesaid circular dated February 5, 2003.

1.4. One of the main features of the restructuring under CDR system is the provision of two categories of debt restructuring under the CDR system. Accounts, which are classified as 'standard' and 'sub-standard' in the books of the creditors, will be restructured under the first category (Category 1). Accounts which are classified as 'doubtful' in the books of the creditors would be restructured under the second category (Category 2).

**The main features of the CDR mechanism are given below:**

## **2. Objective**

The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring 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 and its Core Group
- 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, 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 of Chairman & Managing Director, Industrial Development Bank of India Ltd; Chairman, State Bank of India; Managing Director & CEO, ICICI Bank Limited; Chairman, Indian Banks' Association as well as Chairmen and Managing Directors of all banks and financial institutions participating as permanent members in the system. Since institutions like Unit Trust of India, General Insurance Corporation, Life Insurance Corporation may have assumed exposures on certain borrowers, these institutions may participate in the CDR 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. The RBI would not be a member of the CDR Standing Forum and Core Group. Its role will be confined to providing broad guidelines.

3.1.4 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 including those relating to the critical parameters for restructuring (for example, maximum period for a unit to become viable under a restructuring package, minimum level of promoters' sacrifice etc.) 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. The CDR Standing Forum may also formulate guidelines for dispensing special treatment to those cases, which are complicated and are likely to be delayed beyond the time frame prescribed for processing.

3.1.5. 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 Industrial Development Bank of India Ltd., State

Bank of India, ICICI Bank Ltd, Bank of Baroda, Bank of India, Punjab National Bank, Indian Banks' Association *and* Deputy Chairman of Indian Banks' Association representing foreign banks in India.

3.1.5 The CDR Core Group would lay down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. These guidelines shall also suitably address the operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group shall also prescribe the PERT chart for processing of cases referred to the CDR system and decide on the modalities for enforcement of the time frame. The CDR Core Group shall also lay down guidelines to ensure that over-optimistic projections are not assumed while preparing / approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports / international cost competitiveness.

## **3.2 CDR Empowered Group**

3.2.1 The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of ED level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to ED level representatives of financial institutions and banks who have an exposure to the concerned company. While the standing members will facilitate the conduct of the Group's meetings, voting will be in proportion to the exposure of the creditors only. In order to make the CDR Empowered Group effective and broad based and operate efficiently and smoothly, it would have to be ensured that participating institutions / banks approve a panel of senior officers to represent them in the CDR Empowered Group and ensure that they depute officials only from among the panel to attend the meetings of CDR Empowered Group. Further, nominees who attend the meeting pertaining to one account should invariably attend all the meetings pertaining to that account instead of deputing their representatives.

3.2.2 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. 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.

3.2.3 The CDR 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. However, if the lead institution faces difficulties in working out the detailed restructuring package, the participating banks / financial institutions should decide upon the alternate institution / bank which would work out the detailed restructuring package at the first meeting of the Empowered Group when the preliminary report of the CDR Cell comes up for consideration.

3.2.4 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 within 180 days of reference to the Empowered Group. The CDR Empowered Group shall decide on the acceptable viability benchmark levels on the following illustrative parameters, which may be applied on a case-by-case basis, based on the merits of each case:

- Return on Capital Employed (ROCE),
- Debt Service Coverage Ratio (DSCR),

- Gap between the Internal Rate of Return (IRR) and the Cost of Fund (CoF),
- Extent of sacrifice.

3.2.5 The Board of each bank / FI should authorise its Chief Executive Officer (CEO) and / or Executive Director (ED) to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs. CDR Empowered Group will meet on two or three occasions in respect of each borrowal account. This will provide an opportunity to the participating members to seek proper authorisations from their CEO / ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him / her.

3.2.6 The decisions of the CDR Empowered Group shall be final. If restructuring of debt is found to be viable and feasible and approved by the Empowered Group, the company would be put on the restructuring mode. If 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 / creditors, 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 found feasible, the CDR Cell will proceed to prepare detailed Rehabilitation Plan with the help of creditors and, if necessary, experts to be engaged from outside. If not found prima facie feasible, the creditors may start action for recovery of their dues.

3.3.2 All references for corporate debt restructuring by creditors 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 consideration of the Empowered Group within 30 days for decision. The Empowered Group can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days. However, for sufficient reasons the period can be extended up to a maximum of 180 days from the date of reference to the CDR Cell.

3.4 The CDR Standing Forum, the CDR Empowered Group and CDR Cell is at present housed in Industrial Development Bank of India Ltd. However, it may be shifted to another place if considered necessary, as may be decided by the Standing Forum. 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.

3.5 CDR Cell will have adequate members of staff deputed from banks and financial institutions. The CDR Cell may also take outside professional help. The cost in operating the CDR mechanism including CDR Cell will be met from contribution of 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.

## **4 Other features**

### **4.1 Eligibility criteria**

4.1.1 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 of corporate borrowers with outstanding fund-based and non-fund based exposure of Rs.10 crore and above by banks and institutions.

4.1.2 The Category 1 CDR system will be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard'/'substandard' in the books of at least 90% of creditors (by value), the same would be treated as standard / substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10% of creditors. 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 system. 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.

4.1.3. While corporates indulging in frauds and malfeasance even in a single bank will continue to remain ineligible for restructuring under CDR mechanism as hitherto, the Core group may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the CDR mechanism. Such exceptional cases may be admitted for restructuring with the approval of the Core Group only. The Core Group may ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

4.1.4 The accounts where recovery suits have been filed by the creditors against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the creditors (by value) and 60% of creditors (by number).

4.1.5. BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases, may be eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case



basis for consideration under the CDR system. It should be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

## **4.2 Reference to CDR system**

4.2.1 Reference to Corporate Debt Restructuring System could be triggered by (i) any or more of the 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.

4.2.2 Though flexibility is available whereby the creditors could either consider restructuring outside the purview of the CDR system or even initiate legal proceedings where warranted, banks / FIs should review all eligible cases where the exposure of the financial system is more than Rs.100 crore and decide about referring the case to CDR system or to proceed under the new Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 or to file a suit in DRT etc.

## **4.3 Legal Basis**

4.3.1 CDR is a non-statutory mechanism which is a voluntary system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). The Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA) shall provide the legal basis to the CDR mechanism. 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. The ICA signed by the creditors will be initially valid for a period of 3 years and subject to renewal for further periods of 3 years thereafter. The lenders in

foreign currency outside the country are not a part of CDR system. Such creditors and also creditors like GIC, LIC, UTI, etc., who have not joined the CDR system, could join CDR mechanism of a particular corporate by signing transaction to transaction ICA, wherever they have exposure to such corporate.

4.3.2 The Inter-Creditor Agreement would be a legally binding agreement amongst the 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 per cent of creditors by value and 60 per cent of the creditors by number, agree to a restructuring package of an existing debt (i.e., debt outstanding), the same would be binding on the remaining creditors. Since Category 1 CDR Scheme covers only standard and sub-standard accounts, which in the opinion of 75 per cent of the creditors by value and 60 per cent of creditors by number, are likely to become performing after introduction of the CDR package, it is expected that all other creditors (i.e., those outside the minimum 75 per cent by value and 60 per cent by number) would be willing to participate in the entire CDR package, including the agreed additional financing.

### **Other Aspects**

4.3.3. In order to improve effectiveness of the CDR mechanism a clause may be incorporated in the loan agreements involving consortium/syndicate accounts whereby all creditors, including those which are not members of the CDR mechanism, agree to be bound by the terms of the restructuring package that may be approved under the CDR mechanism, as and when restructuring may become necessary.

### **4.4 Stand-Still Clause**

4.4.1. 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 take 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. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that he will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

4.4.2. During pendency of the case with the CDR system, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the case is referred to the CDR Cell. However, if a restructuring package under the CDR system is approved by the Empowered Group, and the approved package is implemented within four months from the date of approval, the asset classification status may be restored to the position which existed when the reference to the Cell was made. Consequently, any additional provisions made by banks towards deterioration in the asset classification status during the pendency of the case with the CDR system may be reversed.

4.4.3. If an approved package is not implemented within four months after the date of approval by the Empowered Group, it would indicate that the success of the package is uncertain. In that case, the asset classification status of the account should not be restored to the position as on the date of reference to the CDR Cell.

#### **4.5. Additional finance**

4.5.1 Additional finance, if any, is to be provided by all creditors of a 'standard' or 'substandard account' irrespective of whether they are working capital or term creditors, on a pro-rata basis. In case for any internal reason, any creditor (outside the minimum 75 per cent and 60 per cent) does not wish

to commit additional financing, that creditor will have an option in accordance with the provisions of para 4.6.

4.5.2. The additional finance may be treated as 'standard asset', up to a period of one year after the first interest/ principal payment, whichever is earlier, falls due under the approved restructuring package. However, in the case of accounts where the existing facilities are classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.5.3 The providers of additional finance, whether existing creditors or new creditors, shall have a preferential claim, to be worked out under the restructuring package, over the providers of existing finance with respect to the cash flows out of recoveries, in respect of the additional exposure

#### **4.6.Exit Option**

4.6.1. As stated in para 4.5.1 a creditor (outside the minimum 75 per cent and 60 per cent) who for any internal reason does not wish to commit additional finance will have an option. At the same time, in order to avoid the "free rider" problem, it is necessary to provide some disincentive to the creditor who wishes to exercise this option. Such creditors can either (a) arrange for its share of additional finance to be provided by a new or existing creditor, or (b) agree to the deferment of the first year's interest due to it after the CDR package becomes effective. The first year's deferred interest as mentioned above, without compounding, will be payable along with the last instalment of the principal due to the creditor.

4.6.2. In addition, the exit option will also be available to all lenders within the minimum 75 percent and 60 percent provided the purchaser agrees to abide by restructuring package approved by the Empowered Group. The exiting lenders may be allowed to continue with their existing level of exposure to the borrower provided they tie up with either the existing lenders or fresh lenders taking up their share of additional finance.

4.6.3 The lenders who wish to exit from the package would have the option to sell their existing share to either the existing lenders or fresh lenders, at an appropriate price, which would be decided mutually between the exiting lender and the taking over lender. The new lenders shall rank on par with the existing lenders for repayment and servicing of the dues since they have taken over the existing dues to the exiting lender.

4.6.4. In order to bring more flexibility in the exit option, One Time Settlement can also be considered, wherever necessary, as a part of the restructuring package. If an account with any creditor is subjected to One Time Settlement (OTS) by a borrower before its reference to the CDR mechanism, any fulfilled commitments under such OTS may not be reversed under the restructured package. Further payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

#### **4.7. Conversion option**

4.7.1 The CDR Empowered Group, while deciding the restructuring package, should decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the banks / financial institutions shall have the right to convert a portion of the restructured amount into equity, keeping in view the statutory requirement under Section 19 of the Banking Regulation Act, 1949, (in the case of banks) and relevant SEBI regulations.

4.7.2 Equity acquired by way of conversion of debt / overdue interest under the CDR mechanism is allowed to be taken up without seeking prior approval from RBI, even if by such acquisition the prudential capital market exposure limit prescribed by the RBI is breached, subject to reporting such holdings to RBI, Department of Banking Supervision (DBS), every month along with the regular DSB Return on Asset Quality. However, banks will have to comply with the provisions of Section 19(2) of the Banking Regulation Act 1949.

4.7.3. Acquisition of non-SLR securities by way of conversion of debt is exempted from the mandatory rating requirement and the prudential limit on investment in unlisted non-SLR securities prescribed by the RBI, subject to periodical reporting to RBI in the aforesaid DSB return.

4.7.4 The relaxations allowed under paras 4.7.2 and 4.7.3 would be reviewed after a year.

#### **4.8. Category 2 CDR System**

**4.8.1.** There have been instances where the projects have been found to be viable by the creditors but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of creditors, and if a minimum of 75% of creditors (by value) and 60% creditors (by number) satisfy themselves of the viability of the account and consent for such restructuring, subject to the following conditions:

- i). It will not be binding on the creditors to take up additional financing worked out under the debt restructuring package and the decision to lend or not to lend will depend on each creditor bank / FI separately. In other words, under the proposed second category of the CDR mechanism, the existing loans will only be restructured and it would be up to the promoter to firm up additional financing arrangement with new or existing creditors individually.
- ii) All other norms under the CDR mechanism such as the standstill clause, asset classification status during the pendency of restructuring under CDR, etc., will continue to be applicable to this category also.

**4.8.2** No individual case should be referred to RBI. CDR Core Group may take a final decision whether a particular case falls under the CDR guidelines or it does not.

**4.8.3** All the other features of the CDR system as applicable to the First Category will also be applicable to cases restructured under the Second Category.

#### **5. Creditors' Rights**

All CDR approved packages must incorporate creditors' right to accelerate repayment and borrowers' right to pre-pay. The right of recompense should

be based on certain performance criteria to be decided by the Standing Forum.

## **6. Prudential and Accounting Issues**

**6.1.1** Restructuring of corporate debts under CDR system 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' or 'doubtful'.

**6.1.2** Accounts restructured under CDR system, including accounts classified as 'doubtful' under Category 2 CDR, would be eligible for regulatory concession in asset classification and provisioning on writing off/providing for economic sacrifice stipulated in para 6.2.1(b) and 6.2.3(b) only if

- i) Restructuring under CDR mechanism is done for the first time,
- ii) The unit becomes viable in 7 years and the repayment period for the restructured debts does not exceed 10 years,
- iii) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of creditors' sacrifice, and
- iv) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.

### **6.2.1 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 6.1.1 (a) and (b) above] would not cause a standard asset to be classified in the sub-standard category, provided conditions (i) to (iv) of Para 6.1.2 are complied with and the loan / credit facility is fully secured.

b. A rescheduling of interest element at any of the foregoing first two stages provided conditions (i) to (iv) of Para 6.1.2 are complied with would not cause an asset to be downgraded to sub-standard category on writing off/providing for the amount of sacrifice, if any, in the element of interest measured in present value terms. For this purpose, the sacrifice should be computed as the difference between the present value of future interest income reckoned based on the current BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring and the interest charged as per the restructuring package discounted by the current BPLR as on the date of restructuring plus appropriate term premium and credit risk premium as on the date of restructuring.

### **6.2.2. Moratorium under Restructuring**

If a standard asset is taken up for restructuring before commencement of production and the restructuring package provides a longer period of moratorium on interest payments beyond the expected date of commercial production / date of commercial production vis-à-vis the original moratorium period, the asset can no more be treated as standard asset. It may, therefore, be classified as sub-standard. The same regulatory treatment will apply if a standard asset is taken up for restructuring after commencement of production and the restructuring package provides for a longer period of moratorium on interest payments than the original moratorium period.

### **6.2.3 Treatment of 'sub-standard' / 'doubtful' accounts restructured under CDR**

a. A rescheduling of the instalments of principal alone, would render a sub-standard / 'doubtful' asset eligible to be continued in the sub-standard / 'doubtful' category for the specified period, [defined in sub para (b) below] provided the conditions (i) to (iv) of Para 6.1.2 are complied with and the loan / credit facility is fully secured.



b. A rescheduling of interest element would render a sub-standard / 'doubtful' asset eligible to be continued to be classified in sub-standard / 'doubtful' category for 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 under the rescheduled terms, provided the conditions (i) to (iv) of Para 6.1.2 are complied with and the amount of sacrifice, if any, in the element of interest, measured in present value terms computed as per the methodology described in Para 6.2.1(b) is either written off or provision is made to the extent of the sacrifice involved.

#### **6.2.4 Treatment of Provision**

a) Interest sacrifice involved in the amount of interest should be written off provided for necessarily by debit to Profit & Loss account and held in a distinct account.

b) Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

c) The amount of provision made for NPA, may be reversed when the account is re-classified as a 'standard asset'.

d). In the event any security is taken against interest sacrifice, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated

#### **6.2.5 Upgradation of restructured accounts**

The sub-standard / doubtful accounts at 6.2.3 (a) & (b) 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 under the rescheduled terms, subject to satisfactory performance during the period.

#### **6.2.6 Asset classification status of restructured accounts**

During the specified one-year period, the asset classification of sub-standard / doubtful status accounts will not deteriorate if satisfactory performance of the account is demonstrated during the specified period. In case, however, the satisfactory performance during the specified 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. The asset classification would be bank-specific based on record of recovery of each bank/FI, as per the existing prudential norms applicable to banks/FIs.

#### **6.2.7 Prudential norms on conversion**

a). Where overdue interest is funded or outstanding principal and interest components are converted into equity, debentures, zero coupon bonds or other instruments and income is recognized in consequence, full provision should be made for the amount of income so recognized. Equity, debentures and other financial instruments acquired by way of conversion of outstanding principal and/ or interest should be classified in the AFS category and valued in accordance with the extant instructions on valuation of banks' investment portfolio except to the extent that (a) equity may be valued as per market value, if quoted (b) in cases where equity is not quoted, valuation may be at break-up value in respect of standard assets and in respect of sub-standard / doubtful assets, equity may be initially valued at Re1 and at break-up value after restoration / up gradation to standard category.

b). If the conversion of interest into equity, which is quoted, interest income can be recognized after the account is upgraded to the standard category at market value of equity, on the date of such up gradation, not exceeding the amount of interest converted into equity. If the conversion of interest is into equity, which is not quoted, interest income should not be recognized.

c). In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments should be treated as NPA ab-initio in the same asset classification category as the loan if the loan's classification is sub-standard or doubtful on implementation of the restructuring package and provision should be made as per the norms. Consequently, income should be recognized on these instruments only on realization basis. The income in respect of unrealised interest which is converted into debentures or any fixed maturity instruments, would be recognized only on redemption of such instruments.

d). Banks may reverse the provisions made towards income recognised at the time of conversion of accrued interest into equity, bonds, debentures etc. when the instrument goes out of balance sheet on sale/ realisation of value/maturity.

## **7.Asset classification of repeatedly restructured accounts**

The regulatory concession in terms of paragraphs 6.2.1 and 6.2.3 would not be available if the account is restructured for the second or more times. In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as sub-standard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion its asset classification would be reckoned from the date when it became NPA on the previous occasion. However, such assets restructuring for the second or more time may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.

## **8.Disclosure**

Banks / FIs should also disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of corporate debt restructuring undertaken during the year:

- a. Total number of accounts total amount of loan assets and the amount of sacrifice in the restructuring cases under CDR.

$$[(a) = (b)+(c)+(d)]$$

- b. The number, amount and sacrifice in standard assets subjected to CDR.
- c. The number, amount and sacrifice in sub-standard assets subjected to CDR.
- d. The number, amount and sacrifice in doubtful assets subjected to CDR.

### **9. Implementation of the revised guidelines**

The above guidelines will be implemented with prospective effect. All accounts pending with CDR Cell, in respect of which restructuring packages are yet to be approved, will be covered under the revised guidelines. The ICA and DCA will have to be suitably amended for incorporating the changes introduced in the scheme.