B Mahapatra: Highlights and rationale of the recommendations of the working group to review the existing prudential guidelines on restructuring of advances

Keynote address of Mr B Mahapatra, Executive Director of the Reserve Bank of India, at the round table on the highlights and rationale of the working group to review the existing prudential guidelines on restructuring of advances by bank/financial institutions, organised by the Centre for Advanced Financial Research and Learning (CAFRAL), Mumbai, 13 September 2012.

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I am indeed grateful to the CAFRAL for inviting me here to discuss the highlights and rationale of the recommendations of the working group to review the existing prudential guidelines on restructuring of advances by banks and financial institutions, which I chaired. The working group was represented by eminent bankers, accountants, rating agency, Indian Banks' Association (IBA) and the Reserve Bank of India (RBI). The working group submitted its report to the RBI on July 18, 2012, which placed it in its website on July 20, 2012 for wider comments. Comments have poured in from various sources – banks, IBA, industry associations, individual professionals, etc.; the print media have also covered it extensively.

One group of commentors have expressed reservations on some of the recommendations of the working group; the other commentors, particularly the print media, have generally appreciated the recommendations. I, as the chairperson of the working group accept the brickbats and bouquets with all humility. I am grateful to CAFRAL for organising this round table and giving me an opportunity to explain the highlights and rationale of the recommendations of the working group.

Approach of the working group

Let me at the outset admit that restructuring of loans and advances is a legitimate banking practice. The need to set up the working group arose with a view to aligning our restructuring guidelines with the best international practices and accounting standards. Another motivation for setting up the working group was to clarify certain instructions which were perceived to be ambiguous.

The working group approached the whole issue from societal point of view that restructuring served a useful purpose as it protects the productive assets of the economy. It also helps the borrowers to recover from temporary problems and provides incentives to banks to nurture such borrowers by allowing them regulatory forbearance of keeping the account as "standard" or unimpaired. It has been demonstrated that the relaxation given to banks in August 2008 for restructuring of loans helped them and their borrowers to tide over the impact of the global financial crisis.

However, the working group observed that there has been an extraordinary rise in the level of restructured "standard" assets, even surpassing the quantum of gross NPAs of the banking sector. As seen from an updated table below, standard restructured assets continuously exceeded the gross NPAs since 2010:

Item	March 2009	March 2010	March 2011	March 2012
Gross advances	27,93,572	32,71,896	40,12,079	46,55,271
Standard advances • of which restructured	27,25,350 60,379	31,90,080 97,834	39,17,991 1,06,859	45,29,236 2,18,068
Gross NPAs	68,222	81,816	94,088	1,37,102
Gross NPAs as a % of gross advances	2.44	2.50	2.35	2.94
Restructured standard advances as % of gross advances	2.16	2.99	2.66	4.68

On top of that a rating agency has estimated that restructured standard assets may increase sharply to reach Rs. 3,25,000 crore by March 2013. Public sector banks bear a disproportionate burden of the restructured loans.

Gross NPA ratio, which was hitherto the main financial ratio to gauge the level of impairment in the banking sector assets, is now being complemented with the ratio of restructured standard advances to gross advances as a measure of latent impairment of the banking sector's financial assets. This is in view of the perception by some of the market players that a significant portion of these standard advances are actually impaired or will turn non-performing with passage of time. The credibility of the Indian banking system is at stake.

The Economist (London), in its August 18–24, 2012 issue has also commented that India's public sector banks are sitting on something unpleasant (restructured loans). Our own Indian economic daily, the Economic Times on September 9, 2012 commented that the present practices are completely defeating restructuring.

Regulatory forbearance

The concept of standard restructured assets arose when the RBI allowed project loans to retain their standard asset classification on extension of their repayment schedule in May 1999. That is if in the opinion of the bank the bottleneck in achieving regular commercial production was of a temporary nature not indicative of any long-term impairment of the unit's economic viability and the unit was likely to achieve cash break-even if some time was allowed. This was extended to treatment of restructured accounts in March 2001. With the issue of comprehensive guidelines on restructuring in August 2008, this regulatory forbearance was made available to all types of loan restructuring except commercial real estate exposures, capital market exposures and personal and consumer loans.

As a basic premise it should be understood that the need for restructuring arises when a standard account borrower faces difficulties in repayment and such an account should be classified as impaired on restructuring. The working group studied the international best practices in this regard and observed that restructured accounts are classified as impaired if the restructuring (i) is on account of financial stress of the borrower or due to delays / non-payment as per contractual terms by the borrower; and (ii) the modification of terms is non-commercial, i.e., disadvantageous to the lenders.

The working group also observed that as per International Accounting Standards, loan accounts are generally treated as impaired on restructuring. It also noted that "Definition of Default" under the Internal Ratings Based (IRB) approach of Basel II for computation of capital requirement for credit risk, identified restructuring as an event of default irrespective of the asset classification. The working group also took note of the fact that the capital market and the rating agencies viewed any restructuring of an account as an event of impairment even if the regulators allowed the accounts to retain the "standard" asset classification status. Therefore, the working group opined that for consistency, restructuring should be treated as an event of impairment or default and hence the account should be downgraded to sub-standard or NPA category.

The working group was conscious of the consequences of aligning our restructuring guidelines with this best practice at this juncture when the impact of global financial crisis is substantial and a new crisis in the form of European sovereign debt crisis is still unfolding. Doing so immediately might act as a disincentive to banks to restructure viable accounts which could lead to substantial distress to the borrowers and increase in the non-performing assets and provision requirements for the banks.

The working group, therefore, recommended that the asset classification benefit available on restructuring of advances be done away with, say, after a period of two years.

Banks are perhaps not happy with this recommendation, as observed from their comments. However, other stakeholders like print media, rating agencies and certain individual professionals have welcomed this recommendation. Some comments in the newspapers have even advocated forthright implementation of this recommendation without waiting for two years.

Provisioning buffer

The working group also estimated that a significant portion of restructured standard assets turn into NPAs subsequently as some of these accounts were *ab-initio* weak and the due-diligence carried out for viability studies were not proper. June 2012 Financial Stability Report of the Reserve Bank estimated that 15% of such loans may turn into NPAs while the working group took a more conservative view under a stressful scenario and estimated that 25–30% of such loans may slip into non-performing category. This assumption was based on the fact that restructurings have taken place only in the recent past with long moratorium and repayment holidays and the repayment behaviour of such borrowers is still not known.

In view of the above, the working group recommended a higher general provisioning requirement on restructured standard assets i.e., from the existing 2% to 5%. This will ensure the pre-existence of a buffer when such loans slip into non-performing category. However, the working group felt that a forthright increase in such provisioning requirement will adversely impact the balance sheets of the banks and therefore a calibrated approach was adopted to coincide with the two-year transition period given for withdrawal of regulatory forbearance on asset classification. For the present "stock" of restructured standard assets the general provision was proposed to be increased from 2% to 3.5% in the first year and from 3.5% to 5% in the second year. However, the new restructured standard assets ("flow") will straightaway attract provision of 5%.

Infrastructure sector loan restructuring

While the working group recommended doing away with the asset classification benefit on restructuring in a phased manner, it was sensitive to the current economic situations and the importance of the infrastructure sector in the country's development. The working group was also aware of the delays and uncertainties associated in obtaining clearances for commencing commercial operations by the infrastructure entities.

The working group, therefore, felt that extant asset classification benefits to infrastructure project loans due to change in date of commencement of commercial operations (DCCO) may be allowed to continue for some more time in view of the delays/uncertainties associated in obtaining clearances for such projects. However, the working group was of the view that this limited forbearance should be used judiciously and it must have disincentives to disallow misuse of the forbearance. Therefore, standard asset provision of 5% for such infrastructure loans has been recommended.

The working group also observed that internationally regulatory forbearance was offered in times of financial and economic crisis in order to alleviate their adverse impact on real and financial sector. However, in India these have become a kind of standing instruction applicable at all times. The working group, therefore, recommended that the Government and the RBI should come out with a framework which will precisely and objectively define a severe crisis (like the 2008 financial crisis) requiring both the Government and regulatory intervention. The framework should also broadly indicate the fiscal and regulatory measures to be taken under such conditions in the phases of (i) crisis containment and (ii) debt restructuring. The rationale for this recommendation was that any regulatory forbearance should be used as a special tool only in the times of crisis. Such phases were clearly seen in India during the 2008 financial crisis, when Government and RBI both intervened in the real and financial markets with incentives and regulatory forbearance.

The working group also observed that the requests for special dispensations and one-time measures are frequently made to RBI for restructuring of a particular sector of economy or industry on the basis that such sectors were facing extraordinary stress or unprecedented adverse conditions. In view of such frequent requests, the one-time measures lose their meaning and these also have adverse impact on the regulatory safeguards of the banking system. In view of this the working group felt that the requests for such regulatory forbearance should not be made a regular feature and any such forbearance should be accompanied with fiscal incentives to ensure the viability of the sector after restructuring.

Up-gradation of restructured NPA accounts

The issue of up-gradation of an account downgraded on restructuring arises with the first recommendation of the working group of withdrawal of regulatory forbearance in asset classification. The extant RBI guidelines prescribe that all restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for up-gradation to the "standard" category after observation of "satisfactory performance" during the "specified period". Further, "specified period" is defined as a period of one year from the date when the first payment of interest or instalment of principal falls due under the terms of restructuring package.

It was observed by the working group that in some cases of restructuring of multiple credit facilities with moratorium on payment of principal as well as major portion of interest, accounts were upgraded on the basis of payment of interest on a small portion of the debt, say funded interest term loan (FITL), for the specified period. The working group further noticed that the account may still have its inherent credit weakness as payment of a small portion of interest does not show the "satisfactory performance". Therefore, it was felt that the specified period should be redefined by taking this aspect into consideration.

The working group studied the international best practices in this regard. For instance to upgrade a restructured account in Australia, a satisfactory performance is to be observed for six months or three repayment cycles, whichever is longer whereas in Thailand satisfactory performance over three consecutive months/three instalments is required. France, while allowing restructured accounts to be upgraded on account of satisfactory performance, requires that these accounts be reclassified into a specific sub-category of performing accounts until they are paid in full.

The working group had two options. One option was that "specified period" may be redefined in cases of multiple credit facilities on restructuring as "one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium". Another option was that an objective criterion of repayment should be used for deciding the satisfactory performance. For this purpose, it was suggested that a minimum of 10% of debt repayment should be made mandatory for up-gradation of an account classified as NPA to standard category.

The working group examined the above two options and concluded that the first option was more prudent as it will ensure that all facilities of a restructured loan performed satisfactorily before upgrading a restructured account to standard category. The working group, therefore, recommended that for the purpose of upgrading restructured NPA account with multiple credit facilities, "specified period" should be redefined as "one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium provided other outstanding loans/facilities in the account also perform satisfactorily.

It may be recalled here that RBI's first instructions on asset classification of restructured accounts, issued in April 1992, specifically prescribed that an asset, where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in that category for at least two years of satisfactory performance under the renegotiated or rescheduled terms. Our present recommendation in this regard is not too harsh or very new.

Distribution of losses

Now, I will explain the rationale behind the recommendations which are aimed at rationalising the distribution of losses between the borrower and the lender. It was observed that an excessively debtor-oriented approach has the aspects of *moral hazard* as it may encourage the debtor to take excessive risks in the knowledge that the burden of any losses will fall disproportionately on creditors. In India, while the banks make the provision for diminution in fair value of advances as a result of restructuring and sometimes take a burden of low-yielding preference shares, borrowers fulfil their obligation by bringing only 15% of the bank's sacrifice and that too in two phases.

Promoters' sacrifice

It was felt that any sacrifice on the part of the lenders due to restructuring should be accompanied with increased stake of the borrower in the business. This becomes important for instilling financial discipline in the borrower as he will be more concerned about preserving the value of his stake in the business. It was observed that the regulatory prescription of promoters' sacrifice at 15% of the lenders' sacrifice was not sufficient enough and in some cases even this 15% was not properly accounted for. Therefore, the working group recommended that this 15% was the bare minimum and banks may prescribe a higher sacrifice by the promoters.

Further, it was also felt that the sacrifice by the promoters should also be linked with the quantum of the restructured loan. Therefore, the recommendation in this regard is that promoters' contribution should be prescribed at a minimum of 15% of the diminution in fair value or 2% of the restructured debt, whichever is higher.

Banks and also other stakeholders have welcomed this recommendation in their comments. Some have even suggested that if there is a case of diversion of the funds, then such borrowers should be compelled to bring back the funds along with the amount of their sacrifice. I will like to state that our instructions in this regard are not new and instructions regarding promoters' contribution were first issued in November 1985 guidelines on rehabilitation of sick industrial units.

Another related recommendation in this regard is making it mandatory for the promoters to extend their personal guarantee in all cases of restructuring. At present, personal guarantee by the promoter is one of the conditions for getting the asset classification benefit except when the unit is affected by external factors pertaining to the economy and industry. However, the working group observed that some promoters do not agree to extend personal guarantee under any circumstances. It was also observed that the criteria, "external factors pertaining to the economy and industry" was subjective and it made it difficult for the banks to press for promoters' personal guarantee. Considering that the restructuring of debt by lenders benefits the company and promoters and also leads to sacrifice by lenders, it was important to ensure promoters' "skin in the game" or commitment by stipulating personal guarantee.

The working group discussed that in case personal guarantee is made mandatory, promoters will be ensuring that only viable packages are submitted for restructuring. In view of the foregoing, the working group recommended that RBI may prescribe that the promoters' personal guarantee as a mandatory requirement for all cases of restructuring, i.e., even if the restructuring is necessitated on account of external factors pertaining to economy and industry. The working group also recommended that RBI may prescribe that corporate guarantee cannot be a substitute for the promoters' personal guarantee.

Provision for diminution in the fair value of restructured advances

Reduction in the rate of interest and/or reschedulement of the repayment of principal amount, as part of the restructuring, results in diminution in the fair value of the advance. Such diminution in value is an economic loss for the bank and will have impact on the bank's market value of equity. Banks are, therefore, required to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision should be held in addition to the provisions as per existing provisioning norms for advances. Our extant instructions are very clear in this regard.

The working group examined the present method of calculating erosion in the fair value of the advance as the difference between the fair value of the loan before and after restructuring, and found the same to be appropriate. However, it was felt that there are certain ambiguities and inconsistencies across the banks and the same were required to be removed. Accordingly, the working group recommended that RBI may provide some illustrative examples on calculation of the fair value of accounts on restructuring.

The working group also recommended continuance of the existing instruction that if a bank finds it difficult to compute diminution in fair value of advances extended at small/rural branches, it will have the option of notionally computing the diminution amount at 5% of the total exposure, in respect of restructured accounts where the total dues to the bank are less than Rs. 1 crore.

Conversion of debt into shares/preference shares

The next major highlight of the report is regarding arresting the trend of the banks being burdened with shares/preference shares of non-viable companies as a result of restructuring of their debt. The working group observed that banks were adversely affected in cases of conversion of a large portion of debt into equity and / or preference shares. The working group noticed that the trend of such conversion has increased recently, especially in cases of large exposures restructured under CDR mechanism. The working group observed that such conversions were akin to writing off the debt as in many cases the preference shares carried zero or low coupon, added with the fact that they had no market value as also they did not carry voting rights unlike the equity shares.

In view of the above, the working group felt that there should be a ceiling/restriction on conversion of debt into zero / very low interest preference shares. Another view was that RBI should prescribe a minimum coupon (say yield on 364 days TBs) on such preference shares.

The working group also observed that in some cases of restructuring, unreasonable losses were allocated to the lenders as a result of conversion of debt into equity shares at a very high premium over the current market price. It was also observed that the lenders suffered heavy losses due to further decline in the market prices of such shares. In view of this, the working group felt that RBI may prescribe that conversion of debt into equity shares on restructuring cannot take place at off market rates, i.e., at a price which is higher than the latest available market price. The working group felt that the conversion into unlisted shares should be restricted due to the limited exit options available to banks for unlisted shares. The working group recommended that any conversion of debt into equity should be done only in the case of listed companies. There are suggestions to take up the issue with SEBI for rationalising the norms on conversion price of debt into equity in cases of restructuring by banks. The working group recommended that conversion of debt into equity/preference shares should, in any case, be restricted to a cap (say 10% of the restructured debt).

We have received very favourable comments in this regard. Some have suggested that conversion of debt into preference shares should not be permitted at all.

Exit option

Another important recommendation of the report arose from the observation that banks were stuck with accounts which were restructured on being found viable, but later turned to be slow in achieving the projected viability ratios. In some cases promoters did not bring the funds as promised and the required equity could not be raised due to depressed market conditions or due to the company's deteriorating financial health. The working group observed that although the extant guidelines on restructuring provided the banks freedom to decide, especially, in cases of CDR accounts, to either proceed legally under SARFAESI or DRT or take up the account for restructuring, if found viable. However, once restructured, the unviable accounts became a real burden, as with increased stakes the banks found it difficult to abandon them and initiate recovery because the collaterals deteriorated in value with passage of time.

The working group discussed the need for faster exit options in light of the international resolution mechanism and recommended that exit options to banks in cases of non-viable accounts should be made more comprehensive. The working group observed that in such cases, banks should be advised to assess the situation early and use the exit option with a view to minimise the losses. The working group also agreed that the terms and conditions of restructuring should inherently contain the principle of "carrot and stick", i.e., it should also have disincentives for non-adherence to the terms of restructuring and under-performance.

Right of recompense

The working group also stressed the importance that banks should recover the sacrifices made by them once the account under restructuring turns around and starts making profit. It was observed that banks generally waived the benefits accruing to them from right of recompense at a later stage or the borrower contested the amount of recompense. RBI guidelines make the "right of recompense" clause mandatory in cases of CDR restructuring and CDR Cell has framed their own guidelines in this regard in terms of the powers delegated to them.

It was noticed by the working group that due to the current guidelines issued by the CDR Cell that recompense be calculated on compounding basis and that 100% of recompense so calculated is payable, exit of companies from CDR system was not happening. In view of this, the working group while recommending that recompense clause be made mandatory also felt that CDR Standing Forum/Core Group may take a view as to whether this clause may be made somewhat flexible in order to facilitate the exit of the borrowers from CDR Cell. However, it also felt that in any case 75% of the amount so calculated should be recovered from the borrowers and in cases of restructuring where a facility has been granted below base rate, 100% of the recompense amount should be recovered.

The working group also recommended that the present recommendatory nature of “recompense” clause should be made mandatory even in cases of non-CDR cases.

Assessing the viability for restructuring of accounts

Viability is the most important and prime criteria for an account to be taken up for restructuring. It has been observed that many unviable accounts were projected as viable on the basis of over optimistic financial projections and some kind of financial engineering. Our extant guidelines allow the banks to examine the viability of accounts for restructuring on the basis of broad parameters prescribed by RBI and benchmarks decided by the banks themselves.

The working group observed that while restructuring of advances on solo basis, banks, particularly at branch or controlling office level where sufficient skill is not available, generally do not establish the viability of the account as rigorously as being done under CDR. Also, the working group observed that in case of solo restructuring, while proper and intensive viability study might be done for medium and large accounts, for small accounts viability study is generally very limited.

Presently, the RBI has prescribed certain very broad illustrative viability criteria – the parameters may include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. The working group discussed the need for prescribing certain objective criteria and indicative benchmarks by RBI, like those adopted by the CDR Cell, for restructuring of accounts by banks so as to ensure that accounts where the viability is in doubt do not get restructured. It was also felt that any benchmarks prescribed by RBI will bring uniformity and objectivity while assessing the viability for restructuring the accounts.

The working group recommended prescription of suitable benchmarks by RBI for the restructuring carried out by individual banks.

The working group also felt that the prescribed time span of seven years for non-infrastructure accounts and ten years for infrastructure accounts becoming viable on restructuring was too long and banks should take it as an outer limit. It was felt that in times when there is no general downturn in the economy, the viability time span should not be more than five years in non-infrastructure cases and not more than eight years in infrastructure cases. We have received several comments in this regard. While some have welcomed this step, a few have advocated that RBI should leave such matters to the banks.

Disclosures

At present banks are required to disclose in their published Annual Balance Sheets, under “Notes on Accounts”, information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances under the following categories:

(i) Standard Advances Restructured,

(ii) Sub-Standard Advances Restructured, and

(iii) Doubtful Advances Restructured.

Under each of the category above, advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories are required to be shown separately.

The disclosures made by the banks in their balance sheets as regards restructured accounts are used by market players and analysts for assessing the financial condition of the banks. In terms of present guidelines banks are required to disclose annually all accounts restructured in their books on a cumulative basis even though many of them would have subsequently shown satisfactory performance over a sufficiently long period. As such the present position of disclosures are quite stringent and do not take into account the fact that in many of these accounts the inherent weaknesses in the accounts have disappeared and the accounts are in fact standard in all respects.

However, it has been observed that some banks do not disclose the restructured accounts on a cumulative basis. This may be because of the fact that our August 2008 guidelines have not explicitly stated that such disclosures should be on a cumulative basis and our previous instruction was about disclosing "accounts restructured during the year". In view of such ambiguities prevailing and in order to maintain uniformity in disclosure of accounts, it was felt necessary to clearly prescribe the disclosure requirements.

It was decided to take into account the presence of inherent credit weakness in a restructured account as a criterion for disclosure. However, deciding the presence of inherent credit weakness itself required some kind of objective criteria. It was felt that satisfactory performance of a restructured account for a sufficient period of time should be taken as an indication that the account has overcome its inherent credit weakness.

Our May 2011 circular prescribed higher provisioning for restructured accounts classified as standard either *ab-initio* or on up-gradation from NPA category. Simultaneously, our instructions on capital adequacy prescribed additional risk weights for restructured accounts of certain types of loans. These higher provisioning and additional risk weight cease to be applicable after periods prescribed in this regard. The working group felt that once the higher provisioning and additional risk weights cease to be applicable for these accounts, they may be treated on par with normal standard accounts.

Therefore, the working group recommended that once the higher provisions and risk weights (if applicable) on restructured advances (classified as standard either *ab-initio* or on upgradation from NPA category) revert back to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by banks as restructured accounts in the "Notes on Accounts" in their Annual Balance Sheets. Accordingly, the working group also suggested a format for the disclosures of restructured accounts.

Roll-over of short term loans

Another important recommendation of the working group was that RBI should clarify that the cases of roll-over of short term loan, where proper pre-sanction assessment has been done and no concession has been provided due to weakness of the borrower, should not be considered as restructured account. The need for this recommendation arose as the banks felt such short term loans (STLs) were like any other need based working capital facility and their roll-overs were due to genuine reasons in many cases. Such STLs were financed generally as a result of operational needs which cannot be anticipated in advance.

A view was expressed that such roll-over of short term loans might be construed as restructuring in view of the RBI's current definition of a restructured account that where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/repayable amount/the amount of instalments/rate of interest (due to reasons other than competitive reasons).

The working group was of the view that roll-overs should not be treated as restructuring if the same is done on the strength of the borrower's balance sheet, i.e., if the loans are not rolled over due to the weakness in the balance sheet but due to temporary needs of the borrower. However, there was also an apprehension that such a facility might not be used for the intended aim in future, especially, when the working group was making recommendation to do away with the asset classification benefit on restructuring. Therefore, it was added that such roll-overs should only be need based and there should be a cap, say two or three times, on such roll-overs.

There are recommendations of the working group which aim at rationalising some existing instructions and bringing level playing field to some extent between CDR and non-CDR restructurings. Both these recommendations are relevant till the asset classification benefit is available on restructuring. The first is regarding incentive for quick implementation of restructuring package.

Incentive for quick implementation of restructuring

As regards CDR restructuring, RBI guidelines provide incentive of asset classification benefit for quick implementation if restructuring package is implemented within 120 days from the date of approval by the CDR mechanism; whereas under non-CDR restructuring incentive under quick implementation of the restructuring package is allowed if the restructuring package is implemented within 90 days from the date of receipt of application. The working group felt that the present prescription does not provide sufficient time for viability study for restructuring of advances under non-CDR mechanism as both the viability study as well as implementation of the package was to be carried out within 90 days from the date of receipt of application. Whereas, in cases of restructuring under CDR mechanism, banks got separate times for viability study and implementation of package, which itself is 120 days from the date of approval of package.

Therefore, it was felt that as 90 days period after receipt of application is considered insufficient for properly ascertaining the viability of the account, the period for quick implementation under non-CDR mechanism should be increased to 120 days from the date of application.

Repeated restructuring

Another such recommendation is regarding a special forbearance granted to CDR mechanism whereby a second restructuring is not considered as a repeated restructuring if there is no negative NPV on discounting of pre and post-restructuring cash flows. It was observed that this special dispensation not only gave undue advantage to the restructuring of large corporate accounts but such special dispensation could result in repeated restructuring due to the dilution in the norm for CDR cases without attracting stricter asset classification and provisioning norms. Therefore, the working group recommended that the special dispensation provided to CDR Cell, that any second time restructuring under CDR restructuring need not be considered as repeated restructuring if it does not lead to negative NPV, be withdrawn.

Conclusion

In conclusion, I would say that the working group tried to balance its recommendations in the light of international best practices and accounting standards and the societal need to preserve the value of productive assets of the economy and distribute the losses fairly between the borrower and lenders. In view of the present domestic as well as international macroeconomic situation, the working group has recommended a gradual and calibrated transition within a two-year period. The working group has also tried to harmonise some of the procedures applied to CDR restructuring to non-CDR restructuring. The Reserve Bank will take appropriate decision on the recommendations based on the comments received.

I sincerely hope that I have done a good job if I have clarified the rationale and philosophy behind the recommendations of the working group. I value your feedback and wish the round table all success.