



**CAFRAL Round Table on
Report of the Working Group to review the
existing prudential guidelines on restructuring**

***Restructuring during Crisis – a tool for crisis
containment?***

**Mr. Ashish Kashive
Jt. General Manager
Special Structuring Group
September 13, 2012**

Restructuring mechanisms have generally evolved in most countries as a response to some systemic crisis.....



Anatomy of a Crisis

Key Features

- Rapid fall in asset prices leading to liquidity and capital pressures on banks and other institutions
- Bank stress constrains credit to corporates and households (Credit Crunch)
- Wider economic downturn reduces corporate and household revenues
- Reversal in capital flows further constrain liquidity and lead to exchange rate pressures
- May lead to currency crisis in countries with high incidence of forex debt

Examples

- Current European sovereign debt crisis
- 2008 financial crisis affecting most of the developed and emerging economies
- 1997 Asian financial crisis primarily affecting export-led south east asian economies such as Thailand, Indonesia, Korea



Corporate Debt Restructuring: A Global Perspective

	Case by case market based approach	Intermediate approach	Across the board approach
Features	<ul style="list-style-type: none"> ● Case by case negotiation between debtors & creditors ● Minimum government intervention ● Principally relying on market solutions 	<ul style="list-style-type: none"> ● Case by case negotiation between debtors & creditors ● Augmented by legal & regulatory support and financial incentives by government 	<ul style="list-style-type: none"> ● Govt. determines method of & distribution of burden ● Common solution applied to all economic agents, regardless of individual factors
Suitability	<ul style="list-style-type: none"> ● Most corporate and household debt held by domestic creditors ● Scale of debt distress is not beyond scope of market resolution ● e.g. Korea, Malaysia & Thailand (1990s) 	<ul style="list-style-type: none"> ● High domestic & foreign debt ● Complex balance sheets ● Need for legal reforms for credit enforcement ● e.g. Indonesia (1998) 	<ul style="list-style-type: none"> ● Corporate debt held mostly by foreign creditors ● Market/legal framework not developed enough to handle scale of debt distress ● e.g. Mexico (1983)

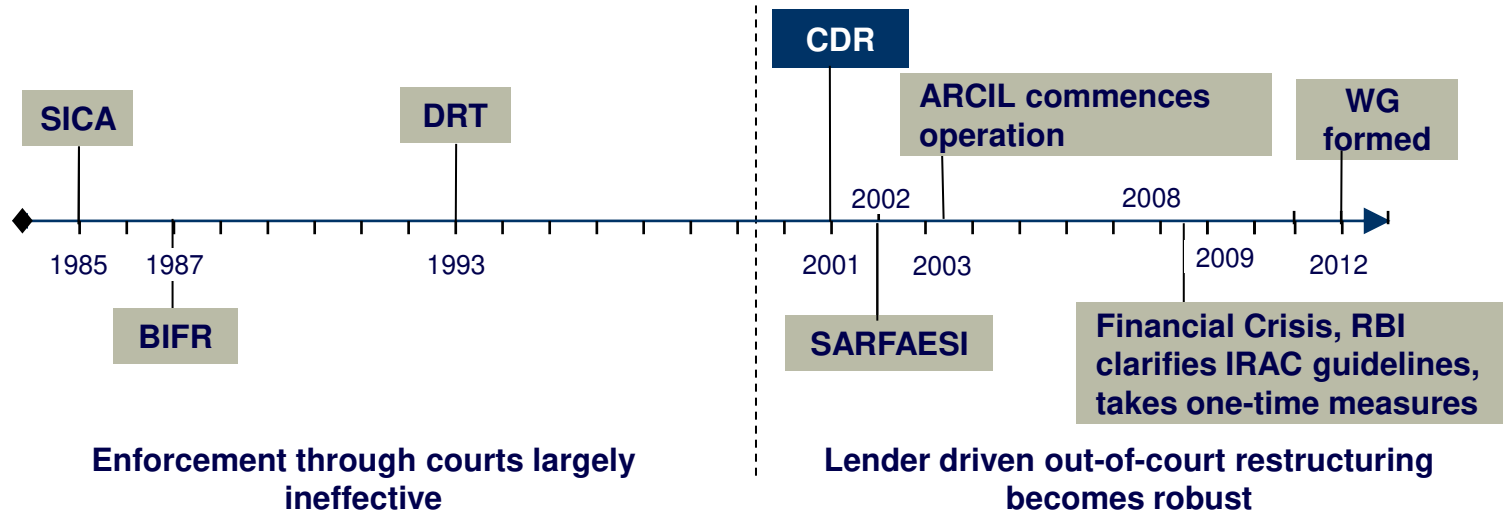
Increasing level of Government Intervention

Source: Working Group Report



Corporate Debt Restructuring: The Indian Context

Evolution of regulatory framework in India



CDR track record

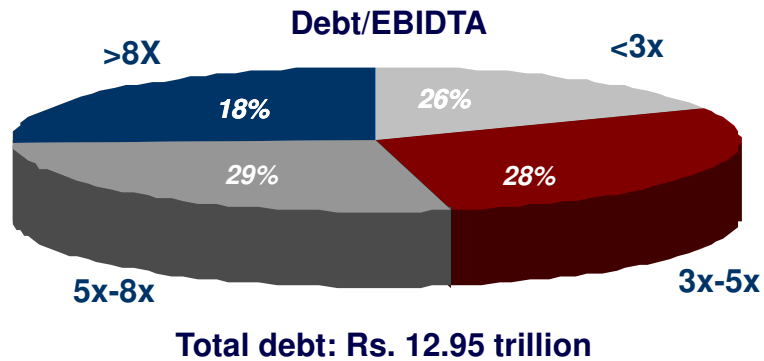
Proposals	No of Cases	Rs. bn	%
Total Cases Referred	392	2,064.70	100.0%
Cases Approved	292	1,505.30	72.9%
Restructuring approved, being monitored	165	980.10	47.5%
Exited CDR successfully	57	430.65	20.9%
Restructuring failed	70	94.05	4.6%
Cases under process	41	351.45	17.0%
Cases rejected	59	207.90	10.1%

Source: CDR website



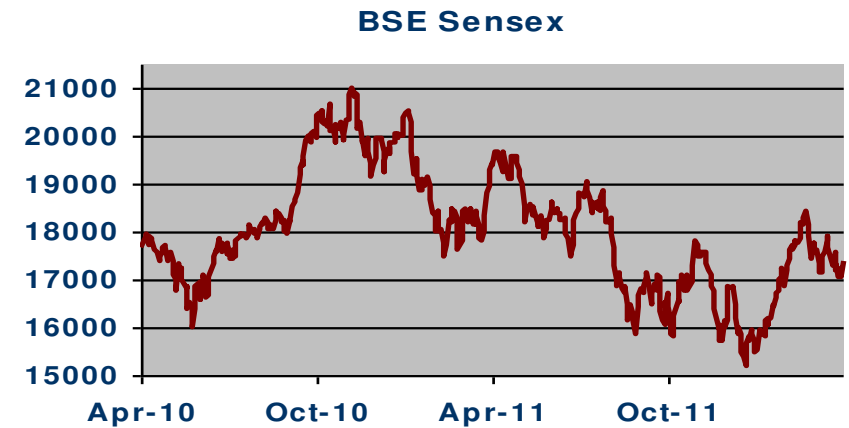
The current situation

Corporate balance sheets highly leveraged

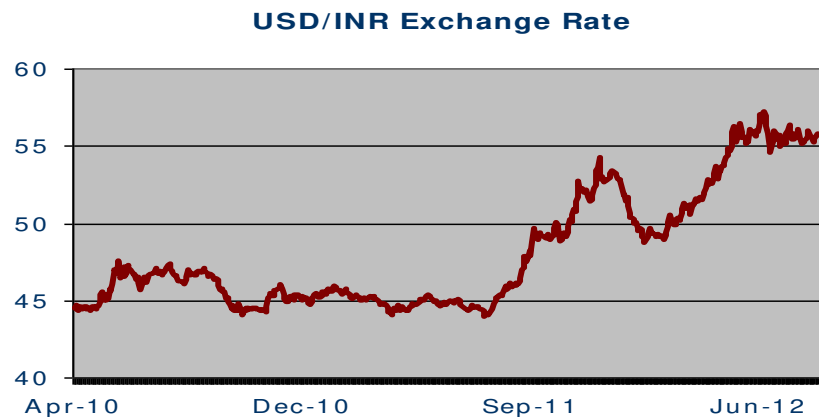


Source: CapitalIQ. ;Sample of 1050 Companies listed on the BSE with market cap. greater than USD 1 million; excludes banks & financial institutions, companies with -ve EBITDA

Depressed equity markets



Adverse Currency Movement

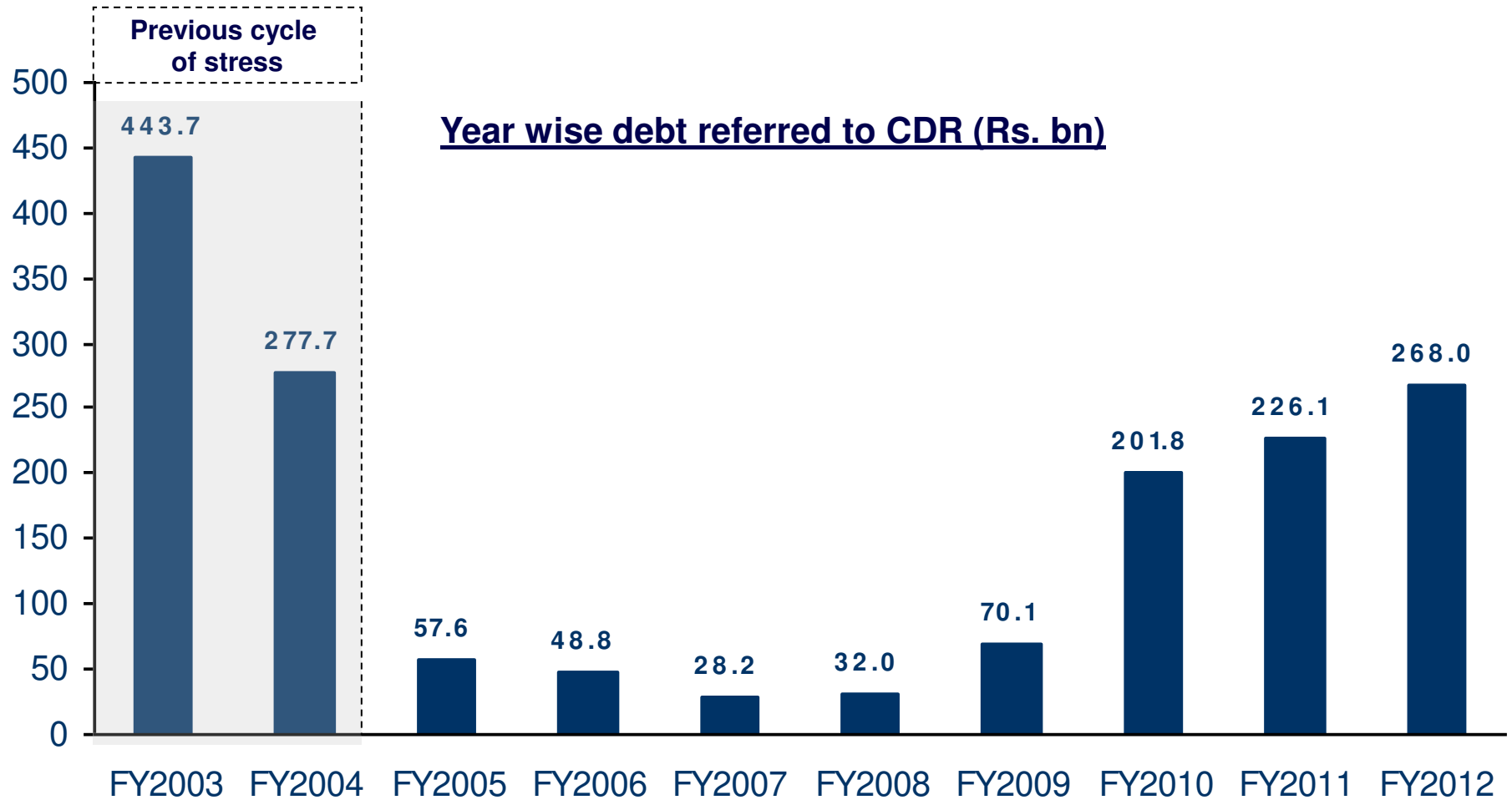


Source: RBI

Event risk



CDR references on the rise again



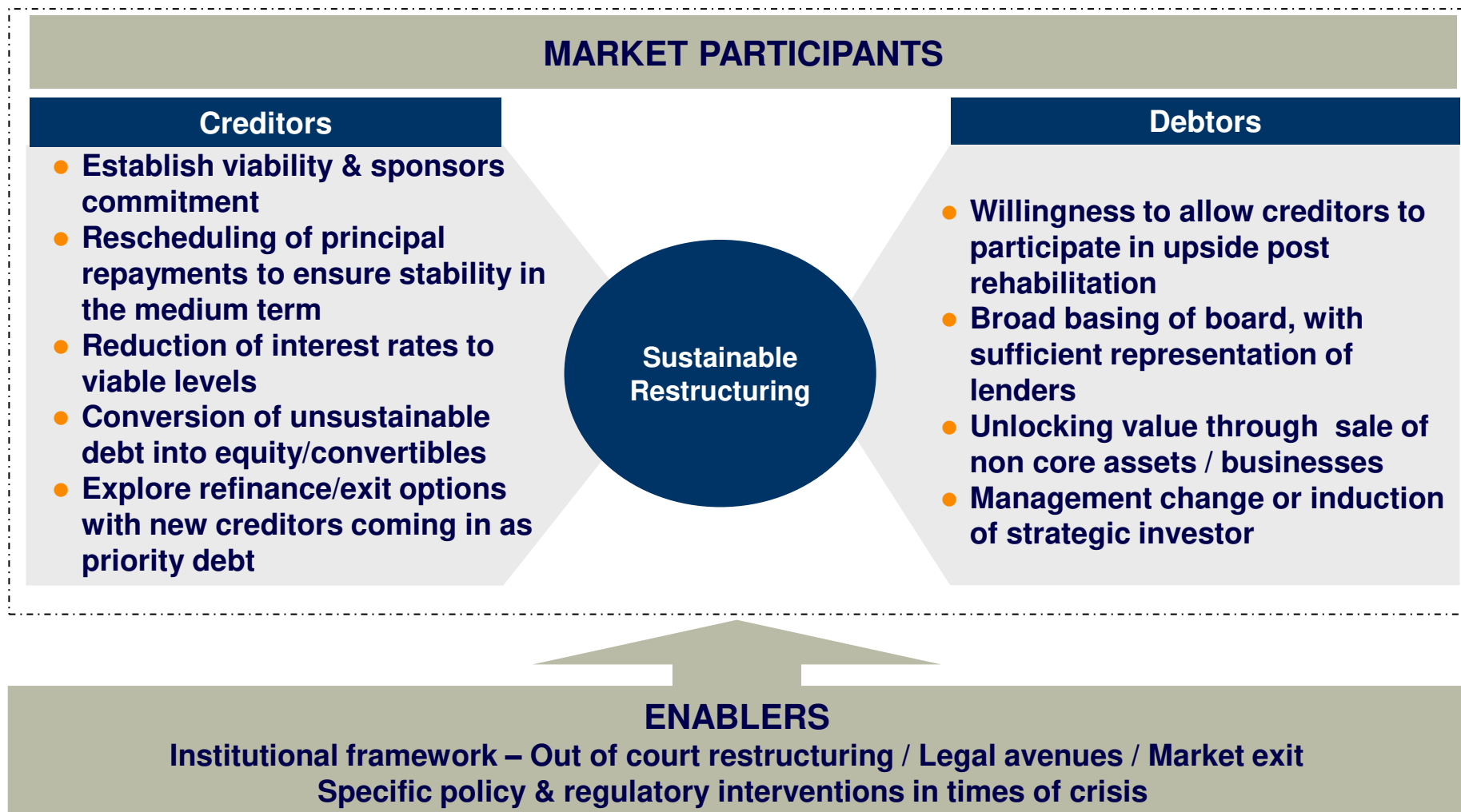
- **Given the above context, Working Group has recommended certain changes in asset classification and provisioning norms**
- **It has also recommended for a framework to identify and indicate fiscal / regulatory measures to be undertaken during crisis containment and subsequent restructuring phase**

Framework for assessment / interventions

	Decision Variables	Potential Policy Responses
Global	<ul style="list-style-type: none"> Deterioration in growth of major global markets Inter-linkages with global economy – trade, capital flows etc. 	<ul style="list-style-type: none"> Govt. measures for macroeconomic stabilization Regulated integration with international capital markets (ECB, CDS guidelines etc.) Specific, time-limited allowances for restructuring – similar to FY2009
Domestic	<ul style="list-style-type: none"> GDP growth rates, IIP etc. Sustained rise in interest rates, inflation Exchange rate movements Fiscal position 	
Institutions	<ul style="list-style-type: none"> Banks' concentration to sectors / industries Provisions w.r.t system wide stressed assets Access to alternative capital avenues 	<ul style="list-style-type: none"> Dynamic (forward looking) exposure norms or risk weights? PCR pegged to total stressed assets? Dedicated funds for recapitalization?
Industry	<ul style="list-style-type: none"> Structural weaknesses Deterioration in sector wide financials 	<ul style="list-style-type: none"> One-time measures – only when accompanied by appropriate fiscal and policy measures?
Corporate	<ul style="list-style-type: none"> Rapid rise in debt funded fixed assets Deterioration in debt servicing indicators Balance sheet complexity & diversification 	<ul style="list-style-type: none"> Restructuring framework – WG recommendations are in the right direction Legal alternatives to restructuring?



Enablers to preserve economic value



To summarise...

Regulatory framework for Restructuring

- WG recommendations aimed at improving the banking sector's ability to absorb potential losses in the future
- Step in the right direction for resetting balance of restructuring burden between debtors and creditors

Policy Interventions

- Sector specific interventions may be mandated to facilitate revival through restructuring

Institutional framework to be strengthened

- Lack of alternatives to restructuring for debt resolution
- Indian corporates still largely 'promoter' driven and limited scope to effect change of management
- Loan foreclosure process is time consuming and fraught with litigation challenges
- Need for higher corporate governance and disclosure standards amongst corporates

The restructuring 'debate' shall continue till there are other viable alternatives to restructuring for debt resolution.....



Thank You

