



A FRAMEWORK OF DEBT RESTRUCTURING FOR CRISIS CONTAINMENT

ROUND TABLE

13 SEPTEMBER 2012

Crisis situations cannot be wished away

- The Working Group has felt the need for a framework for debt restructuring for a crisis situation
- The framework may be an integrated regulatory system and not a Plan “B”
- The regulatory and other systems should minimize probability of crisis and also maintain their integrity when faced with a crisis,
- The framework should reduce cyclicity but not by relaxing prudential regulations during crisis
- The framework may not be at the cost of disclosure



Crisis situations cannot be wished away - 2

- The framework has to take into account the stakeholders and contributors to the credit crisis situation
- Being a part of the financial system, the regulatory role cannot address credit crisis resulting from factors beyond the domain of such regulation
- In such cases, stakeholders other than financial players have also to address it by actions on their part. Such action cannot be a part of the regulatory framework
- The framework should ensure that players do not manipulate the system



A financial crisis requires attention of

- Direct players in the financial system, regulators, lenders, borrowers
- The governments – both state and union governments. A regulatory framework can only partly reduce the impact of some stress factors?
- Limited regulatory role in industry-wide problem – only ameliorative. Industry associations, chambers of commerce etc. may have a role to play in such situations
- Market disclosure and dialogue with investors, analysts, media and rating agencies may largely establish trust in the system



A financial crisis may arise because of

- Late recognition of credit stress
- Ambitious diversification and expansion, misuse of funds, credit indiscipline and lack of timely financial closure
- Short term fixes sought by borrowers and lenders
- Delayed release of sanctioned credit facilities
- Change in market dynamics

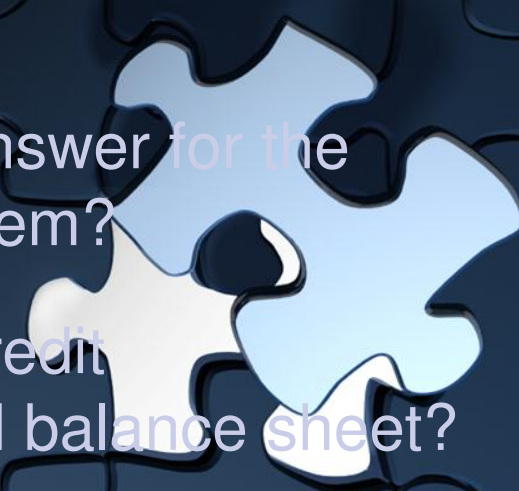
All these can be addressed by the regulatory system and sound banking practices

- Non financial factors like delay in statutory approvals, labor trouble, change in policy regime can be addressed by fiscal and administrative action



Some thoughts for a framework to prevent crisis situations -1

- Can Credit Monitoring be strengthened to enable banks to take timely action in cases of incipient stress?
- Can we consider a separate asset class for non-default stressed loans within the existing NPAs?
- Can an accelerated provision approaching 100%, say in three years of an account reflecting stress, lead banks to try timely resolution strategies?
- Can efficient information exchange be an answer for the problems arising from multiple banking system?
- Can better disclosure & dialogue result in credit provision be seen as a strength of de-risked balance sheet?



Some thoughts for a framework to prevent crisis situations - 2

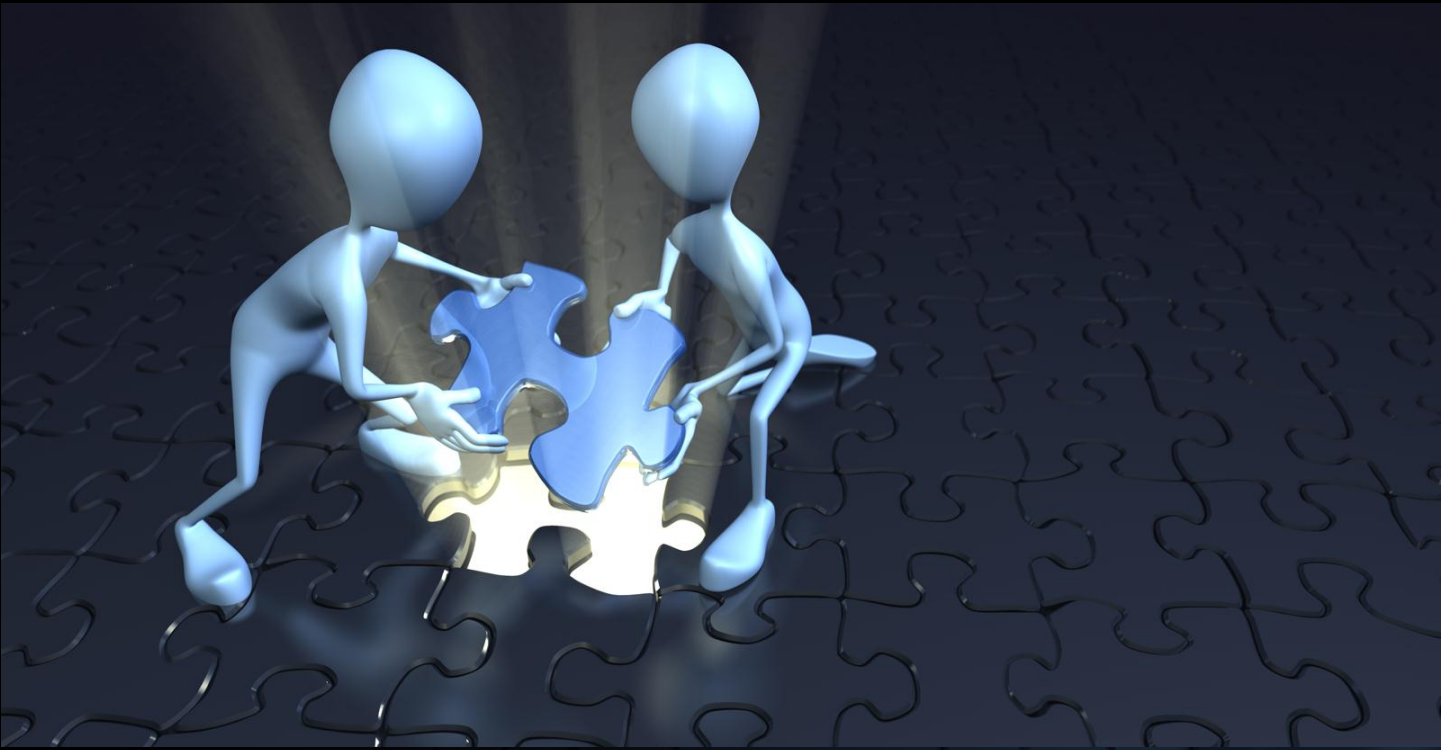
- Can we raise floating provision in good times if it can be used for freer migration to specific provision?
- As restructuring provision is based on erosion of fair value of a loan, should there be a further IRAC-based provision on it?
- Should banks have positive incentives for restructuring? If so, what kind of incentives may be healthy for the system?
- Can banks contribute to a dedicated fund for requirement of restructured borrowers?
- Can contributions to such dedicated funds count for regulatory benefits?



Some thoughts for a framework to prevent crisis situations - 3

- Does accelerated provision lead to a sharing of the burden of failure of restructuring scheme?
- Can increasing cost for a business of a longer tenure of restructuring also lead to the same effect?
- Will not a timely restructuring intervention enable banks to positively look at fresh exposure on restructured businesses?
- Can we define viability more clearly for restructuring so that TEV study is resorted to only when it is necessary





Thank You

