RBI /2005-06/ 206

DBOD.No.BP.BC. 45 / 21.04.132/ 2005-06

November 10, 2005

All Commercial Banks/Financial Institutions
(excluding RRBs)

Dear Sir,

Revised Guidelines on Corporate Debt Restructuring (CDR) Mechanism

Please refer to our circular DBOD No. BP.BC. 68/21.04.114/2002-03 dated February 5, 2003 on the captioned subject wherein detailed guidelines on Corporate Debt Restructuring System were issued incorporating therein the recommendations of the High Level Group under the chairmanship of Shri Vepa Kamesam, then Deputy Governor, Reserve Bank of India, for facilitating timely and transparent mechanism for restructuring 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.

2. A Special Group was constituted in September 2004 with Smt.S.Gopinath, Deputy Governor, Reserve Bank of India to undertake a review of the Scheme. The Special Group had suggested certain changes / improvements in the existing Scheme for enhancing its scope and making it more efficient. Based on the recommendations made by the Special Group revised draft guidelines on Corporate Debt Restructuring were prepared and circulated among banks for comments. On the basis of the feedback received the draft guidelines have been reviewed and the revised guidelines on CDR mechanism are furnished in the Annexure.

3. The major modifications made in the existing CDR mechanism relate to

(a) extension of the scheme to entities with outstanding exposure of Rs.10 crore or more

(b) requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable

(c) discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions.

(d) linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package.

(e) restricting the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters.

(f) convergence in the methodology for computation of economic sacrifice among banks and FIs

(g) limiting RBI's role to providing broad guidelines for CDR mechanism

(h) enhancing disclosures in the balance sheet for providing greater transparency

(i) pro-rata sharing of additional finance requirement by both term lenders and working capital lenders

(j) allowing OTS as a part of the CDR mechanism to make the exit option more flexible and

(k) regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Yours faithfully,

(Anand Sinha)
Chief General Manager-In-Charge