FinMin for independent CDR oversight body

The finance ministry has asked the Indian Banks' Association to set up an independent body to oversee the corporate debt restructuring (CDR) mechanism, Rajiv Takru, secretary, financial services, said today.

This comes in the wake of a rising number of debt restructurings over the past two years. Both the banking regulator and the ministry has expressed concern that banks and their clients are taking undue advantage of the CDR mechanism, deferring the issue of non-performing assets' (NPA) formation.

"An independent oversight mechanism which will not have any government representative or any serving banker but some experts who scrutinise from the correctness point of view whether the case referred is genuine," was Takru's description of what was envisaged, at the sidelines of the Skoch summit here.

"Going to the committee will not be mandatory for a bank. It would act as only an advisory body, helping the bank vet a particular case."

The finance ministry has been asking banks to be tough on wilful defaulters and to become more aggressive on loan recovery.

Under CDR, there were 106 cases of restructured loans, of Rs 76,470 crore, in 2012-13. This was a rise from 50 cases (exposure of Rs 39,600 crore) the previous year.

In addition to the CDR platform, lenders had also gone for substantial recast at the bilateral level during the period.

Takru cited a recent case of a company conniving with lenders to get its loans restructured and immediately approaching the Board for Industrial and Financial Reconstruction, which froze the repayment.

While lending, he'd also said, banks should ensure they have collateral at least of equal value to the loan amount.

According to a finance ministry estimate, if all restructured loans are classified as NPA, the gross level of these for public sector banks (PSBs) would shoot up to 11.6 per cent of gross advances, from 4.2 per cent at the end of December. The estimate suggests restructured standard advances formed 7.4 per cent of all advances for PSBs.

The Reserve Bank of India has also made the debt recast norm stringent. It has said all loans to be restructured after April 1, 2015, should be classified as NPA.

Also, from last week, the provisioning requirement for fresh standard restructured advances would be increased to five per cent from 2.75 per cent, for the interim period.

For the existing stock of restructured assets, provisioning would be increased to five per cent in a phased manner over three years.

At present, banks are allowed to recast debt without classifying it as NPA but they have to make higher provisions. Standard restructured advances attract a provision of 2.75 per cent, as against 0.4 per cent in standard advances

(Business Standard)