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IND AS 109: Its impact on Financial Statements

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Abstract:

In the era where the banks and the financial institutions are struggling with bad loans and advances RBI is coming with various plans and schemes with a view to assimilate the bad loans. The scheme like structuring of projects loans under the 5:25, Strategic debt restructuring (SDR) scheme for sustainable structuring of stressed assets and corporate debt restructuring helping banks as well as financial institutions to limit fresh slippage to Non-performing assets(NPA's) from large corporate exposure. Recently the RBI has come out with revised prompt curative actions framework for banks and financial institutions and bringing out certain edges, the breach of which could invite resolutions such as merger with another bank even shutting down. The purpose of the study is to clarified the consequences of modification of debt from borrower's perspective and conceptual explanation of the same.

Keywords: Modification of Debt, Strategic Debt restructuring, Extinguishment of debt and IND AS 109

Introduction:

The leading financial sector problem at present in India is NPAs of the Public Sector Banks. So far the RBI has taken several steps to tackle NPAs and one of them is the Strategic Debt Restructuring (SDR) Scheme. Under SDR, banks who have given loans to a corporate borrower gets the right to convert the full or part of their loans into equity shares in the loan taken company. The intention behind the mechanism is to revive such companies and also safeguards the interest of the lending institution and other stakeholders. The corporate debt restructuring mechanism is available to companies who enjoy credit facilities for more than one lending institution. The Mechanism allows such institutions to restructure the debt in speedy and transparent manner for the benefits of all stakeholders. But still as on December 2016 the total amount of gross Non Performing Assets for public and private sector banks is around Rs.6.77 Lakhs Crore approximately and increasing at a rapid pace. The Non Performing figures along with total debt for the each of 49 public and Private sectors banks where shared by the ministry of finance.

Objective of the study: The study focus on achieving the following objectives in order to address the issues.

1. To study the concept of Corporate debt restructuring
2. To study the conceptual analysis of modification of debt & extinguishments of debt.
3. To study the impact on the financial statements

Working Definition:

1. **Corporate debt restructuring**: The Corporate Debt Restructuring (CDR) Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) and the principle of approvals by super-majority of 75%