

RBI/ 2005-06/ 205

DBOD. BP. BC. No.46 / 21.04.132/ 2005-06

November 10, 2005

**The Chairman/ Managing Director
All Commercial Banks**

Dear Sir,

Debt restructuring mechanism for Small and Medium Enterprises (SMEs)

Please refer to Para 3 (ii) our circular DBOD. No. BP. BC. No. 34 /21.04.132 /2005-06 September 8, 2005 on the captioned subject in terms of which accounts involving wilful default, fraud and malfeasance are not be eligible for restructuring under these guidelines.

2. The issue has been reviewed in the light of the modifications introduced for the identification of the wilful defaulters in which an opportunity is provided to the borrower to make representation before final classification is made. The procedure for identification of the wilful defaulters has been made more transparent. While corporates indulging in frauds and malfeasance will continue to remain ineligible for restructuring under the Debt Restrcturing Mechanism for SMEs as hitherto, banks may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity under the Debt Restrcturing Mechanism for SMEs. Such exceptional cases may be admitted for restructuring with the approval of the Board of Directors of the banks only. The banks may ensure that cases involving frauds or diversion of funds with malafide intent are not covered

3. Please acknowledge receipt.

Yours faithfully,

(Anand Sinha)

Chief General Manager-in-Charge