

## Research on Debt Restructuring of Risk Assets of Corporate Customers of Commercial Banks

Sun Zheng

Business School of China University of Business and Law, Beijing, China

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**Abstract:** In the past years, affected by the internal and external economic environment, the debt restructuring projects of difficult enterprises in China have increased year by year. For example, large enterprise groups such as Erzong Group, sinosteel and China Railway Group have experienced debt crises one after another. In the process of resolving the debt risks of enterprises in difficulty, commercial banks actively resolve corporate debt risks and crises through debt restructuring according to China's current industrial policies, financial support policies, relevant laws, regulations and regulatory requirements, and guide and support enterprises in difficulty to implement more mergers and acquisitions, less bankruptcy liquidation and enforcement, and maximize the preservation of commercial bank assets, helping enterprises in difficulty to solve their crises in the near future and in the long run. At the same time, maintaining social stability and avoiding the waste of social resources ultimately achieve a win-win situation. Combined with the practice of debt restructuring for many years, the author analyzes the causes and performance of the formation of risk assets of commercial banks, discusses the principles and methods of debt restructuring, and puts forward relevant suggestions based on the problems existing in the work.

### 1. Introduction

#### (1) The reasons for the formation of risk assets

Risk assets of commercial banks refer to the assets and contingent assets formed by all kinds of on balance sheet and off balance sheet credit business handled by commercial banks for corporate customers, including but not limited to potential risk loans, scissors loan, non-performing loans, account write off deposit assets, etc. The formation of risk assets of commercial banks not only has the influence of external economic environment, but also has its own reasons. From the enterprise's own reasons:

① The industry in which the enterprise is located is in a recession stage (such as steel, coal and shipbuilding). With the gradual decline of sales volume, it is difficult to effectively reduce costs and expenses. The net profit of the enterprise has dropped sharply, and even losses have occurred, resulting in the decline of liquidity, the tension of capital chain, and the difficulty in paying off due debts.

② Enterprises lack of effective supervision and restraint mechanism and expand excessively. Enterprises expand too fast in the period of good profits, personnel, technology and management are unable to keep up. After the industry falls into the downward stage, the turnover drops sharply and the idle capacity expands continuously. Coupled with the high debt of enterprises, the capital chain broke rapidly and fell into debt crisis.

③ Cross industry investment. Due to the sluggish main business, enterprises invest heavily in other industries (such as real estate) to seek profit growth. However, due to the lack of industry experience, professionals and technology, there will be greater risks in operation. The related investment cycle is long and the capital investment is large. Under the continuous shrinking of operating cash flow and the pressure of commercial banks to compress loans, the capital chain is broken and the main business is dragged down.

④ Overseas M & A leads to debt dilemma. In recent years, one belt, one road, and other sports enterprises have been investing in overseas real estate, film and television, sports and other

projects. Overseas acquisitions of assets and projects can not promote domestic economic development and one way strategy. At the same time, due to local policies, geographical restrictions, and the lack of operation and management experience of some enterprises, some overseas projects cannot operate normally, and the first source of repayment for bank financing is insufficient.

⑤ There are more external guarantees for enterprises. The more external guarantees an enterprise has, the greater its own financial risk. In the downward period of the industry, the probability of default events of the guaranteed enterprise increases sharply, which leads to a substantial increase in the risk of enterprise compensation, and finally leads to the rupture of the capital chain of the enterprises that are still operating.

⑥ Debt risk of circulation enterprises. With the slowdown of economic growth and the weakening of market demand, the upstream and downstream of commercial circulation enterprises continue to compress their profits and increase the occupation of funds, which leads to the decline of the profit margin of the whole industry, the rapid growth of financing, the substantial growth of financing / income ratio, and the heavy pressure on profitability and debt repayment.

⑦ Private lending is involved. Enterprises are lack of debt ability, unable to obtain financing from the normal way, and then have to take private financing to make up for the funding gap. Because the interest of private lending is usually much higher than that of bank loans, if the enterprise can not repay in a short time, it will make its debt pile up and sink deeper and deeper.

In addition, the unexpected risk events of some enterprises may lead to the overall financial crisis of the group.

## (2) Performance of risk assets

① Corporate governance risks: complicated relationship, mutual nesting and circular investment of member enterprises' equity; most member enterprises are special purpose companies; concealing actual controllers through internal and external cross investment or holding shares by multiple natural persons; existence of a large number of non controlling invisible related enterprises, etc.

② Production and operation risks: poor core competitiveness and sustainable development ability, weak profitability, increasing sales revenue through trade; operating net cash flow can not cover financial expenses, highly dependent on debt operation; cross format operation, large span of various sectors, poor synergy effect; excessive investment expansion beyond their own strength; operating in high-risk areas; operating losses; financial indicators Standard deterioration, etc.

③ Financial management risks: financial management and fund use are chaotic, and consolidated statements are deliberately not prepared, or multiple sets of financial statements are prepared; Packaging beautifies the listed sector, covering up and hiding the risks of the unlisted sector; Internal funds are mixed, and there are a large number of exchanges and dismantling or company transfer; There are a large number of related transactions, which inflated business income; The funds of member enterprises or business sectors are mixed and there is no effective isolation mechanism; Major fund management enterprises have opened a large number of bank accounts, with frequent large-scale remittance and no stable fund precipitation.

④ Financing guarantee risk: the debt structure is unreasonable, and there are problems such as excessive financing, multiple investment and financing, short loan and long use; High interest rate financing accounts for a high proportion, non-bank financing accounts for a high proportion, hidden liabilities account for a high proportion, and restricted assets account for a high proportion; The financing channels are narrowed, the renewal of bonds is blocked, refinancing is difficult, and the pressure of centralized payment of financing is great; The financing product structure, customer structure and guarantee structure are single, the repayment funds come from the third party, and the credit enhancement guarantee measures are weak.

⑤ Imported risk: it is seriously affected by external factors or events, and the changes of domestic and international economic situation and business environment have a great adverse impact on the operation; the changes of regional development planning, environmental protection and other policies have a great adverse impact on the operation; the occurrence of public health events causes long-term shutdown and difficult to resume production and sales; other external

factors force technological innovation and industrial development Upgrading, current operation or facing elimination, etc.

⑥ Emergency, litigation related and negative public opinion risk: major emergency risk events occur, such as senior management events, production / safety accidents, violations, litigation related disputes, major internal changes, false fraud cases, guarantee compensation events, institutional short events, etc.

## **2. The Concept and Principle of Debt Restructuring of Risk Assets**

### **(1) The concept of debt restructuring**

At present, there is no unified concept of debt restructuring in the academic field. According to Article 12 of the Guidelines for Classification of Loan Risks (Yin Jian Fa [2007] No.54), a restructured loan refers to a loan in which a commercial bank adjusts the repayment terms of a loan contract due to the deterioration of the borrower's financial situation or inability to repay. Article 27 of the Due Diligence Guidelines for Disposal of Non-performing Financial Assets (Yin Jian Fa [2005] No.72) stipulates that “the reorganization of creditor's rights includes paying debts in kind, modifying debt terms, replacing assets or their combination, or debt reorganization based on debtor's separation, merger and bankruptcy reorganization ...”. In terms of specific application, Article 36 of the Interim Measures for the administration of working capital loans stipulates that if the borrower fails to repay the principal and interest of the loan on schedule due to temporary business difficulties, the lender may negotiate with him for restructuring. Article 36 of the Interim Measures for the administration of fixed assets loans stipulates that if the borrower is really unable to repay the principal and interest of the loan on schedule due to temporary business difficulties, the lender may negotiate with the borrower to restructure the loan.

To sum up, the author believes that the concept of debt restructuring can be divided into narrow sense and broad sense. In a narrow sense, debt restructuring refers to the adjustment of original loan elements, including but not limited to changing borrowers, adjusting all or part of financing varieties, amounts, terms, interest rates, interest settlement periods, repayment plans, guarantee methods, etc., and adjusting one or more of all or part of debtors and all or part of loan elements in multiple restructuring entities in combination with the needs of risk control and restructuring conditions. In a broad sense, debt restructuring refers to the financial difficulties of debt enterprises, in order to minimize the risk and loss of credit assets of commercial banks, according to the agreement between commercial banks and debt enterprises or the court ruling. In addition to the narrow concept mentioned above, it also includes debt relief, debt for debt, debt to equity and so on.

### **(2) Principles of debt restructuring**

The author believes that the following principles should be followed in the practice of risk assets and debt restructuring of commercial banks:

① Classified policy. The debt restructuring of commercial banks should be carried out in an orderly manner in accordance with the principles of marketization and rule of law, adhere to the principle of advancing and retreating, one enterprise and one policy, and adopt different ways and schemes of debt restructuring on the basis of due diligence, according to the nature of enterprises, assets and liabilities, production and operation, cash flow and other actual conditions, so as to maximize the benefits of debt restructuring.

② Reduce risk. Debt restructuring should be the best choice to comprehensively measure the long-term and short-term interests of commercial banks. After restructuring, it will obviously improve the financial situation of debt enterprises, supplement effective credit enhancement measures, improve relevant legal procedures, improve the guarantee degree or compensation level of stock financing of commercial banks, and realize “time for space”. After reorganization, the risk of credit assets can be gradually resolved or stopped in time, and finally the benefits of commercial banks can be maximized.

③ Be proactive. It is necessary to make a forward-looking risk prediction when the debt crisis symptom of the debt enterprise is obvious and can't be avoided. On the basis that the debt enterprise

can realize the restructuring of high-quality business segments, strengthen the strength of shareholders or management, lead by the government or provide substantive support, it is necessary to actively utilize various resources inside and outside the bank, strive for the maximum cooperation of all parties involved in restructuring, and jointly carry out the restructuring work that is conducive to the resolution of creditor's rights risks of commercial banks.

④ Joint rescue. In the process of debt restructuring, we should give full play to the strength of banks, government enterprises and other relevant parties, strengthen communication and consultation, and form a joint force. It is necessary to integrate and revitalize enterprise assets and resources, and improve the quality and efficiency of enterprise development by means of capital injection from original shareholders, introduction of strategic investors, business restructuring and asset restructuring. At the same time, with the help of debt restructuring and other measures, we can achieve win-win results of enterprise reform and bank creditor's rights risk resolution.

⑤ Seeking truth from facts. Debt restructuring should objectively, truly and comprehensively reflect the business situation of the enterprise, and should not cover up illegal or illegal problems through debt restructuring, thus delaying the disposal opportunity. Resolutely crack down on enterprises' evasion of debts through debt restructuring.

⑥ Standardized operation. Debt restructuring should comply with relevant national policies, regulatory requirements, relevant credit policies and systems of commercial banks, examination and approval procedures, etc., effectively guard against all kinds of moral risks and operational risks, and ensure the standardized development of restructuring business.

### **3. Specific Ways of Debt Restructuring**

According to China's existing policies, laws and regulations and regulatory requirements, debt restructuring of risk assets can take the following ways:

(1) Cash compensation. Through the disposal of enterprise's own funds, idle assets or strategic investors' investment, commercial banks recover loans in cash.

(2) Adjustment of loan elements. The adjustment of loan elements refers to the adjustment of the original loan elements, including but not limited to changing the borrower, adjusting all or part of the financing varieties, amount, term, interest rate, interest settlement cycle, repayment plan, guarantee method, etc., and adjusting all or part of the debtors and one or more of all or part of the loan elements in multiple restructuring entities in combination with the needs of risk control and restructuring conditions Item.

(3) Debt relief. Debt relief refers to the behavior of reducing part of the borrower's debt in order to revitalize the non-performing loans, recover the creditor's rights to the maximum extent, when the borrower has financial difficulties and is unable to repay the principal and interest of the loan in full and on time.

(4) To pay off a debt with something. It means that the borrower is unable to repay the debt with monetary fund due to serious operation and management problems, and the guarantor is also unable to compensate with monetary fund. After the commercial bank and the debtor, the guarantor or the third party reach an agreement through consultation, or the court or arbitration institution awards, the borrower, the guarantor or the third party compensate the commercial bank's creditor's rights with physical assets or property rights.

(5) Debt to equity swap. Debt to equity swap refers to those enterprises which are in line with the national industrial policy and financial support policy and have the value of rescue and may have difficulties in operation. In the process of debt restructuring, all or part of the creditor's rights of financial institutions are converted into equity through the participation of debt to equity implementing institutions.

In the actual work of debt restructuring, debt restructuring often does not take the above-mentioned single way, there is no fixed form, but according to the actual situation of debt enterprises to take different ways, methods and specific content of restructuring. For example, Changhang oil transportation group and Erzhong Group all adopt the method of "cash repayment +

adjustment of some loan elements + partial loan to offset debt by shares” to resolve the risk. In addition, in practical work, some risk assets debt restructuring also take the form of trust plan usufruct, perpetual bonds, convertible bonds, equity instruments and so on.

#### **4. Solutions to Debt Risk of Enterprises in Difficulties**

However, in the process of resolving and disposing the risk assets, we should take different solutions according to the actual situation of the financial, production and operation of the difficult enterprises and the financing of commercial banks.

(1) We should adhere to the principle of keeping pressure and implementing policies according to categories. First, it is necessary to distinguish different situations of enterprises. For enterprises with temporary difficulties and normal operation, which have products, technology and development potential, it is necessary to comprehensively adopt different ways such as loan restructuring, debt repayment, debt relief and debt to equity swap to support and help enterprises tide over difficulties and effectively resolve financial risks. For the enterprises with difficulties that meet the conditions, they can implement debt restructuring measures such as partial debt retention and partial equity conversion, promote the introduction of war investment, implement comprehensive reform and extricate themselves from difficulties, improve the corporate governance structure, tide over difficulties, and achieve a win-win situation between banks and enterprises. For the inferior production capacity and zombie enterprises with long-term losses and hopeless recovery, which have lost business value, we should protect the rights and interests of commercial banks according to law, speed up the exit, realize the overall liquidation by taking such measures as litigation recovery, asset disposal liquidation, recourse to the guarantor, bankruptcy liquidation, and write off the losses formed in the process of disposal. Second, it is necessary to distinguish the different situations of the enterprises under the jurisdiction of the enterprise group, one enterprise and one policy. For the high-quality assets with technology and market under the jurisdiction of the enterprise group, we can help the enterprise get rid of the predicament by introducing strategic investors and restructuring business, assets and debts. For inferior assets such as backward production capacity and zombie enterprises under its jurisdiction, they should be cleared by means of bankruptcy liquidation, disposal and liquidation in accordance with the law. On the basis of full negotiation between banks and enterprises, the debts formed by the group's unified borrowing and repayment or by providing guarantee for the enterprises under its jurisdiction can be solved through debt relief, debt to equity swap, loan restructuring, partial or full release of guarantee liability, etc. Third, for individual debt enterprises that “escape or abolish commercial bank debts in the name of breaking the loan chain”, we should obtain the support of relevant government departments, courts and regulatory departments, and resolutely curb and severely crack down on enterprises' behavior of escaping or abolishing debts.

(2) Give full play to the role of the working mechanism of the debt Commission. Difficult enterprises often involve a number of commercial banks and other financial institutions financing, the amount of debt is huge. Relevant commercial banks shall, in accordance with the notice of the CBRC on doing a good job of the creditor Committee of financial institutions in the banking industry (No. 1196 [2016] of the CBRC), the notice on Further Doing a good job of the creditor Committee of financial institutions in the banking industry (No. 802 [2017] of the CBRC), and the notice on printing and distributing the working procedures of the creditor Committee of financial institutions (Yinbaojianfa [2020] No. 57) requires that the debt commission be established and take concerted action under the framework of the debt Commission, not only taking compulsory measures such as loan withdrawal, loan pressure, litigation and enforcement, but also jointly taking measures such as loan renewal, extension, adjustment of interest rate and interest settlement cycle, so as to reduce the financial cost of enterprises and create conditions for debt restructuring. Carry out due diligence on enterprises, negotiate with relevant parties to determine debt solutions according to the principles of marketization and legalization, guide and help enterprises to introduce strategic investors to implement merger and reorganization, and achieve the goal of multi win for banks, governments and enterprises.

According to the actual work situation, the Debt Committee has played an active role in coordinating all creditor banks to take concerted actions, jointly implementing assistance to difficult enterprises and bank creditor's rights preservation, strengthening communication and cooperation between banks, government and enterprises, and jointly promoting the orderly development of debt restructuring.

(3) Banks, government and enterprises make joint efforts to implement assistance to enterprises in difficulty. Enterprise reform can not only rely on debt restructuring or relief of commercial banks, but should actually take business, asset restructuring, introduction of war investment and so on. With the support of relevant parties, improve production and operation, and restore sound development and profitability. Specifically, relevant government departments should give practical support to enterprises in difficulty in taxation, personnel placement, resource integration and market. Investors should earnestly fulfill their obligations and support the development of enterprises by increasing investment and introducing strategic investors. Enterprises themselves should adjust their business development plans in accordance with the causes of risks, and take practical measures such as disposing invalid assets, reducing staff and increasing efficiency, and strengthening management. At the same time, with the help of bank debt restructuring to reduce the financial burden of enterprises and improve the financial structure of enterprises, the relevant parties of government, banks and enterprises make joint efforts to achieve multi-win results.

## **5. Suggestions**

There are also some difficulties and problems in the practical work of risk assets and debt restructuring of commercial banks: first, the communication and cooperation mechanism between banks, governments and enterprises needs to be strengthened, and the information asymmetry among the government, enterprises and commercial banks leads to the weak initiative and planning of commercial banks. Second, after the implementation of debt restructuring through bankruptcy restructuring process, enterprise audit, asset evaluation, solvency analysis, introduction of strategic investors, negotiation and formulation of debt restructuring (bankruptcy restructuring) scheme are often dominated by the bankruptcy administrator, local government, enterprise authorities and law courts. Commercial banks lack appeal expression mechanism and participation channels, and can only deal with the administrator passively. When the reorganization plan is submitted for voting, the loss is often large. Third, the relevant supporting policies are not perfect, such as: in actual work, the loans of restructured enterprises with debt crisis are still normal and concerned. According to the relevant regulatory provisions, after the restructuring, the form of loans is lowered to the secondary category and can not be increased within six months, resulting in many restrictions on financing, debt issuance, business operation and other aspects after the restructuring, which increases the difficulty for the restructuring business itself. The debt relief of commercial banks is only applicable to non-performing loans, and the debt equity should be disposed within two years. In conclusion, it is suggested that:

(1) Promote effective cooperation between banks, government and enterprises to achieve win-win results. First, promote the exchange and sharing of policy information and enterprise information. It is suggested that the national competent departments should strengthen the sharing of relevant policy information, and the competent departments of enterprises, enterprise shareholders and enterprises should strengthen the sharing of relevant enterprise information, so as to facilitate banks to timely and comprehensively understand the relevant policy information issued by government functional departments, the causes of enterprise risk formation and the actual situation, and facilitate banks to take the initiative, intervene early and actively cooperate to prevent credit risks and reduce losses. Second, promote regular communication and coordination mechanism. In order to give full play to the tripartite strength of banks, government and enterprises to help enterprises in difficulty, it is suggested to set up a key enterprise restructuring coordination committee led by government departments at all levels, with the participation of relevant departments, regulatory agencies, banks and enterprises, to communicate and coordinate regularly, exchange information, and form a joint force. Third, the regulatory authorities gave supervision

support, led the creditor banks to set up difficult corporate debt committees, strengthened guidance and support for bank debt restructuring, and gave appropriate consideration in quality classification, prudential supervision index assessment, macro-prudential policy assessment and performance assessment to support commercial banks in cracking down on corporate debt evasion.

(2) Promote bankruptcy reorganization according to law. It is suggested that creditor banks should take the initiative to participate in the process of enterprise bankruptcy reorganization, support creditor banks to negotiate with enterprises first, and then promote bankruptcy reorganization according to the procedures stipulated in bankruptcy law. Allowing creditor banks to intervene early and improve their participation, such as listening to the opinions of creditor banks on auditing, asset evaluation and solvency analysis of bankrupt enterprises, and involving larger creditor banks in the process of introducing strategic investors, negotiating and formulating bankruptcy reorganization plans, etc., is conducive to the smooth progress of bankruptcy reorganization of enterprises, but also to the preservation of bank creditor's rights, preventing debtors from escaping bank debts through bankruptcy reorganization.

(3) Improve relevant supporting policies. First, improve the relevant measures for debt relief, such as distinguishing the standards and conditions for loan principal relief and loan interest arrears relief, and authorizing commercial banks to independently reduce and approve projects with only interest arrears relief. Second, cancel the restrictions on the classification and observation period of some restructured loans. For the loans with normal and concerned status before reorganization, the loan form of each creditor bank can maintain the original classification form without downward adjustment in the debt restructuring scheme reached under the framework of the debt committee. The bad loans formed before the debt restructuring can be classified and identified by the debt committee according to the actual production and operation, financial and capital situation of the restructured enterprise and seeking truth from facts. All creditor banks are consistent and are not subject to the six-month observation period. Third, the time limit for the disposal of debt-expiated assets should be abolished, and commercial banks should make their own decisions on the timing of disposal according to their own operating conditions and market conditions.

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