

**PRESS RELEASE**

Madrid, 18 March 2014

**Application of Circular 4/2004 to transactions restructured as a result of refinancing agreements envisaged in the Insolvency Law**

The Executive Commission of the Banco de España has today approved a communication to credit institutions setting out uniform criteria on the application of Circular 4/2004 of the Banco de España on financial reporting rules as regards transactions restructured as a result of refinancing agreements regulated by Insolvency Law 22/2003. This communication was drafted to comply with the first additional provision of Royal Decree Law 4/2014 of 7 March 2014 adopting urgent measures on corporate debt refinancing and restructuring.

The Banco de España takes a favourable view of the amended provisions of the Insolvency Law, which are in line with the recommendations made by the International Monetary Fund in its February 2014 report entitled *Financial Sector Program: Final Progress Report*. The reform of the legal framework for refinancing agreements will contribute to lowering Spanish firms' debt and to providing for the continuity of viable concerns, by making it easier for them to develop efficient restructuring processes outside the complex array of insolvency procedures.

The communication sent to the associations representing credit institutions stipulates that, in respect of the accounting treatment of amounts owed after a refinancing agreement regulated by Article 71 bis and by the fourth additional provision of the aforementioned Insolvency Law, in accordance with the criteria set out in Annex IX of Banco de España Circular 4/2004 and having regard to the new options offered by Royal Decree-Law 4/2014 of 7 March 2014, such amounts have to be classified as standard exposures if there are objective reasons for considering it likely that the amounts owed after the refinancing agreement will be recovered. For this purpose, it is particularly important to assess the effect that the debt reductions or conversions of debt into equity included in the agreements will have on the likelihood of recovering the amount owed, taking into account the business plans of the obligor.

If there is evidence that the future cash flows needed to meet the commitments after the refinancing agreement will be insufficient, banks have to classify those transactions as exposures other than standard. However, if the reasons for that classification cease to exist, those transactions may subsequently be reclassified in a better risk category.

The criteria communicated today by the Banco de España concur with those approved by its Executive Commission on 30 April 2013 stipulating that loan refinancing, restructuring, rollover and renegotiation, providing they are used prudently, are instruments for managing risk exposure to

customers facing temporary difficulties.

The letters sent by the Director General of Banking Regulation and Financial Stability to the associations representing the banking sector and the document approved by the Executive Commission are available for consultation [here](#).

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