

## Press release

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### FSB seeks views on policy approaches and market practices to support a smooth transition out of debt overhang issues

The Financial Stability Board (FSB) today published a [discussion paper on debt overhang issues of non-financial corporates in the context of the COVID-19 pandemic](#).

This follows the FSB's report on [COVID-19 support measures](#), published in April 2021, which noted the unprecedented level of debt of non-financial companies, resulting largely from massive credit provision by the public sector (both directly and through loan guarantees) during the pandemic. The report identified debt overhang as a significant risk that could arise from prolonged policy support measures.

Debt overhang of corporates could create a drag on economic recovery of jurisdictions and pose risks to financial stability through: underinvestment by viable corporates due to excessive indebtedness; misallocation of resources to unviable corporates, and lower productivity due to loss of entrepreneurial capacity. There might also be a risk of widespread defaults and insolvencies, giving rise to financial stability risks. Moreover, there is an inherent interconnection between the soundness of lenders and sovereigns.

The discussion paper looks at debt overhang issues from three angles: (i) how to assess companies' viability in the context of COVID-19; (ii) how to facilitate and incentivise timely restructuring and refinancing of the debt of viable companies and how to facilitate exit of unviable companies; and (iii) how to deal with a large number of companies with debt restructuring needs, focusing in particular on small and medium-sized enterprises (SMEs) and micro companies. It refers to several examples of policy approaches put in place in FSB member jurisdictions to date and emerging industry practices. These include the systematic classification of distressed companies and standardised restructuring solutions; mobilisation of private sector resources by building private-public co-funds or by supporting banking sector code of conducts; and speeding up restructuring procedures that involve SMEs.

The discussion paper aims to gather views from the public on the practical extent of debt overhang issues in a post COVID-19 environment and to facilitate a dialogue between financial authorities and external stakeholders, including financial institutions, restructuring experts and borrowers, on emerging policy approaches and market practices that could prove effective to support a smooth transition out of debt overhang issues.

**The FSB welcomes comments on this Discussion Paper and the questions set out below.**

1. *How do creditors or investors assess the viability of a company in the current environment, given the possible transformation of business environment and consumption patterns following the COVID-19 crisis, and considering a need to swiftly process a high number of (re-) assessments as government support measures phase out?*
2. *What type of market-led mechanisms can help determine corporate viability? How could such market-led mechanisms for conducting due diligence be incentivised or supported?*
3. *How can governments and financial authorities create favourable conditions to provide incentives for lenders and debtors to engage in corporate debt restructurings and to allow market exit of non-viable companies in a timely fashion?*
4. *Is there likely to be a need to swiftly process a high number of restructurings as government support measures phase out?*
5. *How can favourable conditions be created to incentivise investors to provide new financing to distressed but viable companies, for example through equity capital and in particular for SMEs? What other (new) forms of market-based financing may be used to address debt overhang issues and how?*
6. *How can public policy support private sector financing for a smooth transition out of the debt distress post COVID? Which forms of public-private partnerships can be considered effective, and under what conditions?*

**Responses should be sent to [fsb@fsb.org](mailto:fsb@fsb.org) by Friday 8 April 2022 with the subject line “Approaches to Debt Overhang Issues of Non-Financial Corporates”. Responses will be published on the FSB’s website unless respondents expressly request otherwise.**

## Notes to editors

The FSB’s April 2021, report on extending, amending and ending COVID-19 support measures highlighted concerns around debt overhang from prolonged policy support measures. The FSB’s report on Lessons Learnt from the COVID-19 Pandemic from a Financial Stability Perspective, also noted debt overhang as one of the broader policy issues warranting attention and indicated that the FSB would study possible approaches to dealing with debt overhang issues.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, [www.fsb.org](http://www.fsb.org).