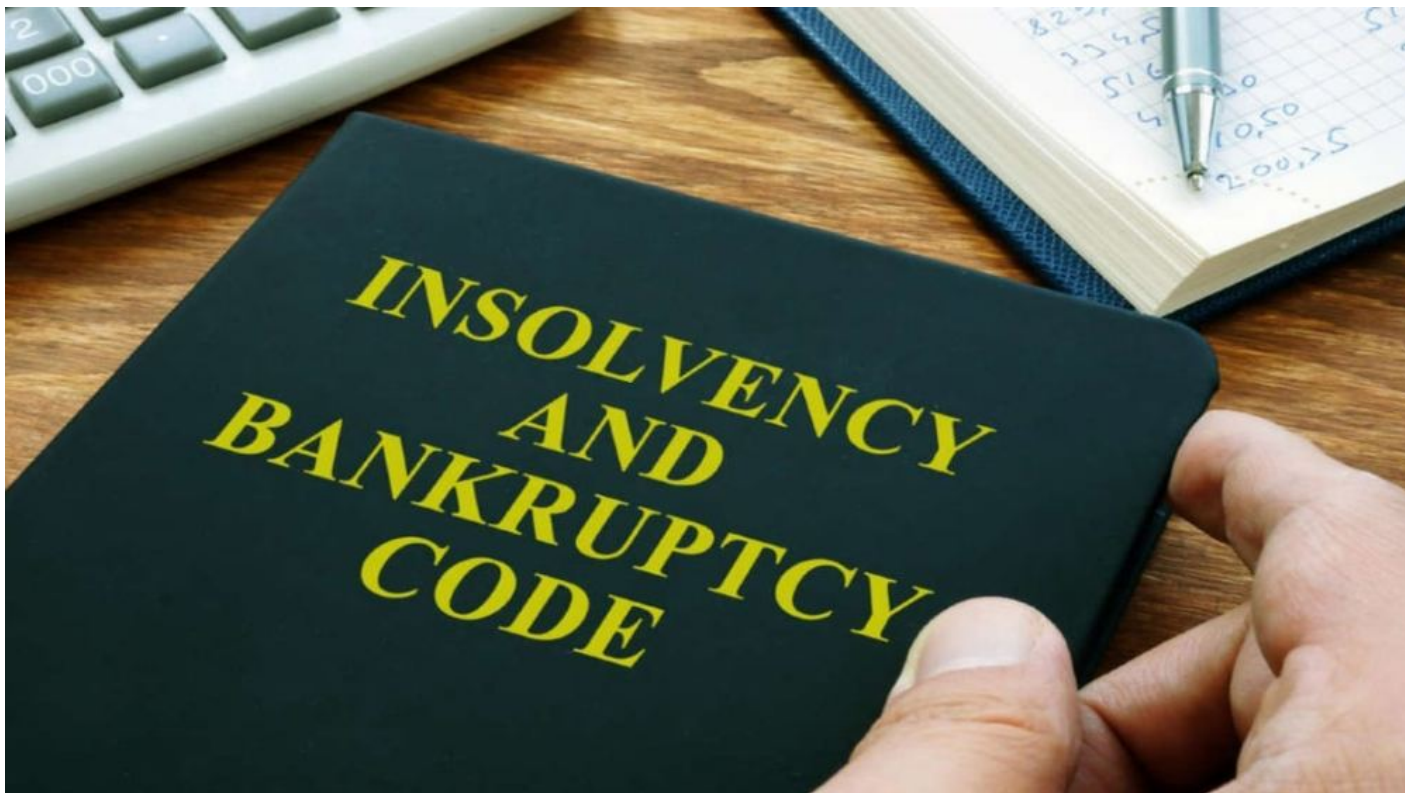


## **Insolvency & Bankruptcy Code (IBC)**

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### **What's in today's article?**

- **Why in News?**
- **Background of IBC**
- **What is the Insolvency and Bankruptcy Code (IBC)?**
- **What is the mandate of the IBC?**
- **What is the timeframe for completion of the exercise under the code?**
- **Who regulates the IBC proceedings?**
- **News Summary**

### **Why in News?**

- The Ministry of Corporate Affairs (MCA) has proposed sweeping changes to the Insolvency and Bankruptcy Code.
- The Ministry aims to bring more technology, transparency, and speediness to the corporate insolvency resolution process.

## Background of IBC

- In a growing economy like India, a healthy credit flow and generation of new capital are essential, and when a company or business turns insolvent or “sick”, it begins to default on its loans.
- In order for credit to not get stuck in the system or turn into bad loans, it is important that banks or creditors are able to recover as much as possible from the defaulter and as quickly as they can.
- The business can either get a chance, if still viable, to start afresh with new owners, or its assets can be liquidated or sold off in a timely manner.
- This way fresh credit can be pumped into the system and the value degeneration of assets can be minimised.

## What is the Insolvency and Bankruptcy Code (IBC)?

- In 2016, at a time when India’s Non-Performing Assets and debt defaults were piling up, the **Insolvency and Bankruptcy Code (IBC) code was introduced to overhaul the corporate distress resolution regime in India and consolidate previously available laws to create a comprehensive time-bound mechanism.**
  - Insolvency resolution in India took 4.3 years on an average.
  - In comparison, countries such as UK and USA took 1 year and 1.5 years, respectively.
- The **Insolvency and Bankruptcy Code 2016** was implemented through an act of Parliament.
- The Code aims to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

## What is the Mandate of the IBC?

- When insolvency is triggered under the IBC, there can be two outcomes: **resolution** or **liquidation**.
- All attempts are made to resolve the insolvency by either coming up with a restructuring or new ownership plan and if resolution attempts fail, the company’s assets are liquidated.

## What is the Timeframe for Completion of the Exercise under the Code?

- Companies have to complete the entire insolvency exercise **within 180 days** under the IBC.
- The deadline may be extended if the creditors do not raise objections on the extension.
- For smaller companies including startups with an annual turnover of Rs 1 crore, the whole exercise of insolvency must be completed within 90 days.

## Who Regulates the IBC Proceedings?

- **Insolvency and Bankruptcy Board of India (IBBI)** has been appointed as a regulator and it can oversee these proceedings.
- IBBI has 10 members; from Finance Ministry, Law Ministry and the Reserve Bank of India.

## News Summary

Image Captions: Proposed Changes to IBC Code

- The Ministry of Corporate Affairs (MCA) has proposed sweeping changes to the Insolvency and Bankruptcy Code.
  - **The draft proposal gives the following powers to the IBBI -**
    - Allows mandatory admission of insolvency applications filed by financial creditors (FCs),
    - Seeks specialised framework for real estate providing major relief to allottees, and
    - Looks at expanding the scope of pre-packaged insolvency scheme beyond MSMEs.
  - The proposal also aims to **boost the power of the Insolvency and Bankruptcy Board of India to issue a show cause notice without inspection or investigation**, if sufficient material is available on record.
  - Public comments on these changes are invited by February 7.
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### Q1) What is a Non-Performing Asset (NPA)?

A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

### Q2) What is Insolvency in Business?

Insolvency is a state of financial distress in which a person or business is unable to pay their debts. Insolvency in a company can arise from various situations that lead to poor cash flow. When faced with insolvency, a business or individual can contact creditors directly and restructure debts to pay them off.

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**Source:** [IBC overhaul seeks to give adjudicating authority a power boost](#) | [Hindu](#)

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Source: <https://vajiramandravi.com/current-affairs/insolvency-bankruptcy-code-ibc/>

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