Extension of IBC Suspension

Why in news?

The government has decided to extend the suspension of the Insolvency and Bankruptcy Code (IBC) till March 31, 2021, which was due to expire on 25 December 2020.

Why was IBC process suspended?

- The COVID-19-triggered lockdown has affected the economy badly.
- So the government raised the threshold of loan defaults for initiating the insolvency proceedings, from the first lockdown (March 2020).
    - It was raised from Rs. 1 lakh to Rs. 1 crore.
- Later, an ordinance was passed in June 2020.
- It indefinitely barred the initiation of insolvency proceedings both, voluntarily or by creditors, for defaults arising on or after March 25, 2020.
- The IBC was thus kept in abeyance for a period of six months. It was later extended till 25 December 2020.
- The objective was to prevent companies at large from being forced into the insolvency process for an unavoidable default.

What are the concerns with extension?

- Suspending the IBC provisions again will burden the banks further.
- Any further suspension will cause financial stress and make restructuring and recovery of bad loans harder.
- Earlier, government said that economic indicators are returning to pre-COVID-19 levels in several sectors.
- The suspension is thus in contrast with the government's claim of V-shaped economic recovery.
- Suspension also cuts off businesses' ability to voluntarily enter insolvency.
- Notably, for many firms, post-COVID-19 operations may not seem viable.
- Denying them an exit route so as to cut their losses, while their assets lose value, is a lose-lose proposition for both borrower and lender.

What is the way forward?

- The current systemic stress should not undermine the future growth.
- Nuanced approach has to be adopted by taking into consideration all the

stakeholders - banks, businesses and the economy.

- The government has to find out which sectors are in trouble.
- Businesses that are not competitive in the sectors that are recovering no longer need sheltering.
- If the government is concerned about small and medium businesses, it could tweak the default threshold limits according to them.
- On the other hand, it should let bankruptcy processes function again for larger loan accounts.

Source: The Hindu

