Progress of Insolvency and Bankruptcy Code

What is the Insolvency and Bankruptcy Code?

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- It was passed in 2016.
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- It was formulated to make the process of shutting down and exiting a business easier and less time-consuming.
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- India currents ranks 130th overall — out of 189 countries — and 136th on the parameter of ‘resolving insolvency’, with the World Bank saying it takes four years to resolve a bankruptcy case.
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- The code was also expected to improve India’s rankings in the World Bank’s ease of doing business index.
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How does the Insolvency Code operate?

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- When a firm defaults on its debt, its control will shift to a committee of creditors.
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- The committee will have 180 days to evaluate proposals from various interested parties on how to either resuscitate the company or enable liquidation.
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- The code has provisions for the creation of ‘insolvency professionals’ who would handle the commercial aspects of the resolution process.
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- Insolvency professional agencies will train and regulate these professionals.
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- The Debt Recovery Tribunal act as adjudicating authorities for individuals and unlimited partnership firms and National Company Law Tribunal for companies and limited liability entities.
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- Insolvency and Bankruptcy Board of India will be the overall regulator.
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What is the progress so far?

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- The government has completed the tasks it had to carry out towards the implementation of the code.
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- But the private sector is yet to participate.
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- The Insolvency and Bankruptcy Board of India has been created, but the progress in creating insolvency professional agencies, and in recruiting insolvency professionals, has been minimal so far.
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What is the reason for the delay?

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- The entire matter of insolvency is inextricably tied to the non-performing assets (NPA) issue.
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- Many companies may be plagued by the non-payment of dues.
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- Only after their assets are rationalised, through the NPA-linked initiatives taken by the RBI, can they be wound up.
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- The RBI will look at them on a case-by-case basis, which means that the entire process will take time.
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Source: The Hindu

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