Significance of Amendments in IBC

Why in news?

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Union Cabinet approved an Ordinance to amend Insolvency and Bankruptcy Code (IBC).

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What was the significance of amendments made in the IBC?

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- The Ordinance was passed to ameliorate the effect of IBC proceedings on the real estate sector and small and medium enterprises (SMEs).
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- As both these sectors are major sources of growth in the Indian economy.
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- This amendment will increase the stability and transparency in the real estate sector and it’s a step towards government’s aim of 'housing for all' by 2022.
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- Another major amendment was done in the Real Estate (Regulation and Development) Act of 2016 to grow and modernise the real estate sector which will increase thesecurity for home-buyers.
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- The concerns of the SMEs’ have been addressed by allowing promoters of companies with turnover up to Rs 2.5 billion to bid during the IBC process.
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- Also restrictions on promoters’ bids have been put in place in order to ensure that they do not game the system to their advantage.
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What are the other challenges?

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- After the amendment, Home buyers will be treated as financial creditors

whose representatives must approve the resolution plans for the company that has been taken to the NCLT.
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- This will affect the autonomy of the Banks as the home-buyers might seize control of the process, given their shares in investment.
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- It is also unclear how the representative of home-buyers will be chosen, and what it means for the effectiveness and smooth functioning of the committee of creditors.
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- But these restrictions might also affect the SMEs and force many companies to go into liquidation with a consequent loss in value.
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Source: Business Standard

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