TEACHING CASE LETS AND CASE-STUDY

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IBC: the banking industry's double-edged sword.

The government provided much-needed relief to cash-strapped businesses during this trying COVID-19 pandemic period. Our finance minister, Nirmala Sitharaman, first announced the plan to halt the insolvency process on May 17. On June 3, the Union Cabinet approved the plan to halt the Insolvency and Bankruptcy Code (IBC) process for six months, with the option to extend it for a year. In addition to significantly hurting their balance sheet and briefly depriving them of a reliable method of bad debt settlement, this could have a significant negative impact on financial and operational creditors. Lenders might be compelled to request regulatory leniency regarding capital requirements and provisioning. However, an Ordinance to implement the change is probably going to be issued soon by the government.

The FM had previously stated that a unique resolution mechanism for micro, small, and medium-sized businesses (MSMEs) was being developed by the government. The government had previously declared that the threshold for declaring bankruptcy would rise from Rs 1 lakh to Rs 1 crore. "All COVID-related debt" would be excluded from the IBC's definition of default. To further assist businesses that were unable to repay their loans because to the epidemic.

"The moratorium period will be excluded from the classification of non-performing assets," the RBI said in a statement. Therefore, until August 31, a business that takes advantage of the moratorium won't be labelled as having a bad loan.

Experts in the field support the initiative since it should enable businesses to resume operations without worrying about being forced into bankruptcy. Legal experts suggested that the government permit MSMEs to use pre-packaged insolvency resolution solutions, which are used in the US and the UK. Before filing for bankruptcy, the financially troubled company and its creditors reach an arrangement with a buyer under such a plan. Additionally, several experts predicted that banks' provisioning would rise as a result of the one-year moratorium on the start of new insolvency proceedings. Credit quality had already declined due to the economic downturn even prior to the pandemic. There can be unforeseen repercussions if defaults are completely suspended due to COVID. Questions such as what is the parallel resolution regime and why an entity should not declare itself insolvent should be asked. What structure may creditors use to develop a workable resolution plan that does not use IBC? Remain unanswered indefinitely."

This will undoubtedly help businesses that sincerely wish to emerge from a recession or slowdown, but in the end, it will hurt financial institutions' chances of recovering from defaults that are currently underway as well as those in which the accounts have already been declared non-performing assets.

Discuss.

1. Are you in the favour of government suspending Insolvency process for a year?
2. Brief the process of IBC in detail

3 What could be the resolution plan for Banks if NPA increases?

4 As measure has been taken in view of the disruption caused due to the COVID crisis and increased minimum default threshold to its maximum capacity, i.e., Rs 1,00,00,000/- what could be the possible issues?