

## **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**

