

## **Improving IBC**

### **What is the issue?**

\n\n

\n

- Insolvency and bankruptcy code (IBC) was introduced to address the bad debt issues.

\n

- But there are some areas of concern which allows existing promoters to game the system.

\n

\n\n

### **What is the significance of IBC?**

\n\n

\n

- As the Indian financial sector faces a serious problem with bad debt, a ray of hope on the horizon is the modern insolvency process.

\n

- The mechanism is closely supervised and time-bound, and the first test cases are winding their way through it at the moment.

\n

- It is generally hoped that the new law will permit speedy and efficient resolution of many such cases.

\n

- In appropriate ones, assets will be revived under new management.

\n

- This will help clean up the private sector in a sense with weak promoters, owners and managers being replaced by new ones who will turn some of these distressed assets into profitable ventures.

\n

\n\n

### **What are the areas of concern?**

\n\n

\n

- If even after this new process, it appears that existing promoters of troubled companies somehow manage to retain control or have some sort of advantage in the retention of such control.  
\n
- There are increasing number of voices raised that the system could be gamed by existing promoters.  
\n
- Naturally, if the existing promoter is the best or the only possible alternative, and all that is needed is a reasonable renegotiation of terms, then banks are perfectly justified in considering that option.  
\n
- Certainly, this is not illegal under the insolvency and bankruptcy procedure.  
\n
- However, it is imperative to have a mechanism to ensure there is, in fact, no undue preference being accorded to existing owners.  
\n
- That will only kick the problem of bad loans down the road, precisely what the new insolvency law is designed to avoid.  
\n

\n\n

## **What needs to be done?**

\n\n

- Banks, must ensure the widest possible set of management and ownership structures is considered.  
\n
- The priority must be not just the preservation of capital in each case but also its efficient management in the future.  
\n
- If the former owner makes the best bid for a stressed asset then the second best bidder should be asked if he is willing to match it and, if so, he should be allowed to take over.  
\n
- Such a setup will ensure that the system is not being gamed by the existing owners while also not foreclosing any opportunity for reviving an asset that has a possibility of recovery.  
\n
- The recovery from the slowdown requires banks to take reasonable haircuts while preserving capital.  
\n

\n\n

\n\n

**Source: Business Standard**

\n

