

Govt must introduce amendments to strengthen IBC in the long run: ICRA

OUR BUREAU

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There is merit in the government putting in place strong deterrents - ranging from a penalty amount to debarring the resolution applicant from participating in any future corporate insolvency resolution plan (CIRP) - to ensure that resolution applicants do not default on their proposed plans, according to credit rating agency ICRA.

High economic costs

This suggestion comes in view of the high economic costs that are to be borne in case of a failed CIRP. The penalty could be linked to the realisation promised to cred-

itors under the resolution plan.

"Such deterrents would make resolution applicants more cautious as well as sincere at the time of submission of their resolution plans.

"It would also reduce the instances of completed CIRPs being brought back to the National Company Law Tribunal (NCLT) benches that are already overburdened with cases," said ICRA in a statement.

Nonetheless, any such amendment would also have to ensure that the culpability of the resolution applicant is established before being penalised, for there could be in-

stances where the resolution applicant has reasonable grounds to justify its actions, such as inaccuracy of information provided during the CIRP, the statement added.

Abhishek Dafria, Vice-President and Co-Head, Corporate Ratings, ICRA, said: "While we foresee further legal wrangles emerging from such failed resolution plans, that should not discourage the government from bringing in the required amendments that would only strengthen the IBC in the long run.

"Introducing such amendments in a timely manner is also critical, as the number of ongoing CIRPs is increasing

each quarter, and thus would lend some support to timely closure of the process."

ICRA estimated that till date about 600 cases have been closed under the Insolvency and Bankruptcy Code (IBC) by the various NCLT benches, though only 82 CIRPs yielded a resolution plan. In addition, three concluded CIRPs were brought back to the NCLT and were subsequently ordered into liquidation.

The agency said this delay in the process clogs the system and negatively impacts the creditors, as it delays the receipt of the cash flows. The IBC has been in operation for more than two years.