

Insolvency & Bankruptcy code: Govt. looking at ways to avoid frivolous bids

The government is looking at ways to ensure 'frivolous bids' are not placed under the insolvency and bankruptcy code (IBC), according to Corporate Affairs Secretary Injeti Srinivas. The government was mulling whether criminal proceedings should be initiated against those not implementing resolution plans or they should be barred from bidding for any other company undergoing resolution under the IBC, Srinivas said on Tuesday.

Another thought within the government for stopping frivolous bids is to get a defaulting applicant to pay for the costs incurred during resolution. Business Standard had reported earlier that the government was planning to find a way to bar those not honouring the order of the National Company Law Tribunal (NCLT) on resolution plans. In the recent past, there have been cases where resolution applicants have refused to pay up after the plan being approved by NCLT.

Also, Srinivas said pre-packaged resolution would be in place in two years' time. It had been first reported by Business Standard that the government was considering a pre-packaged insolvency regime. Srinivas also said that Section 12(A) allowed out-of-court settlement if 90 per cent lenders allowed the withdrawal of the insolvency application against a borrower in the pre-pack insolvency arrangement, but the UK insolvency law on this kind of arrangements needed NCLT's approval. Srinivas said: "It will take time to reach the UK model but that is being worked out."

The government is looking at group insolvency, as the actual borrowing in many companies is found at the subsidiaries and not the parent company. Since the inception of the IBC, borrowers were becoming conscious of loans they had taken, said Srinivas, adding that at the time of insolvency proceedings being triggered against a company, Rs 2 trillion worth of loans had been settled out of court. Under the insolvency regime, around Rs 3 trillion has been recovered. Srinivas added that 4,500 companies had seen resolution under the code, and that he was of the view that banks and corporates both were appraising the loan by checking its viability.

(Business Standard)