

Making the IBC work: the role of the professional

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Presentation at the Golden Jubilee Year National Convention of
Companies Secretaries

September 1, 2018

The aim of the law

*... reorganisation and insolvency resolution of corporate persons, partnership firms and individuals in a **time bound** manner for **maximisation of value** of assets ... to promote entrepreneurship, **availability of credit** and balance the interest of all stakeholders ...*

1. Time bound insolvency resolution
2. Maximisation of value
3. Availability of credit

How well is it working?

Keeping a time bound manner

Felman et al, 2018:

Month	Others (avg time (days))				RBI-12 (avg time (days))		
	Cases	Liquidation ¹	Resolution ²	Ongoing ³	Cases	Resolution ⁴	Ongoing ⁵
Jan-17	7	4 (282)	2 (235)	1 (546)	-	-	-
Feb-17	10	5 (219)	2 (251)	3 (519)	-	-	-
Mar-17	14	9 (314)	1 (273)	4 (489)	-	-	-
Apr-17	24	10 (314)	4 (261)	10 (465)	-	-	-
May-17	30	15 (283)	4 (230)	11 (438)	-	-	-
Jun-17	36	16 (263)	3 (250)	17 (401)	-	-	-
Jul-17	38	12 (233)	2 (245)	19 (372)	5	2 (312)	3 (367)
Aug-17	83	20 (221)	3 (170)	54 (344)	6	2 (321)	4 (349)
Sept-17	94	19 (220)	1 (160)	74 (310)	-	-	-
Oct-17	41	10 (181)		31 (283)	-	-	-
Nov-17	49	6 (199)		43 (251)	-	-	-
Dec-17	57	8 (181)		49 (223)	-	-	-
Total	472	134 (242)	22 (233)	316 (314)	11	4 (316)	7 (358)

Source: IBBI

We have only begun

There is an Indian balance sheet crisis

- ▶ We think we know the worst:
First, there was the RBI-12. Then came the 48.
But after this the problem is **not** largely solved.

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- ▶ We think we know the worst:

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But after this the problem is **not** largely solved.

- ▶ Problem of the private non-financial firms in India.

If a firm is “Stressed” when $ICR < 1.5$ in 2014-15 and in 2015-16, then we have:

Parameter	All firms	Stressed firms
Number	8,275	3,296
Total borrowing (Rs. Trillion)	30.04	16.89
Bank borrowing (Rs. Trillion)	16.28	9.50
Share in India's non-food credit	20.91	12.2

- ▶ 3,296 stressed firms add up to 12.2% of the total non-food credit of India.

Given the difficulties of the overall economy, things could be worse today.

The need to be prepare

- ▶ There is a lot waiting to be done in bringing bad assets into IBC.
- ▶ The IBC ecosystem is slowly but surely finding it's feet. But the pace is slower than the likely pace of the problems to break going forward.
- ▶ Two broad lines of attack:
 1. Build the knowledge environment.
 2. Build on nine paths of IBC reforms.

The IBC reforms handles

Shah Thomas, 2017: Nine handles on insolvency and bankruptcy reforms

1. Law
2. Regulations
3. IBBI
4. IUs
5. IPs and support (insurance, valuers)
6. IPAs
7. The adjudicating authority
8. Creditors
9. The resolvers

Keeping the reforms moving

1. Law

- ▶ A principle based approach to change. (Example, '29 A')
- ▶ Regulation vs. the law?
(Example, freedom to trade debt during IRP, freedom to sell business units for financing, freedom to resolve conglomerates.)

2. Regulations: trade-offs between responsive, developing competitive markets and business uncertainty

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2. Regulations: trade-offs between responsive, developing competitive markets and business uncertainty

3. IBBI: increase capacity – human resources

4. IUs: Need this industry NOW – re-assess regulatory barriers; coordination across regulators

5. IPs and support (insurance, valuers): increase capacity

6. IPAs: Clarify role of IPA vs. role of IBBI.

7. The adjudicating authority: increase capacity – human resources and the simpler problem of better court administration

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8. Creditors: CoC.

9. Resolvers: stressed asset managers, bond traders.

Thank you.

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