

Benchmarks &gt;

Nifty  LIVE  
11,592.70 -5.55

NSE Gainer-Large Cap &gt;

Marico  
364.35 24.75

Precious Metal &gt;

Gold (MCX) (Rs/10g.)  
31,588.00 25.00Stock Analysis, IPO, Mutual  
Funds, Bonds & More

Market Watch

# RBI weighs incentives for banks to move IBC

BY SUGATA GHOSH, ET BUREAU | UPDATED: MAY 06, 2019, 09.23 AM IST

Post a Comment

MUMBAI: The Reserve Bank of India (RBI) is understood to be weighing a plan to 'incentivise' lenders to take errant borrowers to bankruptcy court.

**Big Change:**  
The end of Five-Year Plans: All you need to know

It's part of the regulatory countermove that RBI is working on to overcome hurdles in the wake of a recent Supreme Court ruling. A month ago, the apex court struck down RBI's February 12, 2018 directive that gave defaulting companies 180 days to agree on a resolution plan with lenders or be taken to bankruptcy court to recover debt of Rs 2,000 crore and above.

According to people aware of the matter, RBI is considering a proposal to assign a 'lower risk weight' on loans to companies against which action has been initiated under the Insolvency & Bankruptcy Code (IBC) of 2016.

"A lower risk weight would act as an incentive to banks as it would help them in conserving capital. It would be a regulatory change that would be very much within RBI's domain," a person familiar with the proposal told ET.

Lower risk weights on loans would make it easier for banks to achieve and maintain capital adequacy ratio.

## Action Plan to Salvage Sunk Loans

Capital adequacy ratio determines the quantum of loan a bank can disburse at a given level of capital (i.e, equity and free reserves). A bank has to live with a string of business restrictions if its capital adequacy slips below the floor set by the regulator.

"A lower risk weights on IBC companies should be an acceptable regulation — simply because initiating corporate insolvency is a step towards resolution of NPAs (non-performing assets)," said a senior banker.

After the apex court ruled that the February 12, 2018 circular was beyond the scope of the RBI's powers, the regulator has been working on a new framework for debt resolution and invoking the corporate insolvency code. "Since it would not be possible (post the court ruling) for RBI to fix a deadline of 180 days or even 1 year (from the day of default) for banks to invoke the insolvency law, it's thinking of ways to incentivise lenders for using the IBC," said a banker. Under the circumstances lower risk weights could be an element in the new action plan to salvage sunk loans.

**Incentivising Debt Recovery**

**Till recently banks** relied on RBI's Feb 2018 circular to tackle NPAs

**In April, SC ruled** that RBI cannot issue such a circular

**RBI now working** on a new circular to resolve NPAs

**One of the proposals** is to lower the risk weights on loans

**This would make it easier** for banks to achieve and maintain capital adequacy ratio

**A bank faces a string of business restrictions** if its capital adequacy slips below the floor set by RBI

ET's email to an RBI spokesperson went unanswered till the time of going to press.

According to the insolvency law, any financial creditor (among other creditors) can file an insolvency petition before the National Company Law Tribunal (NCLT) which was formed to resolve corporate disputes, improve ease of doing business, and enable quicker implementation of the bankruptcy code. Within 14 days, the tribunal has to pass an order for insolvency resolution. Once NCLT passes its order, the seriousness of the code becomes apparent: an insolvency practitioner steps in to take possession of the company's assets, replace the board with a committee of creditors, issue public notices, and run the company as a going concern. In the next 180 days, which can be stretched by another 90 days, a resolution package comprising a debt rejig, entry of new investors, infusion of fund by

promoters, among other conditions is drawn up. The company goes into liquidation if either the management or creditors with at least 75% of the outstanding loans turn down the revival package.

There is a widely shared perception that the culture of loan recovery and repayment that IBC was beginning to inculcate would suffer following the Supreme Court ruling because neither lenders would be forced to move bankruptcy court nor corporates would be under pressure to regularise loan servicing.

RBI had often raised or lowered risk weights on loans to either deter loans to certain businesses such as stock broking, real estate and commodities, or encourage lending to segments like agriculture. (If risk weight on a loan is 75% and capital adequacy is 9%, the minimum capital a bank needs for a loan portfolio of Rs100 crore is Rs 6.75 crore ( $100 * 0.75 * 0.09$ ).

Stay on top of business news with The Economic Times App. [Download it Now!](#)