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Market Watch

Creditors can choose to stop supplies to companies under IBC: House Panel

BY ET BUREAU | MAR 05, 2020, 08.17 AM IST

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New Delhi: A parliamentary panel said suppliers of a company cannot be burdened with “overly restrictive conditions” in the hope of a probable revival under the Insolvency and Bankruptcy Code (IBC).

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In a report on proposed [amendments](#) to the Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019, the standing committee on finance, chaired by [BJP](#) member [Jayant Sinha](#), expressed hope of recovery percentage increasing significantly in the near future.

Out of claims of around Rs 8.4 lakh crore, the realisable amount is about Rs 3.57 lakh crore, or 43% of the total claims under the code, said the report.

One of the proposed amendments pertains to supply of goods and services to protect a company as a going concern during the insolvency resolution period. The panel said it was concerned that the intent behind this proposed amendment might turn into a case of over-regulation of suppliers, particularly from micro, small and medium enterprises ([MSME](#)).

“The committee feels that just to make the IBC process smoother and in hope of a probable revival, suppliers cannot be burdened with overly restrictive conditions,” said the report.

The panel said market forces should resolve whether a supplier decides to supply to a corporate debtor, since each supplier has a limited capacity which must be allocated in the best interest of the economy, instead of keeping the debtor alive.

Payments due to MSME, who are operational creditors not included in the committee of creditors, should be ensured on priority during resolution process before liquidation, according to the panel. "The committee would therefore recommend that the Clause 5(b) (2A) should accordingly be deleted," it said.

The clause broadly refers to the supply of goods or services that a resolution professional considers critical for managing the operations of a corporate debtor as a going concern should not be terminated during the moratorium period.

The panel also said that a much more strategic approach to strengthening the insolvency framework is required and that it intends to conduct further hearings in this regard.

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