During the insolvency resolution process, the creditors (typically banks, financial institutions, or other lenders) form a Committee of Creditors (CoC). The CoC is responsible for evaluating and deciding on the resolution plan proposed by potential buyers or investors to revive the insolvent company.
Once the CoC reaches a decision on the resolution plan, this decision needs to be formally approved and legally validated by the Adjudicating Authority.
The phrase "sign on the creditor's ultimate judgement" means that the Adjudicating Authority will review and give its formal approval (or "sign off") on the resolution plan that the creditors have decided upon. This approval is necessary for the plan to be implemented legally.
In essence, the Adjudicating Authority's role is to ensure that the decision made by the creditors is fair, legal, and in accordance with the provisions of the IBC before it is finalized and put into action.

Economics Class 38

INSOLVENCY AND BANKRUPTCY CODE (IBC) (09:02 AM)

- It is one one-stop scheme for resolving insolvency procedures which was formerly a time-consuming process.
- IBC protects small investors' interests along with making the business process easier.
- Insolvency is a condition in which a debtor is not able to pay the debt and the bankruptcy procedure is the legal process that involves an insolvent person or company that is unable to pay the debt.
- IBC establishes a faster insolvency procedure to assess creditors such as banks in recovering debts and avoiding bad loans which are a major drag on the economy.
- The code establishes a new legal structure focusing on a time-bound resolution process and a faster liquidation mechanism.
- The **framework consists of the following mechanism:**
- **Adjudicating Authority-** They will start the resolution procedure, appoint insolvency professionals and also sign on the creditor's ultimate judgement.
- NCLT is the deciding authority for companies and DRT handles individuals and partnership firms.
- **Insolvency professionals-** They will be in charge of the resolution process and they also handle debtor's assets and provide information to creditors to help them make appropriate decisions.
- **Insolvency Professional Agency-** Insolvency practitioners will be registered with the professional agency. A code of conduct would be enforced by these agencies.
- **Information utility centre-** They will maintain track of the debtor and facilitate important information for conducting the IBC procedure.

NCLT: National Company Law Tribuna

DRT: Debt Recovery Tribunal

Insolvency Professionals (IPs) are licensed individuals or entities authorized to act as intermediaries in the resolution of insolvency and bankruptcy cases. They play a crucial role in the insolvency and bankruptcy process by managing the affairs of a debtor, assisting in the restructuring of debt, or overseeing the liquidation of assets to pay off creditors. In India, Insolvency Professionals are regulated by the Insolvency and Bankruptcy Board of India (IBBI) under the Insolvency and Bankruptcy Code, 2016 (IBC).

- **Insolvency and Bankruptcy Board-** It will oversee insolvency experts, professional agencies and information utility centres. It is a regulatory authority for insolvency and bankruptcy proceedings.
- The goal of the insolvency and bankruptcy board is to address insolvencies within the time limit. The companies are subject to a 180-day moratorium which can be extended up to 270 days (currently 330 days).
- The resolution time frame for startups and small businesses is 90 days which can be extended by another 45 days.
- **Benefits of IBC**
- Addressing the NPA problem.
- Faster resolution mechanism.
- It ensures a credit discipline mechanism.
- Improves financial health and ease of doing business.
- Increased certainty and reduced complexities will drive economic growth and investments.
- **Challenges**
- **Haircut-** It is the debt foregone by the lender on the total outstanding claim.
- Huge delays in the resolution process.
- **Poor approval rates-** NCLT has approved only 15% of corporate insolvency cases from 2016 to 2019. ← According to IBB.
- The lack of digitalisation has led to delays beyond the statutory limit in the insolvency resolution process.

Insolvency and Bankruptcy Board

- Greater emphasis on liquidation rather than revival. As per IBB data for 3400 cases in the last 6 years, more than 50% of cases ended in liquidation, while only 14% of the cases found a proper resolution.

According to five year data given in 2022 says it takes 772 days instead of 330 days.

Greater emphasis on liquidation rather than revival: This means that in many insolvency cases, the focus has been more on liquidating the company's assets (selling them off to pay creditors) rather than trying to revive or restructure the company to keep it operational.

INTEREST COVERAGE RATIO (ICR) (09:40 AM)

- Banks and companies are interdependent companies i.e. the loans given by banks are often necessary for the growth of the company.
- However, loans are high-risk activity as they can increase NPAs and therefore financial institutions like banks check the availability of corporate firms to repay debt before sanctioning loans.
- Banks use different parameters to distinguish firms from weak firms and one such parameter is ICR.
- ICR is the debt and profitability ratio used to determine how easily a firm can pay or cover the interest on its outstanding debt. This ratio measures how many times a company can cover its interest payments with its available earnings.
- ICR= Profits/ interest to be paid. For e.g., if a company's earnings before taxes and interest is rs 100 and the total interest payment requirement is rs 50, then the ICR of the firm is 100/50= 2.
- There is no universally accepted optimal ICR but an ICR of at least 2 is generally preferred. Highly productive companies can have an ICR of about 10. If a company has a low ICR, there is a high chance that the company will not be able to service its debt. This will put the firm at risk of insolvency.

MONEY (09:58 AM)

- In earlier times when there was no concept of money and banking, people used a barter system of exchange. They exchanged commodities.
- **Major problems of barter system-**
- **1) Double coincidence of wants-** Everyone must find a person who is willing to buy what they are willing to sell and a person who is willing to sell what they want to buy.
- 2) Difficult to carry forward wealth
- 3) Absence of a standard unit of account
- **Money** is the most commonly accepted medium of exchange i.e. any object that is generally accepted as means of payment. Currency in the form of notes or coins is one type of money.
- **Functions of money-**
- 1) It acts as a medium of exchange.
- 2) A common measure of value.
- 3) Store of value.
- 4) It acts as a standard for deferred payment.
- **Types of Money**
- **Full-bodied money -** Money whose face value is equivalent to its intrinsic value. Full values are embedded in the currency itself.
- **Token Money-** Its value as money is much more than its value as a commodity.
- **Representative full-bodied paper money (convertible money)-** It is a type of paper money that is issued against an equivalent amount of gold/silver by the issuing authority.
- Anyone who holds this type of paper money can go to the central bank and get it converted to an equivalent amount of gold or silver i.e. This paper money can be converted to full-bodied money and therefore, it is called convertible money.

for example dollar is used in India. In this case a person has no obligation to accept this money in India.

- **Inconvertible money-** This type of paper money can not be converted to an equivalent amount of gold or silver i.e. no obligation on the central bank to convert it. RBI has no such obligation to convert representative paper money to an equivalent amount of gold and silver.
- **Fiat system-** Fiat means order. It serves as money on the order of the government. This type of money is issued without any backing of an equivalent amount of gold and silver. There is no obligation on any person to accept this money as a medium of exchange. No legal action can be initiated in this case.
- **Legal tender-** It is compulsory to accept legal tender this type of money for the settlement of any monetary obligation. Legal tender is the money that is recognised by the law of the land as valid for payment of debt. Similarly, it must be accepted for the discharge of debt.
- RBI Act 1934 which gives the central bank the sole right to issue bank notes states that every bank note shall be legal tender at any place in India in payment for the amount expressed therein. Hence the govt can issue fiat money and can declare it to be a legal tender.
- The coins issued by govt of India under the Coinage Act 2011 are legal tenders. The one rupee note issued by the Ministry of Finance under the Currency Ordinance 1940 is legal tender. Every bank note issued by RBI under the RBI Act 1934 is legal tender unless withdrawn from circulation.
- **Types of legal tender-**
- 1) Limited legal tender money- It is compulsory to accept this as a means of payment only up to a certain limit. 50 paisa coins can not be used to make a payment beyond 10 rs.
- 2) Unlimited legal tender money- Currency notes are unlimited legal tenders and can be offered as payment of dues of any size.

- **Fiduciary money (Non-Legal tender)-** This type of money is accepted on the basis of trust between the payee and payer. E.g. Cheque. One is not bound to accept it legally but when there is trust between parties cheques are accepted as a mode of payment.
- **Near money or Quasi money-** It refers to highly liquid assets that can be quickly converted into cash. E.g. Fixed Deposit, Demand draft.

CREATION OF MONEY (11:25 AM)

- **Assets and Liabilities of RBI**
- Currency is issued by RBI under the RBI Act, of 1934 and when RBI is issuing money, its assets should generally match with its liability.
- **Assets-**
- Govt securities through which Govt borrows money from RBI and returns principle and interests,
- Gold
- Foreign securities
- One rupee notes and coin which RBI circulates as an agent of the govt.
- **Liability-**
- All currency notes except one rupee note and coins
- Currency held by the public
- Currency held by banks in vault cash
- Other deposits in RBI

RBI is paid for the service of circulation

- **Measures of Money Supply**
-

	Currency and Coins	Banks		Post office	
		DD	TD	DD	TD
M1	Yes	Yes	No	No	No
M2	Yes	Yes	No	Yes	No
M3	Yes	Yes	Yes	No	No
M4	Yes	Yes	Yes	Yes	Yes

- M1= CU+ DD of banks+ other deposits with RBI
- M2= M1+ Post office saving deposits (DD)
- M3= M1+ Time deposits of the banks+ other deposits with RBI = CU+ DD+TD + other deposits with RBI= CU+NDTL+ other deposits with RBI
- M4= M3+ total post office deposits
- In terms of liquidity, M1> M2> M3> M4
- M1 and M2 are Narrow Money.
- M3 and M4 are known as broad money.

TOPIC OF THE NEXT CLASS- MONEY (TO CONTINUE)

Let say RBI governor has account with RBI, Foreign entity has account with RBI etc.