

Insolvency and Bankruptcy Board of India
7th Floor, Mayur Bhawan, Connaught Place, New Delhi-110001

CIRCULAR

No. IBBI/CIRP/016/2018

10th August, 2018

To

All Registered Insolvency Professionals
All Recognised Insolvency Professional Entities
All Registered Insolvency Professional Agencies
(By mail to registered email addresses and on website of the IBBI)

Dear Madam / Sir,

Sub: Notice for Meetings of the Committee of Creditors under section 24 (3) (a) of the Insolvency and Bankruptcy Code, 2016 read with regulation 21 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016

The Insolvency and Bankruptcy Code, 2016 (Code) confers certain privileges on financial creditors on the premise, as reasoned by the Bankruptcy Law Reforms Committee:

“The Committee deliberated on who should be on the creditors committee, given the power of the creditors committee to ultimately keep the entity as a going concern or liquidate it. The Committee reasoned that members of the creditors committee have to be creditors both with the capability to assess viability, as well as to be willing to modify terms of existing liabilities in negotiations. Typically, operational creditors are neither able to decide on matters regarding the insolvency of the entity, nor willing to take the risk of postponing payments for better future prospects for the entity. The Committee concluded that, for the process to be rapid and efficient, the Code will provide that the creditors committee should be restricted to only the financial creditors.”

2. As members of the committee of creditors (CoC), the financial creditors discharge several critical responsibilities, including invitation, receipt, consideration and approval of resolution plans under the Code. Their conduct has serious implications for continued business of a corporate debtor and consequently on the economy. The Hon’ble Adjudicating Authority has expressed concern about their conduct in a few matters.

3. By order dated 7th June, 2018 in the matter of SBJ Exports & Mfg. Pvt. Ltd. Vs. BCC Fuba India Ltd. (CP-659/2016), the Hon’ble Adjudicating Authority observed: “.. An unenviable situation has been created by the conduct of the members of the CoC. Despite the fact that the Resolution Professional apprised the CoC that the period of 180 days is to expire on 12.02.2018 and sanction be granted for moving an application before the Adjudicating Authority for extension of the period. The CoC has behaved the way we have recorded in the preceding paras.”. It further observed: “A strange phenomena has developed in so far as the functioning of the CoC is concerned. In a number of cases it has now been seen that Members of the CoC are nominated by Financial Creditors like Banks without conferring upon them the authority to take decision on the spot which acts as a block in the time bound process contemplated by the Insolvency and Bankruptcy Code, 2016. Such like speed breakers and roadblocks obviously cause obstacles to achieve the targets of speedy disposal of the CIR process.”. It directed: “In view of the above we direct the Resolution Professional to bring this order to the notice of the

CoC so that appropriate steps be taken. A copy of this order be sent to the Insolvency and Bankruptcy Board of India for taking suitable action in respect of the conduct of the Members of CoC in the present matter as well as in the day to day functioning of the Members of CoC generally speaking.”.

4. In the other matter of Jindal Saxena Financial Services Pvt. Ltd. Vs. Mayfair Capital Private Limited (C.P. No. (IB)-84(PB)/2017), the Hon’ble Adjudicating Authority noted that there were four financial creditors who attended the first meeting of the CoC. In the said meeting, the CoC did not approve appointment of interim resolution professional (IRP) as resolution professional (RP) since two of the four financial creditors, having aggregate voting rights of 77.97% required internal approvals from their competent authorities. It observed: *“We deprecate this practice. The Financial Creditors/Banks must send only those representatives who are competent to take decisions on the spot. The wastage of time causes delay and allows depletion of value which is sought to be contained. The IRP/RP must in the communication addressed to the Banks/Financial Creditors require that only competent members are authorized to take decisions should be nominated on the CoC. Likewise, Insolvency and Bankruptcy Board of India shall take a call on this issue and frame appropriate Regulations.”.*

5. Section 24 (3) (a) of the Code requires the resolution professional to give notice of each meeting of the CoC to members of the CoC and other persons. Regulation 21 of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 specifies the content of the notice for meetings of the CoC.

6. In view of the above, the interim resolution professional or the resolution professional, as the case may be, is directed that he shall, in every notice of meeting of the CoC and any other communication addressed to the financial creditors, other than creditors under section 21 (6A) (b), require that they must be represented in the CoC or in any meeting of the CoC by such persons who are competent and are authorised to take decisions on the spot and without deferring decisions for want of any internal approval from the financial creditors.

7. This Circular is issued in exercise of powers under section 196 (1) (aa) read with 196 (1) (g) of the Insolvency and Bankruptcy Code, 2016.

Yours faithfully,
-Sd-
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