

SC ORDERS STATUS QUO ON RBI'S FEBRUARY 12 CIRCULAR

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Supreme Court on Tuesday ordered status quo on the implementation of a February 12 circular of the Reserve Bank of India which mandates insolvency proceedings for a debt servicing default beyond 180 days.

A Bench of Justices Rohinton F. Nariman and Indu Malhotra transferred the cases against the RBI circular pending in various High Courts and agreed to hear them together in November.

Meanwhile, the apex court ordered that insolvency proceedings should not commence against the defaulting power companies.

The circular, in a bid to efficiently realise bad loans, is part of a revised RBI framework. Power firms have argued that the provision was unfair as their debt repayment capacity was directly linked to revenue from power distribution companies and availability of coal, a natural resource closely regulated by the State.

The circular had said the revised framework was meant for resolution of stressed assets in the economy. "In view of the enactment of the Insolvency and Bankruptcy Code, 2016, it has been decided to substitute the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets," the RBI had said.

If a resolution was not found by August 27, NPA accounts were to be sent to bankruptcy courts. Banks have exposure of about Rs. 1.74 lakh crore to stressed power assets.

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