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CSE-2017: Interview Guidance Programme

The result of CSE-Main Examination-2017 is likely to be declared shortly by UPSC. In order to guide, support and encourage all the CSE interview aspirants in last phase of their journey, NEXT IAS is launching a comprehensive interview guidance programme sailing through following features grouped in 7 dedicated sessions:

Programme commencing immediately after result declaration of CSE Mains 2017.

Venue: NEXT IAS, Old Rajinder Nagar Centre

**Session 1** (4 hrs)
Discussion on Personal Profile & DAF

1. **DAF Related aspects**
   - Ways to answer questions on DAF related areas such as hobbies and interests, extra-curricular activities, educational achievements, prizes/medals and scholarships, service preference, previous selections etc.

2. **General interview related aspects**
   - Convincing reasons to explain gap in study, quitting previous job etc.
   - Techniques to face interview, do’s and don’ts of interview.
   - Approach to answer situation based questions.
   - Acquainting candidates with board composition and brief profile of UPSC members.

**Session 2-3** (4 hrs each)
Discussion on Current Issues

- Major current issues of National and International importance and how to answer opinion based questions on such issues.
- Discussion on various Government policies, welfare schemes, budget and various economic aspects of the country.
- Latest developments related to science and technology, environment and climate change, social issues, administrative policies and other miscellaneous topics.

**Session 4** (3 hrs)
Discussion on Home State

- How to prepare questions related to States mentioned in the DAF. This will include:
  - An overview of your home state.
  - Demographic & geographical perspective.
  - Industry and agriculture.
  - Historical perspective viz: Art and culture, dynasty and kingdom, forts and monuments.
  - Political and social structure.
  - Government policies and their social implication.
  - Special assistance through sessions & write up material for knowledge on home state.

**Session 5-6** (4 hrs each)
Exclusive for Engineering background candidates

- Lectures covering basic concepts and areas of application of engineering subjects of Civil, Mechanical, Electrical, Electronics, Computer Science and Information Technology domain.
- Discussion on previous interview questions of technical subjects.
- Separate session for each stream which will be supplemented by a brief interview guidance material for the above mentioned branches, containing basic definitions, principles, applications, latest developments and previous questions.

**Session 7** (3 hrs)
One to One Discussion on DAF

- Based on information filled in DAF, candidates can discuss the areas related to strength, weakness, prizes, scholarship, hobbies, extra-curricular activities, service preference, gap in study, optional subject selection etc.
- Personal support to confront fear of interview and boost confidence.

**Mock Interviews** (3 Nos.)

- The interview panel will consist of retired Civil Servants, personality and HR experts, psychologists and subject matter experts.
- For Engineering Graduates an expert from technical background will be made available for better preparation and experience.
- Each mock interview will be video recorded and recording of the same will be made available to the candidate.
Reasons for Exit Problem? (Three I’s)
In India, the exit problem arises because of I’s

1. Interests
   - Liberalization is difficult because producers are more influential than consumers.
   - It is because these producers have more voice and are backed by financial power. i.e. Power of Vested Interests.

2. Institutions: impeded exit is a combination of
   - Weak institutions: Our weak legal procedures increase the time and financial costs of exit.
   - Strong institutions: Strong but inflexible institutions are unable to make risky decisions when departures from strict principles may be necessary for the economy.

3. Ideology
   - The founding ideology of socialism makes it difficult to phase out entitlements even as those intended for the poor end up accruing to the relatively better off.
   - E.g. interventions in agriculture and all the anti-poverty programs, once set in place, are very difficult to reverse.

Solution:
There are five possible ways to address this problem.

1. Avoid exit through liberal entry: I.E. promoting competition via private sector entry rather than change of ownership from public to private.

2. Direct policy action: i.e. having better laws like the Insolvency and Bankruptcy Code to expedite exit and strengthen institutions by empowering bureaucrats.

3. Technology and the JAM solution: Increase the use of technology as it has two broad benefits (i) lowering human discretion and the layers of intermediaries; (ii) changing the old ways of doing business.

4. Increasing Transparency: e.g. In relation to agriculture, government should highlight the social and environmental costs of over-use of fertilizer, water and power.

5. Exit as an opportunity: showcase exit as an opportunity towards a better tomorrow. e.g. If employees of a public sector firm oppose it’s privatisation, then in those cases, Resources earned from privatization could be earmarked for employee compensation and retraining.

Cost of exit:
Impeded exit has fiscal, economic, and political costs.

<table>
<thead>
<tr>
<th>FISCAL Costs</th>
<th>Inefficient firms often require government support in the form of explicit subsidies (for example bailouts) or implicit subsidies (tariffs, loans from state banks).</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECONOMIC Costs</td>
<td>Misallocation of resources: In a capital scarce country such as India, misallocation of resources can have significant costs. Stressed assets: It also leads to stressed assets on corporate and bank balance sheets. The consequence is a reduced flow of new investment, dampening medium term growth.</td>
</tr>
<tr>
<td>POLITICAL costs</td>
<td>Difficult to initiate reforms: Government support to “sick” firms can give the impression that government favours large corporate. Politically, this limits the ability of government to undertake reforms that will benefit the economy but might be seen as further benefitting businesses. Questions the regulatory mechanism: Similarly, if wilful defaulters cannot be dealt with appropriately, the legitimacy of regulating institutions can be called into question.</td>
</tr>
</tbody>
</table>

To address this Chakravyuh problem, Insolvency & Bankruptcy Code, 2016 was enacted.
Salient features of the code

- Applies to: The 2016 Code applies to companies and individuals.
- Time-bound resolution for insolvency: The Code creates time-bound processes for insolvency resolution of companies and individuals. These processes will be completed within 180 days. If insolvency cannot be resolved, the assets of the borrowers may be sold to repay creditors.
- Resolution plan (RP): A resolution plan specifies the details of how the debt of a defaulting debtor can be restructured.
- Institutional mechanism: The Code creates various institutions to facilitate resolution of insolvency. These are as follows:

<table>
<thead>
<tr>
<th>Insolvency Professionals</th>
<th>These professionals will administer the resolution process, manage the assets of the debtor, and provide information for creditors to assist them in decision making.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insolvency Professional Agencies</td>
<td>The insolvency professionals will be registered with insolvency professional agencies. The agencies conduct examinations to certify the insolvency professionals and enforce a code of conduct for their performance.</td>
</tr>
<tr>
<td>Information Utilities</td>
<td>Information utilities (IUs) will be established to collect, collate and disseminate financial information to facilitate insolvency resolution.</td>
</tr>
<tr>
<td>Adjudicating authorities</td>
<td>The proceedings of the resolution process will be adjudicated by the National Companies Law Tribunal (NCLT), for companies; and Debt Recovery Tribunal (DRT), for individuals.</td>
</tr>
<tr>
<td>Insolvency and Bankruptcy Board</td>
<td>It will be set up to regulate functioning of IPs, IPAs and IUs. The Board will consist of representatives of Reserve Bank of India, and the Ministries of Finance, Corporate Affairs and Law.</td>
</tr>
</tbody>
</table>

Committee to Review IBC, 2016

Recently, in November 2017, The Ministry of Corporate Affairs constituted an Insolvency Law Committee to examine suggestions for improving the IBC, 2016.

- Composition: The Committee will be chaired by the Secretary, Ministry of Corporate Affairs. Its members will include representatives from: (i) RBI, (ii) Ministry of Finance, (iii) law firms, (iv) chartered accountants, and (v) company secretaries.
- Objective: The Committee will: (i) examine the implementation of the IBC, 2016, and (ii) make recommendations to improve the efficiency of the corporate resolution and liquidation framework.
- The Committee will submit its recommendations within two months from its first meeting.
### Salient features:

The recent IBC (amendment) ordinance, 2017 amends the Insolvency and Bankruptcy Code, 2016.

<table>
<thead>
<tr>
<th>Definition of Resolution applicant (RA)</th>
<th>IBC, 2016</th>
<th>IBC (AMENDMENT) ORDINANCE, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>RA is a person who submits a resolution plan to an insolvency professional (IP).</td>
<td>RA is a person who submits a resolution plan after receiving an invite by the IP to do so.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Eligibility for RA</th>
<th>IP will take control of the defaulting company, and invite applicants to submit resolution plans (RP).</th>
<th>IP will only invite those resolution applicants to submit a RP, who fulfill certain criteria laid down by him or by the Insolvency and Bankruptcy Board.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bar on certain RA</td>
<td>Certain persons are prohibited from being a resolution applicant and submitting a resolution plan.</td>
<td><em>(This is the most debatable provision)</em></td>
</tr>
<tr>
<td></td>
<td>e.g. Undischarged insolvent; wilful defaulter; person whose account has been NPA for over 1 yr.</td>
<td><em>(This is the most debatable provision)</em></td>
</tr>
<tr>
<td></td>
<td>Committee of creditors will approve a RP with 75% majority.</td>
<td>Committee of creditors will approve a RP by 75% majority subject to any other conditions specified by the Insolvency and Bankruptcy Board.</td>
</tr>
<tr>
<td></td>
<td>Committee of creditors are prohibited from approving a RP submitted before the promulgation of this Ordinance, where the plan has been submitted by a person ineligible to be a resolution applicant.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liquidation</th>
<th>IP are allowed to sell the moveable or immovable property of the debtor in case of liquidation.</th>
<th>IP are prohibited to sell this property to any person who is ineligible to be a resolution applicant.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalties</td>
<td>Any person violating the Code for which no penalty has been specified will be punishable with a fine ranging between Rs. 1 lakh -2 crores.</td>
<td></td>
</tr>
</tbody>
</table>

### Significance:

- The IBC, 2016 is a landmark in India’s economic reforms. However, creditors had expressed concerns about promoters wresting back control of their defaulting companies.
- The ordinance provides clarity on the eligibility criteria for the resolution applicants. This ensures that due diligence is followed to determine the credentials, creditworthiness and capability of resolution applicants.
- The amendment will deter chronic defaulters from regaining control of the company in the guise of a resolution plan. After all, the purpose of the IBC would be defeated if fraudulent promoters re-acquired the assets.
- In September, 2017 the rating agency CRISIL estimated stressed assets to be Rs 11.5 lakh crore, nearly 14 per cent of the total advances made by banks. Recent amendments to the IBC will allow the banks to deal with stressed assets better.

### Concerns regarding people barred:

- The category of people barred includes promoters and those in management whose loan accounts are classified as non-performing assets for one year or more. It should be remembered that the not all bad loans are a result of mala fide intent on the borrower’s part.
- It ignores the genuine business failures and doesn’t provides opportunity to the existing promoters who may have viable resolution plans.
- By widening the scope and definition of those it considers ineligible to participate in the resolution process the amendment risks becoming an instrument of blunt force that hurts more than it helps.
- The existing promoters have better understanding of their companies and they understand the reasons for the failures better. Outside investors may place much lower bids than the reasonable value of the business and this may result in loss for the creditors.
- And, worse, by making the amendments retrospective to cover even those cases already referred to the National Company Law Tribunal, the Centre may have ended up, unintentionally, throwing the baby out with the bathwater.
- In short, No other restructuring law in the world has such restrictive thresholds. There is fear that it could reduce the number of revival proposals that may come up during the process.

### Concluding remark:

- IBC is not intended to serve as a mere instrument of liquidation. Instead, it is to provide an enabling legal framework for insolvency resolution in a time bound manner and promote entrepreneurship, among other goals.
- With the IBC still evolving, it needs to be seen if it can indeed deliver where earlier resolution structures failed.
(1) FINANCIAL FIRMS:
- Types: Financial firms include banks, insurance companies, and stock exchanges, among others.
- Task: These firms accept deposits from consumers, channel these deposits into investments, provide loans, and manage payment systems that facilitate transactions in the country.

(2) FINANCIAL RESOLUTION:
Need:
- As we can see from above financial firms are an integral part of the financial system.
- Since they transact with each other, their failure may have an adverse impact on financial stability and result in consumers losing their deposits and investments.
- As witnessed in 2008, the failure of a firm (Lehman Brothers) impacted the financial system across the world, and triggered a global financial crisis.

Meaning:
- Resolution regime is a government created legal framework that resolves a failed bank/financial institution in an orderly way so the financial markets do not collapse. Simply, it is an insolvency regime for financial institutions.

Institutional mechanism in India:
- Currently, there is no specialised law for the resolution of financial firms in India.
- The Insolvency and Bankruptcy Code, 2016 enacted by the Parliament provides for resolution and liquidation of non-financial firms.
- In the Budget 2016-17, it was announced that the Code for resolution of financial firms, together with the Insolvency and Bankruptcy Code will provide a comprehensive resolution mechanism for our economy.
- Accordingly, Government has proposed the Financial Resolution and Deposit Insurance Bill, 2017.

The FRDI Bill is complementary to the Insolvency and Bankruptcy Code-2016 for resolving bad loans

(3) DEPOSIT INSURANCE:
Need:
- Protecting the deposits made by people in banks is very important to ensure confidence in the banking system. The common form of providing safety to depositors is deposit insurance.

Meaning:
- Deposit insurance is providing insurance protection to the depositor’s money by receiving a premium.
- Here, when the bank fails, the depositors will get back their money. Insurance to deposits will be provided up to a limit. For getting the deposit insurance protection, the depositors should pay an insurance premium.

Institutional mechanism in India:
- Deposit Insurance Corporation and Credit Guarantee Corporation (DICGC): In India, the deposit insurance was started with the launch of the DICGC of India in 1961. DICGC is fully owned by the RBI.
- Coverage amount: The premium charged is on a flat rate basis which is 10 paise per Rs 100. The amount of coverage is presently limited to Rs one lakh.
- Deposit Insurance Fund (DIF): A DIF is built up from the premium received from insured banks and the coupon received from investment in central government securities.
- In the event of a bank failure, DICGC protects bank deposits that are payable in India.

Institutions covered under deposit insurance:
- Deposit insurance is mandatory for all banks including foreign banks functioning in India.

Types of deposits insured by the DICGC:
- The DICGC insures all deposits such as savings, fixed, current, recurring, etc.
- Exemption: Deposits of foreign and Central/State Governments; Inter-bank deposits; Deposits of the State Land Development Banks with the State co-operative bank.
Key Provisions of The Bill

How does the resolution corporation monitor and prevent failure of financial firms?

Timeline:
- The FRDI Bill, 2017 was introduced in Lok Sabha during Monsoon Session 2017.
- It is currently being examined by a Joint Committee of the two Houses of Parliament.

Objective:
1. To create a framework for monitoring the risk faced by financial firms.
2. And resolve them if they fail to honour their obligations (such as repaying depositors).

Resolution corporation:
- The bill seeks to establish a Resolution Corporation.
- Composition: It will include representatives from all financial sector regulators (RBI, IRDA, SEBI) and the ministry of finance, among others.
- Task: To monitor these firms to pre-empt failure, and resolve or liquidate them in case of such failure.

Risk based classification:
- The Resolution Corporation or the appropriate financial sector regulator may classify financial firms under five categories, based on their risk of failure.
- These categories in the order of increasing risk are: (i) low, (ii) moderate, (iii) material, (iv) imminent, and (v) critical.
- Based on the risk to failure, the Resolution Corporation or regulators takes action.

Corrective action:
(For firms at Material and Imminent risk)
- Restrictions: If the firm is at a higher risk to failure (under ‘material’ or ‘imminent’ categories), the Resolution Corporation or the regulator may:
  - prevent it from accepting deposits from consumers,
  - prohibit the firm from acquiring other businesses, or
  - require it to increase its capital.
- Resolution and Restoration plans: Further, these firms will formulate resolution and restoration plans to prepare a strategy for improving their financial position and resolving the firm in case it fails.

Resolution by corporation:
(For firms at critical risk)
- Take-over of management: The Resolution Corporation will take over the management of a financial firm once it is classified as ‘critical’ (i.e. if it is on the verge of failure).

- Time-limit of resolution: It will resolve the firm using any of the methods specified in the Bill, within one year (may be extended by another year). During this period, the firm will be immune against all legal actions.

- Methods: Financial firm can be resolved using any of the five methods:
  1. Transferring the assets and liabilities of the firm to another firm.
  2. Merger or acquisition of the firm.
  3. Creating a bridge financial firm (where a new company is created to take over the assets, liabilities and management of the failing firm).
  4. bail-in (internally transferring or converting the debt of the firm).
  5. liquidate the firm to repay its creditors.

- Which method to use?
  - To ensure continuity of a failing firm, it may be resolved by merging it with another firm, transferring its assets and liabilities, or reducing its debt.
  - If resolution is found to be unviable, the firm may be liquidated, and its assets sold to repay its creditors.

- Liquidation:
  - If the resolution is not completed within a maximum period of two years, then the firm will automatically go in for liquidation.
  - The Bill also specifies the order of distributing liquidation proceeds to creditors. The amount paid to depositors as deposit insurance gets preference over other creditors.

Order of priority under liquidation
- Deposit insurance
- Resolution costs (including liquidation costs)
- (i) Workmen dues for 24 months, and (ii) secured creditors
- Wages to employees for 12 months
- Uninsured deposits and insurance related amounts
- Unsecured creditors
- (i) Government dues, and (ii) remaining secured creditors (remaining debt if they enforce collateral)
- Remaining debt and dues
- Shareholders

Subsuming DICGC:
- In India, deposits in banks are insured for a maximum of Rs 1 lakh by the Deposit Insurance and Credit Guarantee Corporation (DICGC), which is now an arm of the RBI.
- The Bill proposes to subsume the functions of the DICGC under the Resolution Corporation.
Classification of financial firms

Acceptable risk level

Corporation

Critical Risk

Resolution by Corporation
(expendable by another year)

To be completed within one year

Methods of resolution

Liquidation

Bridge Service Provider

Transfer

Merging/ Acquisition

Regulator

Material Risk

Restoration plan includes steps to be classified at least under 'Moderate' risk

Information category

Acceptable risk level

Above

Below

Moderate Risk

Low Risk

Monitoring by regulator

Resolution plan includes steps to be classified at least under 'Moderate' risk

If resolution not completed within one year (extendable by another year), the financial firm will be liquidated.